Oil & Gas Bulletin
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Turkish OTC natural gas price increase fails to bridge FX depreciation

ICIS, *13.03.2014*

Turkish Day-ahead natural gas prices increased 14% since ICIS first started assessing the product last year, but the rise is still short of making up for the losses caused by a sharp fall in the Turkish lira (TL). The Day-ahead contract, which ICIS started assessing on 11 March 2013, jumped by 14% to TL790.00 per thousand standard cubic metres (kscm) or €28.072/MWh, while the Day-7 Ex-Post or unregulated balancing price contract increased by 12% to TL798.00/kscm.

But the TL dropped 25% against the US dollar from 11 March 2013 to 11 March 2014. The increases in the Day-ahead price are clearly correlated with the falls in the exchange rate.

But remain insufficient to make up for the losses caused by the depreciating currency. This is largely caused by the fact that prices on the non-regulated market remain closely linked to the monthly balancing price published by the incumbent BOTAS, reflecting the inability of the free market to respond flexibly to macroeconomic and fundamental changes. Earlier this month, a survey conducted by ICIS found that the market expected an average 13% increase in the regulated wholesale price published by BOTAS every month. Such a mark-up would trigger an increase on the non-regulated market and help private companies to plug losses incurred as a result of the falling currency. Even so the widening discrepancy between the falling currency and the regulated prices that private shippers sell at is likely to cause the sector to lose some $200m (€144m) in 2014, according to figures from PETFORM, the leading association for Turkey's private gas companies.

However, Turkey is preparing for a long electoral cycle starting at the end of March which means that the government may be unwilling to announce an unpopular gas price increase. Nevertheless, there were occasions in November 2013 when the prompt contracts veered away from the monthly balancing price, which could be linked to an oversupply in the market. ICIS first started assessing the Day-7 Ex-Post contract on a test basis from 1 December 2012. After requests from market participants, ICIS started assessing the Turkish Day-ahead from 11 March 2013 on a test and went live with both assessments from 28 May 2013. The assessments do not include the special consumption tax of TL0.023 per standard cubic metre.

Yildiz: Iranian gas prices higher than international markets

Today's Zaman, *12.03.2014*

Energy and Natural Resources Minister Taner Yildiz said on Wednesday that Iran has charged Turkey higher prices for natural gas, which is not in compliance with gas prices in international markets.

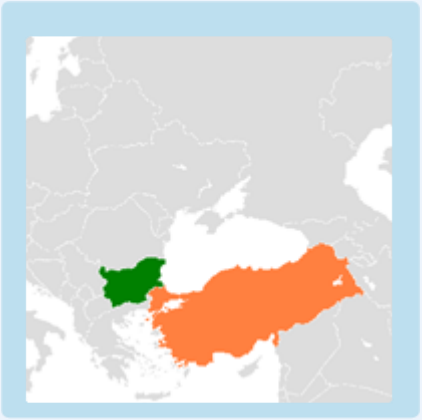
Responding to reporters' questions during his visit to the western province of Kütahya, Yildiz said Turkey should consider its citizens' interests when buying gas from Iran. "We are pleased with the amount of natural gas and oil that we trade with Iran, but that does not mean that we are also happy with the price (of importing natural gas)," said the minister.

In 2012, Turkey took major energy trading partner Iran to an international court of arbitration, arguing that Iran was overcharging Turkey for its natural gas. Iran charges more for its natural gas than any other of Turkey's trade partners; in 2012, Turkey paid Azerbaijan $330 per 1,000 cubic meters and $400 to Russia for the same amount. Iran, however, sells its gas to Turkey at $505 per 1,000 cubic meters, which Turkey estimates is costing the country an added $800 million a year for natural gas. Yildiz maintained that so far Iran has not offered an acceptable price yet, stating: "So the arbitration process will continue. There will be two hearings in April and July, and we will launch technical analyses. We will defend ourselves.

The prices show that Iran has been overcharging Turkey. I believe that with the objective evaluation of the arbitration committee, Turkey will be able to take back the extra amount it has paid." Yet, on March 7, the Iranian Oil Ministry's website SHANA quoted a senior energy official as saying that Iran would not drop the price of gas exports to Turkey, but could sell more natural gas to its energy-hungry neighbor if a new agreement was signed between the two countries. 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 that is valid for 25 years.

Bulgaria plans gas pipeline to Turkey

Hürriyet Daily News, *11.03.2014*



A Bulgarian delegation will pay a visit to Turkey to discuss a gas pipeline plan between parties that would diversify natural gas resources. An announcement from the Bulgarian authorities in the Turkish capital of Ankara said a group of experts, along with representatives of the Bulgarian Ministry of Economy and Energy, will soon negotiate a gas pipeline connection between the two countries.

Bulgarian ministry officials announced their full support for the project and urged for a swift timetable in undertaking the project. The planned pipeline will be approximately 114 kilometers in length and is due to be completed in two years.

Bulgaria currently receives 90 percent of gas from Russia and the country is concerned the recent events in Ukraine may disrupt the flow of gas through the pipelines. Last month, Bulgarian Economy and Energy Minister Dragomir Stoynev and Turkish Energy Minister Taner Yildiz announced the planned pipeline would play an important role in the diversification of gas supplies.

Gazprom strengthens diplomatic ties with Turkey

Natural Gas Europe, *11.03.2014*

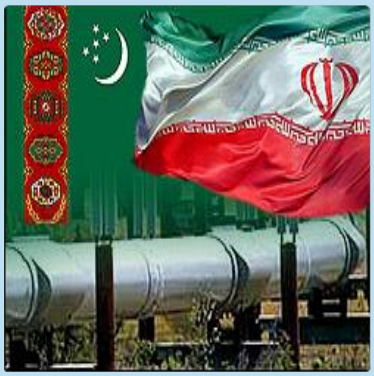
Gazprom is trying to strengthen its relations with Turkey, underlining the importance of its cooperation with the country through the Blue Stream. The gas pipeline brought 13.7 billion cubic meters of gas in 2013.

“For over 11 years Blue Stream has been an illustrative example of the efficiency and reliability of direct Russian gas supplies to European consumers. The project is the first offshore thoroughfare of such scale globally; it represents a great engineering achievement,’ Alexey Miller, Chairman of the Gazprom Management Committee, said in a note released on Tuesday.

Last week, Bulgaria’s Deputy Prime Minister Tsvetlin Yovchev said that the country’s reliance on Ukraine transit poses risks to its energy security. Bulgaria borders Romania, Greece and Turkey. While Sofia said to hold two months’ worth of gas stored in the country, Vladimir Putin met Foreign Minister Sergei Lavrov to discuss proposals to settle the situation in Crimea and Kiev.

Iran has the ‘preparation’ to transit Turkmenistan’s gas

Mehr News Agency, *11.03.2014*



Oil deputy-minister has explained 3 different scenarios to raise Iran’s share in global gas markets. Hamidreza Araghi who was speaking to Mehr News about Iran’s most important gas policies to improve its place in global gas markets, told that currently Iran had the infrastructure necessary to export, barter, or transit of gas with construction and placing over 35000Km. pipeline and 71 gas compressor units.

He also said that Iran was ready for transiting gas produced in neighboring countries. “Given the scope of our pipelines, Iran could serve Turkmenistan by transiting its gas to Persian Gulf markets,” added Araghi.

Azizollah Ramezani, the director of international affairs of National Gas Company had told before that Iran had policies to negotiate gas export to EU countries such as Greece. “Iran is willing to resume gas export talks with India,” he was quoted to have said. Iran has the largest gas reserves in the world with more than 33 tr. Cubic meters; however, its share of global gas markets is rarely does exceed 1 per cent.

Iran, Oman sign initial agreement on undersea gas pipeline

Natural Gas Asia, *12.03.2014*

Muscat and Tehran inked initial agreement on Wednesday to build a $1 billion submarine pipeline which will supply gas Iranian gas to Oman, reports news agency AFP. The agreement was reached on the first day of a visit by Iranian President Hassan Rouhani to Oman.

Iran and Oman signed a memorandum of understanding in 2009 to build a 200 km undersea pipeline. Last year, the two countries inked a gas supply deal where Iran would supply gas to Oman for 25 years via undersea pipeline. The deal has been valued at about $60 billion. The proposed pipeline is expected to be complete by the end of 2017.

The Future of Azerbaijani gas exports

Natural Gas Europe, *13.03.2014*

It is said to be the Golden Age of Gas, but definitely not for Europe, at least in the mid-term. As per IEA figures, demand for gas in Europe has been declining since 2011 and is projected to continue weakening in the next 5-6 years due to three basic reasons – (a) decline in power demand growth; (b) gas-to-coal switching and (c) flourishing renewables.

Such a picture is expected, however, to change after 2020 in favor of gas over coal and even oil. The United States, as usual, is going to be the leading player in the global energy game. While shale gas only accounted for 2% of US supply in 2000, it was 37% in 2012.

Such acceleration is a clear example of why it is called a revolution, which is now expected to manifest itself in European markets thanks to US exports planned for the next year. The US has already become the largest gas producer in the world since 2012. This is something that will arguably alter the entire economic and geopolitical picture worldwide, with a particular impact on international oil and gas business. Noticeably declining LNG imports in Europe in the recent years should not lead to undervaluation of favorable LNG offers in the future. The expectation of LNG share in EU energy mix is 30%, which is not low. Therefore, being less costly and sold on spot basis, American LNG would naturally be more preferable for Europe than having 20 year pipeline contracts with highly oil-indexed prices.

On the other hand, Asian markets will be more attractive for the US due to much higher margins and accelerating demand, though it does not sound realistic that Europe will be excluded from the list of major buyers of North American gas. Furthermore, the US is not the only potential supplier from whom Europe may get LNG deals. Qatar – the global LNG leader with rapidly growing cheap supply – is another competitor. Low utilization rate of European LNG plants is also a supportive factor. Hence, globalizing LNG trade is going to look like spaghetti and will definitely challenge many potential pipeline projects. In case of LNG pushing pipeline gas prices down, many potential projects will become commercially unfeasible and Azeri projects might not be an exception.

However, even if some European countries opt for substituting pipeline imports with LNG, the initially withdrawn pipeline supplier would be Russia – the most expensive and politically ineffective one, but not non-Russian FSU suppliers. In fact, it is Russia that would be most challenged by increased LNG imports in Europe, should they happen, although some argue that the price of imported American LNG may even exceed Russian prices primarily due to infrastructural costs. Furthermore, as Russian supply has already started to significantly decline (including domestic demand), non-Russian Caspian supply to a limited extent might become a kind of replacement for Europe. But for now, this gap is being filled abruptly by a substantial increase from Norway.

Nonetheless, LNG trade still focused on Asian market due to (1) Japanese, Chinese, Korean and other Asian countries' increased demand; (2) highest prices in the world market; and (3) relatively shorter distance for Asian, African and Australian suppliers; which in turn leaves room for Russia to continue supply dominance in Europe anyway. Another threat for future Caspian export is the development of shale gas in Europe, which is not an entirely rejected option, despite continuing regulatory, geological, geographical, social and commercial obstacles forecasted to continue into the next half-decade. Countries such as Poland, UK and Ukraine are now attempting to be the pioneers of a European shale 'revolution'.

Whatever the current situation is, if our subject is long-term projections, the Azerbaijani government and SOCAR should not ignore European shale gas developments in terms of its potential as a threat to demand security of its future pipeline gas projects. For instance, Total SA is now planning to withdraw from SCP by selling its shares to BOTAS and at the same time acquire working interests in UK shale gas projects, which itself signals projections of potential developments in the continent. According to initial geological estimations, once the non-geo barriers are removed, Europe might discover self-sufficient amounts of gas that could reshape the picture of the entire global energy economy.

One of the most challenging points for Azerbaijan in the mid to long-term is cheap Iraqi (mainly Kurdish) gas that might fill TAP well before the Caspian does. Official estimations say Kurdish alone possesses more than 2.5 tcm of gas reserves, which is higher than Shah Deniz figures. One more point here is that resource developments by the KRG will unlikely involve considerable political risks, because operations are being conducted jointly by American and Russian giants such as ExxonMobil and Rosneft, respectively. Plus, the Central Iraqi government has not expressed its concern about independent operations by the KRG neither to Russia, nor to the States, though it did to Turkey.

Other than that, potential increased exports of Iranian gas to Europe as a result of political mitigations should also not be neglected and has to be taken into consideration by Azerbaijan as a highly competing version. Although a long time is required for revitalizing undeveloped Iranian gas reserves, they are huge enough and would be cheaper than Caspian and Russian gas for Europe. A competitor threatening even the major supplier – Russia – should not be ignored. Another case with regards to the southern supply rally is recent Eastern Mediterranean discoveries. An underwater pipeline project from Israel's new and enormous Leviathan field to Turkey and other similar projects proposed for the discovery in Cyprus are being discussed, which can also be treated as a threat to European demand for Azerbaijani gas in the long-term.

There is now a Ukraine issue that may also have some influence. In case of Western 'victory' in Ukraine, it could be thought that Russia will be seeking opportunities to push forward the South Stream project and increase supply through southern regions (with potential discounts), which in turn may also negatively impact future opportunities for Azerbaijan. A positive factor regarding demand in Europe is that Turkey – the largest and most reliable buyer of Azeri gas – is almost the only European country where demand significantly increased and it accounts for 50% of incremental power generation in the continent. The fact that Azerbaijan is Turkey' is in favor of the former in terms of partially securing sales of its oil and gas in the long-run, though with discount.

However, Turkey's launched or 'increased' gas imports from the KRG, said to cost three times less than Caspian gas, could also to some extent damage Turkish demand security of Azeri gas. In general, projections saying that gas in Europe will stop lagging behind coal and oil after 2020 can also be referred to as an indirect and implicit positive factor for Caspian gas. Another minor advantage for Azerbaijan is that several Central and Eastern European countries do not have a convenient geographic location for LNG imports, thereby constraining options pipeline imports. Despite Russian dominance in those regions, Caspian gas is not unattractive. There are still coinciding interests between the region and Azerbaijan, regardless of the TAP selection.

One more noteworthy point is contract terms and conditions. Long-term take or pay contracts are obviously in favor of Azerbaijan and reduces the risks that can occur due to aforementioned factors. Rising liberalization, and thus competition and efficiency in European gas markets, however, will probably shorten contract durations and conditions. In any event, the Southern Corridor is considered one of the most vital (if not the most) tools for Europe's energy diversification strategy. This factor can play a significant role in reducing anxiety about the future, though it is not directly or only related to Azerbaijan's future supplies. Nevertheless, if Azerbaijan gains ground in filling remaining capacity for TANAP and TAP, and considering its other planned projects such as Absheron, Shafaq-Asiman, etc., it will have considerably reduced the long-term risks.

Turkmens are naturally more oriented towards the Asian, primarily Chinese markets, rather than joining TANAP via the Trans Caspian Pipeline (TCP), at least due to an already existing and expanding huge pipeline to thirsty China and some $2 of difference between Chinese and European prices, plus remaining political disagreements on Caspian. Such a factor makes room for Azerbaijani gas and increases chances to fill up the rest of TANAP as well as TAP when possible. TCP, however, is still not a totally ignored project for the future as Turkmenistan possesses enormous gas reserves that strategically might require diversified demand. On the other hand, another 'pro' is that Italy – a major buyer of Shah Deniz 2 gas – still has an opposing stance against LNG, an indirect advantage for Azerbaijan.

In reality, LNG is not in absolute competition with pipelines. For example, while Asia shares the most part of the development in LNG trade, interregional pipeline projects have also been developed mostly in the same continent thanks to growing Chinese demand, which means these two types of supply do not severely compete with each other, rather they are selected according to several factors including geographical, commercial and political. With regards to the location being on a 'landlocked Caspian lake': My proposal as an option for diversifying demand for Azerbaijani gas and making it more flexible in the future, at least in 'emergency' periods, would be to jointly build an LNG plant in Turkish Mediterranean coastlands, pump the gas through double-expanded SCP to liquefaction plants and export LNG to the Asian market through the Suez channel or wherever needed.

While the cost of building a new LNG plant would be significant, pipelines would have minimal costs in case of SCP's second expansion, although an additional pipeline construction in Georgia might be required for continuous incremental supply from new Caspian reserves. Other options might be pumping to already existing plant in Aliaga (Mediterranean) with 6 bcm capacity (if there is space) or to the proposed one in Iskenderun (Eastern Mediterranean) which is closer to Azeri borders. This kind of diversification sounds to be much more promising in the long-term. Additionally, Asian price factors would also markedly contribute to the advantages.

So, if LNG seems to be a problem, why not to convert it to an opportunity then? It is time to think about Asia, too, as many exporters already do. Finally, from the political aspect the country needs to be careful with both gigantic anti-imperialist neighbors and the Western world in order to preserve the balance of non-conflicting relationships with all industry leaders being global and/or regional superpowers at the same time. Politically, for a smaller country with less proven reserves needing to be exported anyway, cooperative strategies would work better than competitive. Considering that Azerbaijan does not own that huge proven gas reserves in comparison with big players, existing projects in addition to other feasible options suggest that there are no serious reasons to get that worried about the future of its gas exports.

Sooner or later, the Golden Age of Gas will be a valid expression for all continents, which means Azerbaijan will unlikely have any overproduction or oversupply of gas, if not under. Therefore, the country needs to focus on explorations and extraction of discovered reserves. Pipeline-wise, winning the TAP rally is amajor task for Azerbaijan and the government is required to be hell-bent on this. Nevertheless, a considerable number of points discussed above suggest that the government should not be easy-tempered on the future of its gas exports. It is indeed worth carefully working on several effective strategic options, anticipating challenges and getting prepared for them within more uncertain and erratic atmosphere of the European gas market.

Tamar partners sign $1.85 billion in natural gas deals in just a week

Haaretz, *13.03.2014*

Second big contract in a week is 15-year agreement to supply more than $1 billion of natural gas to two private power plants. The Tamar gas field partners on Wednesday announced their second big contract in a week, a 15-year agreement to supply more than $1 billion of natural gas to the private power plants in Alon Tavor and Ramat Gavriel.

Taking into account the $750 million contract with Sorek power plant that the partners announced, the Tamar field has now won commitments from customers to buy $1.85 billion in gas. Two Jordanian companies signed their first export deal, a $500 million contract for their Dead Sea region facilities.

The Tamar field will supply 4.5 billion cubic meters of gas to two private power companies over 15 years, estimated to be worth $1 billion. The companies that will buy the gas are Ramat Gabriel Ltd. and Alon Tabor Ltd., under the agreement signed over the past week. The Alon Tavor power plant is located in the complex owned there by Tnuva, Israel's largest food supplier. The new Ramat Gavriel power plant is located near Migdal Ha'emek, in the Nilit factory, which manufactures nylon fibers and thermoplastics. The cogeneration plants are planned to generate 55 megawatts of power each for their respective factories.

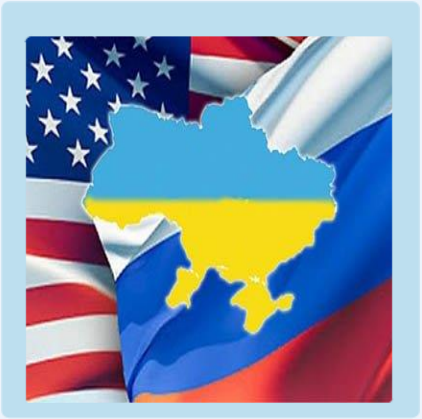
The deals are subject to approval of Israel's antitrust authorities and closing the financing for the enterprise. The sale is on a "take or pay" basis, with a minimal annual amount, and the deal will last 15 years or until the total amount is supplied. In the deal signed Sunday, the Tamar field will supply 3.3 billion cubic meters of gas over 15 years to the 140-megawatt IPP power plant, which is fully owned by Delek Group and will power a water desalinization plant. Texas-based Noble Energy owns 36% of the gas field. Israel's Delek Group, through its units Avner Oil Exploration and Delek Drilling, holds a 31.25% share. Isramco Negev has a 28.75% stake, and Alon Natural Gas Exploration holds 4%. As for the Jordanian deal, Tamar will supply 66 billion cubic feet of gas a year to the Jordan-based Arab Potash Company and Jordan Bromine Company, a joint venture between Arab Potash and the Louisiana-based Albemarle Holding Company, Noble Energy announced last month.

In total, the Jordanian buyers have agreed to buy about 1.8 billion cubic meters of natural gas over 15 years, at an estimated value of at least $500 million. The U.S. State Department was involved in getting the deal signed. Tamar's sales to Jordan are expected to start in 2016, once the minimal required infrastructure has been completed. The much larger Leviathan field nearby signed a 20-year, $1.2 billion deal last month to supply gas to a planned Palestinian power plant once Leviathan starts production in 2016 or 2017. Leviathan is estimated to hold about 540 billion cubic meters of gas, enough to supply Europe for a year. Tamar has an estimated 300 billion cubic meters of gas, including its nearby satellite field.

Tamar began supplying Israeli industry with natural gas in March of last year, and the partners have signed deals so far for 200 billion cubic meters, which leaves them quite a bit of room for future sales. The field came online months after Egypt halted gas supplies to Israel. After a lengthy and heated debate, the Israeli government last year decided to allow 40% of its natural gas reserves to be exported, while Tamar can sell up to 50% of its reserves. Following the agreement with Jordan, Tamar is free to sign export contracts for an additional 48.2 billion cubic meters. Tamar and Leviathan were two of the largest gas finds in the past decade, and turned Israel into a gas exporter. In February, Australia's Woodside Petroleum signed a deal to take a 25% stake in Leviathan for up to $2.55 billion.

Ukraine, Russia and the nonexistent U.S. oil and natural gas “weapon”

Ein News, *10.03.2014*



Commentators were falling all over themselves last week to announce that far from being impotent in the Ukraine crisis, the U.S. had a very important weapon: growing oil and natural gas production which could compete on the world market and challenge Russian dominance over Ukrainian and European energy supplies--if only the U.S. government would change the laws and allow this bounty to be exported.

But, there’s one very big problem with this view. The U.S. is still a net importer of both oil and gas. The economics of gas exports beyond Mexico and Canada suggest that such exports will be very limited if they ever come at all.

And, there is no reasonable prospect that the United States will ever become a net exporter of oil. U.S. net imports of crude oil and petroleum products are approximately 6.4 million barrels per day (mbpd). This estimate sits between the official U.S. Energy Information Administration (EIA) numbers of 5.5 mbpd of net petroleum liquids imports and 7.5 mbpd of net crude oil imports. And so, to understand my calculations, please see two comments I made in a previous piece here and here. My number is for December 2013, the latest month for which the complete statistics needed to make my more accurate calculation are available. The EIA in its own forecast predicts that U.S. crude oil production (defined as crude including lease condensate) will experience a tertiary peak in 2016 around 9.5 mbpd just below the all-time 1970 peak and then decline starting in 2020.

This level is far below 2013 U.S. consumption of about 13.2 mbpd of actual petroleum-derived liquid fuels. This number excludes natural gas-derived liquids which can only be substituted for petroleum-derived liquids on a very limited basis. So, when exactly is the United States going to drown the world market in oil and thereby challenge the Russian oil export machine? The most plausible answer is never. And, the expected 2016 peak in U.S. production is only about 1.5 mbpd higher than production today. That’s really quite small compared to worldwide oil production of about 76 mbpd. And, there’s no guarantee that the rest of the world isn’t going to see a decline in oil production between now. So much for the supposed U.S. oil “weapon” taming the Russian bear.

But what about natural gas? Surely, America’s great bounty of natural gas from shale could challenge the Russians. Well, not really. It’s true that U.S. natural gas production trended up significantly from its post-Katrina nadir in 2005. But the trend has now stalled. U.S. dry natural gas production has been almost flat since January 2012. The EIA reports total production of 24.06 trillion cubic feet (tcf) for 2012 and 24.28 tcf for 2013, a rise of only 0.9 percent year over year. Not mentioned by any of the commentators touting the U.S. natural gas “weapon” is that U.S. natural gas imports for 2013 were about 2.88 tcf or about 11 percent of U.S. consumption. So, let me see if I understand this: The plan seems to be to import more so we can export more. And this would change exactly what in the worldwide supply picture?

Certainly, it is true that low U.S. natural gas prices have reduced drilling and exploration dramatically. But prices will likely have to rise above $6 and trend higher as time passes as the easy-to-get shale gas is used up and only the more costly and difficult reservoirs remain. Drillers don't keep drilling unless they can make money and that will require significantly higher prices. And, here's the kicker. In order to ship U.S. natural gas to Europe or Asia, it has to be liquefied at -260 degrees F, shipped on special tankers and then degasified. The cost of doing this is about $6 per thousand cubic feet (mcf). So, the total cost of delivering $6 U.S. natural gas to Europe is around $12 per mcf. With European liquefied natural gas (LNG) prices mostly below this level for the last five years, it's hard to see Europe as a logical market.

Japan would be a better target for such exports with prices moving between $15 and $18 per mcf in the last five years. But a U.S. entry into the LNG market could conceivably depress world prices and make even Japan a doubtful destination for U.S. LNG. And, what if U.S. prices rise significantly above $6? But all this presupposes that the United States will have excess natural gas to export. As my colleague Jeffrey Brown has pointed out, "Citi Research (an arm of Citigroup) puts the decline rate for existing U.S. natural gas production at about 24%/year, which would require the industry to replace about 100% of current U.S. natural gas production in four years, just to maintain current production." It seems that U.S. drillers are going to be very, very busy just keeping domestic natural gas production from dipping, let alone expanding it to allow exports.

And remember, we are still importing the stuff today! How many companies will actually risk the billions needed to build U.S. natural gas export terminals to liquefy and load exports that may never appear? I doubt that very many will actually go through with their plans. What is truly puzzling is that all the information I've just adduced--except the cost of liquefying, transporting and degasifying natural gas--is available with a few clicks of a mouse and a little arithmetic performed on tables of data. I got the cost information on LNG from a money manager specializing in energy investments. And yet, commentators, reporters, and editorial writers don't even bother to check the internet or call their sources in the investment business. Perhaps the facts have become irrelevant. Only that would explain the current hoopla over the nonexistent U.S. oil and natural gas "weapon" in the face of the all-too-obvious and readily available evidence.

Ukraine sees Gazprom charging 37% more for gas in second

Ein News, *10.03.2014*

Ukraine faces a 37 percent increase in the price it pays for Russian natural gas after OAO Gazprom canceled a discount and threatened to cut supplies, Ukrainian Energy Minister Yuri told yesterday. Ukraine will pay about $368.50 per 1,000 cubic meters of the fuel in the second quarter, Prodan said.

Russia agreed last year to cut the price it charges Ukraine to $268.50. Gazprom rescinded the discount last week and said Ukraine risks a repeat of 2009, when the Moscow-based company reduced shipments during a pricing dispute. Gazprom agreed to the discount when the nation was governed by Yanukovych.

Russian President Vladimir Putin has refused to acknowledge Kiev's successor government. Pro-Russian forces have taken up positions in Ukraine's Crimea region, which will hold a referendum on March 16 on joining Russia. "I will have talks on March 19 in Brussels with the EU commissioner and companies," Prodan said, referring to a planned meeting with European Union Energy Commissioner Gunther Oettinger on possible substitutions for Russian gas. Slovakia is likely to help with gas transit, Prodan said, citing a conversation with Oettinger.Ukraine needs to import about 30 billion cubic meters of gas this year, of which a third may come from Slovakia, Prodan said March 5.

Crimea attempts nationalization of Energy Company

Natural Gas Europe, *11.03.2014*

Authorities in Crimea are reportedly planning to nationalize the Ukrainian Black Sea Fleet and Chonomornaftahaz. "The Ukrainian fleet in Sevastopol will be nationalized in full. We are not planning to let their ships go anywhere. We have also cut off the exit of vessels belonging to Chonomornaftohaz", self-proclaimed Crimean PM Sergey said to Pravda.

At the same time, Russia's President Vladimir Putin met Foreign Minister Sergei Lavrov to discuss proposals to settle the situation in Crimea and Kiev. The standoff between Russia and the West continues, while Ukraine is struggling to repay debts.

Gazprom approves contracts for South Stream's offshore section

Natural Gas Europe, *12.03.2014*

Gazprom approved the signing of a contract for the construction of the first string of South Stream's offshore section, also opening the doors to a pipe procurement contract for a second part of the offshore section.

"The South Stream project is steadily progressing. Contracts for laying the first string as well as for procuring pipes for the second string will be signed before the end of this March. In less than two years the first gas supplies will be carried to Europe via the new route protected from transit risks," Alexey Miller, Chairman of the Gazprom Management Committee, said in a note released on Tuesday.

South Stream's offshore section will be made up by four parallel strings laid under the Black Sea within a single routing at the depth of more than 2,200 meters.

How Russia's conflict with Ukraine threatens vital European trade links

The Telegraph, *08.03.2014*

It was supposed to be the dawn of a new era. In 2011, Dmitry Medvedev, then president of Russia, was preparing to deliver a keynote speech to the World Economic Forum in Davos. Russia was "open for business", he would declare, listing 10 reasons why investors should flock to the former Communist state.

But things have never been smooth for the Russian Bear, and just days before Medvedev was due to deliver his speech, headlines about his appearance in Davos quickly transformed to news that a terrorist bomb in Moscow had rocked Russia's busiest airport and killed 37 people.

Three years later, Medvedev has been replaced by Vladimir Putin, but the world's eighth largest economy is still in the headlines for controversial reasons. Tensions with Ukraine threaten to tear apart the smaller nation, with Crimea, located in the south-east of the country, due to hold a referendum next week to decide whether it wants to join Russia.

Phrases such as “Cold War” and “Iron Curtain” have been resurrected, parties have stopped talking and the stand-off is escalating by the day. Last week, the European Union voted in favor of sanctions on Russia. It froze talks on easing visa barriers and threatened economic reprisals if Russia escalated its intervention. Russia launched its own threats in return. It may seem like a familiar pattern, but as Medvedev’s 2011 speech showed, Russia has worked hard to attract foreign investment in the past. Putin’s first term as president between 2000 and 2004 saw him embark on a charm offensive, wooing world leaders from Tony Blair to George W Bush. It was not until the 2004 Orange Revolution in Ukraine that relations began to sour.

Putin blamed the civil unrest on Western influence, but the deaths of Alexander Litvinenko, a fugitive officer of the Russian FSB secret service, in 2006, and Sergei Magnitsky, a Russian accountant, in 2009, have only made a strained relationship more difficult. But while political tensions run high, doing business in Russia is now much more attractive. Today, Russia is the world’s largest exporter of energy and one of Britain’s biggest markets outside the EU. According to HMRC, the UK exported £3.9bn of goods to Russia in 2013 – a value that has almost tripled over the past decade – while imports totalled £6.8bn. The UK imports thousands of tonnes of commodities each year from Russia only to ship much of it back in the form of cars, machines and other vehicles – helping to feed Russia’s insatiable appetite for luxury goods. Trade has also blossomed with the EU. Russia is its third largest trading partner, while the 28-nation bloc is Russia’s biggest customer.

Energy forms 80pc of the EU’s imports from Russia, and some argue this has weakened the EU’s hand when it comes to further sanctions. Germany – Europe’s biggest economy – relies on Russia for half its oil and 40pc of gas, half of which passes through Ukraine. By comparison, the UK buys about 6pc of its gas from Russia. The possible consequences of sanctions on the Baltic states, Finland, the Czech Republic, Slovakia and Bulgaria are even greater, as these countries are 100pc dependent on gas from Russia’s state-owned energy giant, Gazprom. “There aren’t a lot of effective ways to restrain Russia,” says Francisco Blanch, a commodities strategist at Bank of America Merrill Lynch. “If you implemented sanctions similar to those on Iran, it would be like shooting yourself in the foot. The Brent (oil) price is almost $110 a barrel.

If you impose sanctions on Russia, you’re going to send the energy price through the roof and countries will slip into recession. “(The relationship) is a symbiotic one – (Russia and the EU) both need each other, and they know it. It’s not like the EU can sanction Russia and hurt it without hurting itself. And vice versa.” Others suggest Russia has much more to lose from a trade war. Sir Lyne, deputy chairman of Chatham House and a former British ambassador to Russia, said it would be much easier for countries such as Germany to source gas from elsewhere than it would be for Russia to find a new buyer. “Russia can’t afford to lose one of their biggest export markets for their biggest export commodity,” he says. “Occasionally countries cut off their nose to spite their face.

But while it sounds like a powerful threat, when you look at it closely, the leverage is almost the other way around. “People in Europe tend to get into a panic about Russia cutting off our gas supply as if all the lights will go out. What they forget is it’s worse for Russia than it is for us.” Blanch agrees that Russia’s trade dependence on commodities puts it at a disadvantage. “Economically, Russia is a very imbalanced country with a lot of oil and gas, a very big consumer market that uses these revenues to consume goods domestically. But Russia doesn’t make a lot of things and doesn’t really sell a lot else.

“If Russia cut off energy exports to Europe, Russia’s reputation as an exporter of energy would be decimated.” Closer ties between Britain, the EU and Russia also mean there’s more to this high-stakes economic poker game than just energy. BP now owns almost a fifth of Russia’s Rosneft. With a significant proportion of BP’s dividend payments paid into UK pension funds, Russian turmoil has wider implications for Britain. Russia also has a prominent presence on the UK stock market. More than 60 companies originating from the former Soviet Union have listed in London in recent years. The Steel maker Evraz – part-owned by Chelsea football club owner Roman Abramovich – illustrates how deep financial links have become, while Lenta, the St Petersburg-based hypermarket group, is one of the most recent newcomers on the London Stock Exchange. Ultimately, Sir Roderic says it’s in no one’s interest to rock the boat. “Of course Britain doesn’t want, because it would be disruptive to the financial system, and it would cost the City of London.”

Less state interference also means Russian businesses are no longer subject to political whims, and many Russians boost UK growth via tourism and property purchases. “During the Cold War, relations between governments almost dictated the whole relationship,” says Sir Roderic. “That’s absolutely not the case now because we connect with Russia and Russians on many different levels. When I was ambassador in Moscow, we passed the 100,000 mark for the number of visas issued to Russian visitors coming to the UK. Last year, the official figure was 226,000. Twice as many Russians are coming here to connect with British people, and they’re not just government officials.” For many Russians, it will remain business as usual.

Oleg Mukhamedshin, the deputy chief executive of Rusal, the world’s largest aluminum producer, says the weak rouble caused by outflows in emerging markets has been good for business. “I don’t see any specific negative impact from this Ukrainian situation on our business so far,” he says. “As an exporter, we’re obviously interested in a balanced currency exchange rate and obviously the roble was quite overvalued for a certain period of time.” Mukhamedshin also believes Europe’s nascent recovery could be pushed off course if tensions escalate. “We see some slight recovery in Europe, for example aluminum consumption last year has increased in Europe, which is a good signal, so you would put this recovery under risk.”

The other fear is that in times of crisis, co-operation and co-ordination is replaced by selfishness and nationalism. In an EU with 28 members, the potential for squabbling is huge. Pawel Swidlicki, a research analyst at Open Europe, says many countries in Eastern Europe still carry the scars of the past. “Poland is one of the more hawkish countries (when it comes to Russian sanctions). It wants to go quite hard on Russia, whereas the rest of the EU – particularly Germany – are much more cautious,” he says. “The stakes are a lot higher for Poland and the other central eastern European countries because this brings back very bad memories of Russian domination. To them, if you give Russia an inch they’ll take a mile.”

While the EU and the US ponder their next steps, it seems Putin’s predecessor had some wise words in 2011. Back then, Medvedev told business leaders and politicians at Davos that diversity and coexistence was the key to success. “A single-format world is full of risk (while) a multi-format world is capable of compensating for such risks and provides an opportunity to adapt to new challenges,” he said. Both the EU and Russia would be wise to heed those words.

Central Europeans want U.S. gas to cut dependence on Russia

Reuters, *08.03.2014*

Four central European countries have asked the U.S. Congress to make it easier for them to import natural gas from the United States and reduce their dependence on supplies from Russia, the Czech Foreign Ministry said.

The Visegrad 4 group including Poland, the Czech Republic, Hungary and Slovakia is looking to diversify supplies to eliminate the danger Russia could use its control of gas and oil flows to exert political pressure on the former Soviet satellite states. Supplies were briefly disrupted in 2009 during a dispute between Russia and Ukraine, through which much of the Russian gas is piped.

And central Europeans fear they could be under threat again due to an escalation of tensions between Russia and the West over Russia's seizure of Crimea. Last year, Russia's Gazprom supplied the European Union and Turkey with a record 162 billion cubic meters of gas, of which 86 bcm went via Ukraine. Gazprom issued a thinly veiled warning on Friday that it could stop shipping gas to Ukraine over unpaid bills. The V4 ambassadors to Washington asked House Speaker John Boehner in a letter to remove bureaucratic hurdles and make it possible to start exporting U.S. shale gas to the region, the Czech Foreign Ministry said. "With the current shale gas revolution in the United States, American companies are seeking to export gas, including to Europe.

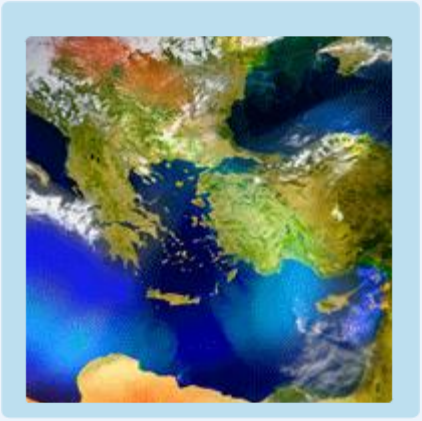
But the existing bureaucratic hurdles for the approval of the export licenses to non-FTA countries like the Visegrad countries are a major hurdle," the letter said. In a statement, Boehner supported the call. "I hope President Obama will heed this call from our allies to use his 'pen and phone' to direct the Secretary of Energy to immediately approve pending natural gas export requests and do everything possible to use American energy to reduce the dependency on Russia for our friends in Europe and around the globe," he said. Obama does not need congressional approval to approve applications to export natural gas. He often blames Congress for stalling other policies, and has said he wants to use his executive powers to do as much as he can without it.

But White House spokesman Josh Earnest said on Friday policy changes would not have an immediate effect, and natural gas stocks in Europe were above normal because of a mild winter. "There is no indication currently that there's much risk of a natural gas shortage in the region," he said. Analysts have said that U.S. natural gas would not reach European markets before 2016, and thus could not provide an alternative in the current Ukrainian crisis. European Energy Commissioner Guenther Oettinger said in an interview published on Saturday he did not expect Russia to switch off gas supplies to Europe over the Ukraine crisis. "I don't believe it would be in Russia's interests," he told German magazine Wirtschaftswoche.

Central European countries have been building new gas pipeline connections and expanding the possibility of reverse flows to provide more flexible supply options, but are still 70-100 percent dependent on Russian gas. Poland is building an import terminal on the Baltic coast for liquefied natural gas (LNG), expected to be completed at the end of this year. It has also supported domestic shale gas exploration, but the results have so far lagged expectations, while environmental protests have halted exploration plans in the Czech Republic.

Week 10 overview

Natural Gas Europe, *09.03.2014*



While the end of a mild winter gladdens the hearts of Europeans, the on-going war of tug between Moscow and the West is pushing energy issues higher on several countries' agenda. Nevertheless, what seems clear is that Russia's exports will remain the backbone of the European energy.

The reticence of Germany's Angela Merkel to end up in an open confrontation points towards this remaining the status quo. And in a sense she is right. Despite the transit through Ukraine keeps decreasing as a percentage of the total imports, Russian gas to Europe totaled 167.2 billion cubic meters in 2013, registering a 12% year-on-year increase.

As said by the International Energy Agency on Wednesday, Russia's hydrocarbon will maintain its centrality in the coming years. Nonetheless, the risks are still there and no European country can turn a blind eye on the developments. Slovakia, Hungary, Czech Republic and Poland top the list. Warsaw will probably be the EU member state paying the higher price for the crisis in the short-term, but indigenous production and LNG opportunities are likely to temper the long-term consequences. On Monday, Polskie Gornictwo Naftowe i Gazownictwo fell the most on record, with investors concerned for its pipeline route via Ukraine and lower-than expected earnings. A few hours later, US-based FX Energy announced it started production at the Komorze-3 well in the Fences concession in Poland, registering a 1.1 million cubic feet of gas per day gross in this phase.

"With the additional production from Komorze-3, our company-wide net production is now approximately 14 million cubic feet of gas equivalent per day, with two more wells yet to come on line," David Pierce, president of FX Energy, said in a press release. Almost simultaneously, Ireland-based Falcon Oil& Gas announced the beginning of the well testing operations on the Kútvölgy-1 well in Hungary. "We are pleased to confirm that well testing operations on our Kútvölgy-1 well have commenced. Technical evaluation of the well results obtained so far indicates possible gas pay zones in the Algyő formation that will be tested in the coming weeks," Philip O'Quigley, CEO of Falcon, commented in a note released on Monday. Two days after, the arm-wrestling between Moscow and Kiev became even more evident. Russia's Gazprom decided to discontinue gas price discount for Ukraine starting from April. "Ukraine hasn't settled the gas debt of the last year and today the country's outstanding debt for current gas supplies is increasing.

Gazprom hasn't received any payments for the gas supplied in January, and our Ukrainian partners informed us yesterday that they would not be able to pay in full for the gas supplied in February, " Gazprom Management Committee Chairman Alexey Miller told Russia's Prime Minister Dmitry Medvedev, as reported by a note released by Gazprom on Wednesday. The confrontation goes on, but it seems clear the room for profit will not fade away that easily. Despite increasing uncertainty, some business opportunities for companies remained in Russian territories, especially for American and British companies.

On Monday, a British civil servant was caught with a document addressed to Prime Minister David Cameron, recommending that London should "not support, for now, trade sanctions," nor should it "close London's financial center to Russians." On Thursday, US-based ExxonMobil confirmed its intention to proceed with its offshore project in Russia, adding that the schedule did not change. "A liquefied natural gas project in Papua New Guinea and the largest offshore oil and gas platform in Russia are among significant projects scheduled for startup this year," reads a press release. The second aspect that clearly emerged last week was the enthusiasm over LNG projects.

Finland's Gasum has chosen Tahkoluoto, Pori as the location of its first LNG import terminal, with the intention to serve LNG to the entire western coast of the Scandinavian country, from Hanko to Kokkola. 'the 30,000 cubic metre terminals will improve the availability of LNG in Finland and reduce emissions,' reads a note published on the company's website on Tuesday. A few hours later, Portugal's Galp Energia reported its plan to significantly increase its LNG and FPSO investments, anticipating it would deploy 14 additional FPSO in Brazil and Angola. 'In the Gas & Power business, the goal is to continue to exploit LNG trading opportunities and maintaining a material natural gas outlet in Iberia, coupled with a flexible sourcing of natural gas and LNG,' reads a note released on Tuesday.

But Russia did not lose the opportunity to remind everybody about its reserves and strength. Gazprom and Gazprombank signed an agreement to increase cooperation on LNG projects on Thursday. Gazprom's Alexey Miller and Gazprombank's Andrey Akimov conveyed that the Russian bank will have a voice in the Baltic LNG and in the Vladivostok LNG projects. 'Gazprombank jointly with Gazprom will hold negotiations with international and Russian financial institutions to obtain equity and external financing for the project companies,' reads the press communiqué released on Thursday. The bank will have also the opportunity to acquire a stake in the project companies set up to implement the two projects.

In conclusion, as the standoff between West and Russia continues over Crimea, Europe possibly will need more LNG from Russia and elsewhere to decrease its reliance on the wobbly transit through Ukraine. Indifference of the international community on Kiev's future could simply exclude the country, while the ties between Europe and Russia are unlikely to crumble on an ideological ground. Kiev could be the main (if not only) loser of the chess game. Indeed, if it is not anymore true that all roads lead to Rome, what is certain is that most of the pipelines will lead to Russia for many years to come. The only uncertainties remain the future of LNG and the role of Ukraine in this big international jigsaw.

Poland will depend less on Russian gas thanks to new links-PM

Reuters, *11.03.2014*

Poland will be less dependent on gas deliveries from Russia next winter thanks to new gas links and a liquefied natural gas terminal that is scheduled to start importing gas next January, its prime minister said.

“We may say today Poland is sufficiently independent when it comes to the supply of gas, and Poland will never be subject to any blackmail in this respect,” Prime Minister Donald Tusk told a news conference on Tuesday. Despite efforts to explore for shale gas, Poland still heavily relies on imports for roughly two thirds of its annual gas usage of 15 billion cubic meters.

Since 2009, when Russia supplied 91 percent of Poland’s gas, Poland has doubled the capacity of a pipeline link with Germany and built a new link to the Czech Republic. In the most recent development, construction of a liquefied natural gas (LNG) terminal, with a capacity to import 5 billion cubic meters of gas per year, is scheduled for completion by end-2014 in the north-western port of Swinoujscie. From 2015, these alternative sources may be able to supply much of the gas Poland needs if Russian supplies are cut off, Tusk said. “Not only can we effectively renegotiate the price of Russian gas, but we are able to spend next winter (safely), no matter what are the plans of our eastern neighbor,” Tusk said. At the same news conference, Tusk said his government had approved a new shale gas bill that would help encourage investors by reducing red tape and regulatory hurdles. He said he hoped the law would go swiftly through parliament, as “secure gas deliveries are now a key condition of sovereignty”.

Estonia and Finland reach agreement on LNG terminal

Natural Gas Europe, *10.03.2014*

Ending the spat over location of a liquefied natural gas terminal (LNGT), officials in Finland and Estonia have OK'd a USD$690.6 million plan to build two separate LNG terminals - one in Finland and the other in Estonia.

The two countries also signed a letter of intent concerning construction of the Balticconnector, a USD$130 million natural gas pipeline that will connect the two states. The decision was announced last Friday and came amidst concerns that the Baltic nations of Estonia, Latvia, Lithuania and Finland do not have direct access to the European Union's LNG market.

"As a result, we have all been witnessing the steep rise of natural gas prices in the recent years," Juhan Parts, Estonia's Economic Affairs minister said, adding, "This (situation) must change." In accordance to the agreement, the technical specifications and peculiarities as well as the economic plan of the strategic project must be submitted to the European Commission by the end of May. Meeting the deadline will secure the countries' participation in the Connecting Europe Facility, an EU project aimed at creating trans-European networks for energy, telecommunications and transport, in which up to 50 percent of the project costs are expected to come from the EU structural funds. According to the agreement, the Estonian and Finnish LNGT developers will cooperate while constructing the terminals on both coasts of the Gulf of Finland.

Praising the deal, the Estonian minister said that the agreement is the result of long negotiations and necessary for both partner states. According to the original plans, there was supposed to be one large regional terminal, but Estonia and Finland could not agree on its location. To satisfy the row, the European Commission hired Booz&Company, a consulting firm, to assess what location is the best for construction of the Baltic region's LNG terminal after the Baltic States were not able to decide themselves. Meanwhile, Lithuania had earlier secured EU support in building its LNG terminal. The christening of the floating vessel took place a couple weeks ago in South Korea. Notably, Latvia has also not given up intention to pursue building of its own liquefied gas terminal.

Responding to the Natural Gas Europe query on the Latvian pursuit, Evita Urpena, spokeswoman of the Ministry of Economy, emphasized that the November 2012 Booz&Company study indicated all the countries - Estonia, Finland and Latvia - are potentially suitable as a LNGT location. "Latvian terminal was equally evaluated as a good option, but it had several lower indicators...The study also evaluated several LNG terminal options in Latvia's Ventspils and Riga. Those projects are currently at the different stages of development...The ministry is positive about LNG terminal in Latvia," Urpena said. Finland and the three ex-Soviet Baltic states of Estonia, Latvia and Lithuania consume about 10 billion cubic meters of gas annually, all of which is currently supplied by Russia's gas giant Gazprom.

E.ON plans to close one quarter of its European capacity

Natural Gas Europe, *12.03.2014*

Germany's E.ON and Italy's Enel announced similar cuts, with 2013 business performances in line with expectations.

"Our 2013 results clearly reflect the negative effects of a difficult economic and regulatory environment in Europe. In particular, the ramifications of policy decisions in Germany and the related insufficient market prices for conventional energy continue to have an adverse impact on our generation portfolio, which has long been a mainstay of our business. That is why in 2013 we further intensified our efforts to systematically adapt E.ON to the rapidly changing market situation," E.ON CEO Johannes Teyssen said.

E.ON cut its dividend by 45% to 0.60 euros per share, also announcing to mothball one quarter of its European capacity. 'E.ON further optimized its business portfolio in 2013. In has now generated about €20 billion from the sale of noncore assets, thereby surpassing its original target of €15 billion by a wide margin. These successful divestments give E.ON financial flexibility and enable it to focus even more closely on current challenges and opportunities,' reads the note.

CNPC to construct gas pipeline in cooperation with Tajiktransgaz

Natural Gas Asia, *10.03.2014*

On March 4, China's energy major, CNPC through its subsidiary Trans-Asia Gas Pipeline Company Limited, signed an agreement with Tajiktransgaz on jointly establishing a natural gas pipeline company to manage the construction of Line D of the Central Asia-China Gas Pipeline.

In November 2011, construction of Line D began after the signing of a 25 bcm/a gas supply increasing agreement between China and Turkmenistan. In September 2013, the Chinese Government signed inter-governmental agreements with Uzbekistan, Tajikistan, and Kyrghyzstan respectively on Line D project.

Will LNG prices in Asia continue to be oil-linked?

Platts, *08.03.2014*

The simple answer to that question is that there is no simple answer. Historically, LNG prices were linked to oil because LNG was displacing oil and that practice continued until US LNG export projects were proposed.

Buyers from the US export projects will get LNG based on Henry Hub gas prices because in most cases they will be responsible for buying US gas and transporting it by pipeline to their contracted export projects to be liquefied. That access to those Henry Hub-priced supplies has spurred buyers to seek gas-indexed prices in their new purchase contracts, displacing traditional oil-indexed prices.

A number of buyers, especially in Japan, are pushing proposed British Columbia export projects to use the US benchmark Henry Hub gas price as the index for LNG. “The aim is to link 100% to Henry Hub prices, rather than JCC (Japan Customs Cleared) as has been the custom globally,” Hiroshi Hashimoto, a senior gas analyst with the Institute of Energy Economics of Japan said on the sideline of the CERI 2014 Natural Gas Conference this week in Calgary. “But there will be some options offered to Canadian and US producers of linking 20% of that price to crude oil and the remaining 80% being still linked to gas.” An informal round-table discussion at the IHS CERA Week conference in Houston included more varied opinions on the future of oil-indexed prices.

The discussion group included LNG buyers, sellers and a ministry official from a government that has several proposed export projects. Buyers want prices indexed to the Henry Hub because they think they’re paying too much for LNG. Japan, for example, was already the largest LNG market in the world before shutting all its nuclear power plants after the Fukushima nuclear plant disaster in 2011. Japan then needed to boost its LNG purchases to make up for the lost nuclear generating capacity and incurred its first trade deficit in more than 30 years, which has continued to grow since. But linking LNG prices to Henry Hub prices won’t guarantee prices lower. It depends on the oil price, the percentage of the oil price used as an index, and the Henry Hub gas price.

If LNG is indexed to gas at 12.5% to 13.5%, the delivered price can compete with the delivered LNG price of US Gulf Coast LNG indexed to the Henry Hub price, depending on the oil and Henry Hub prices, said Wolfgang, IHS Director of Global LNG. Others have pointed out that LNG indexed to Henry Hub prices of $6/MMBtu would be equal to LNG indexed to oil at $80/barrel. Volatility is also an issue when choosing a price index. Henry Hub gas prices can be more volatile than oil prices. Last month, Henry Hub prices went from less than $4.80/MMBtu to more than $6/MMBtu and then dropped lower than $4.60/MMBtu again in about two weeks. Buyers must also remember that an export project will not be built unless the developers have already sold most of the capacity under long-term deals with prices high enough to pay for the multi-billion-dollar projects, whether those prices are indexed to oil or gas.

U.S. natural gas will not curb Russian influence

Natural Gas Europe, *10.03.2014*

To try to mitigate Russian influence in Europe, members of the U.S. Congress have increased pressure on the White House to fast track approvals of U.S. natural gas exports. Recently, Moscow has canceled discounts on gas exports to Ukraine to pressure Kiev over the situation in Crimea.

The move highlighted Russia's strength as an energy exporter, which would not be threatened by increased U.S. natural gas exports. While Washington certainly has an interest in countering Russian influence, it is limited in its ability to strategically deploy its own energy exports for geopolitical purposes.

Instead, the United States will support projects that diversify energy supplies to countries in Russia's periphery, including Ukraine, to help ease their reliance on Russian energy. Thanks to the ongoing shale gas revolution, the United States will emerge as one of the world's largest natural gas exporters over the next decade. Over the past year, the U.S. Department of Energy has approved approximately 100 billion cubic meters of natural gas exports to countries with which the United States does not have free-trade agreements. However, only one liquefied natural gas export terminal, Sabine Pass LNG in Louisiana, has received environmental approval from the Federal Energy Regulatory Commission to begin construction, with completion expected in late 2015.

Expediting environmental approvals for the terminals would accelerate natural gas exports to Europe only minimally, since plant construction is still a laborious process lasting several years. To leverage natural gas for geopolitical impact, Washington would need to compel energy firms to direct exports to or invest in specific countries. LNG export terminals are expensive, so attracting investment in them requires a promise of high returns. Natural gas companies can thus be expected to resist diverting LNG away from the most profitable destinations. For example, the Asian market for LNG is more lucrative for exports than Eastern Europe, where Russia can undercut U.S. prices. Already, much of industry's export capacity has been sold in long-term contracts to Asian buyers.

Congress is pushing to expand the expedited approval process to include free-trade partners and key allies such as NATO members and Japan. However, with 100 billion cubic meters of export capacity already approved to go to countries without U.S. free-trade agreements, this expansion would be irrelevant, since the upper limit of U.S. natural gas exports is likely around 100 billion cubic meters. The United States is also increasing domestic consumption of natural gas, and Washington must balance its domestic needs with its foreign policy objectives. Cheap natural gas is helping to revitalize the U.S. manufacturing sector, and U.S. environmental policy includes replacing coal power plants with more efficient natural gas power plants. These domestic constraints are especially strong because of a lackluster recovery from the 2008-2009 financial crises and a public that is typically more concerned with domestic issues.

Building up the infrastructure for more U.S. exports cannot happen in a period of several months or even two or three years; the Ukraine crisis must be addressed more quickly. After Sabine Pass LNG comes online next year, the other approved projects will not begin exporting until 2017 or later. Over the long term, increased U.S. exports to world markets could affect Russian exports to the countries on the Russian periphery, provided those states have the necessary import terminals. However, the United States is not unique in this regard. Australian LNG exports are set to provide much-needed relief to global natural gas markets over the next two years. With LNG import terminals, Russia's neighbors can import natural gas from anyone. Despite its constraints, the United States could play a more subtle but still important role in helping Europe diversify away from Russian energy.

Washington will likely provide technical support to Central and Eastern Europe for projects such as import terminals and for hydraulic fracturing for shale gas extraction. The United States could also help finance diversification projects, which Eastern European states often cannot afford. Washington could also apply pressure on Turkey to allow LNG tankers to move through the Bosporus, which Turkey is reluctant to do because of environmental concerns and a fear of upsetting Moscow. Of course, Ukraine would still need to build an expensive LNG import terminal to receive the gas. Technological support and pressure on Turkey would be less influential than physical exports of natural gas, but these measures could still help weaken Russian influence in Eastern Europe.

Most countries that rely on Russian energy, including Ukraine to a certain extent, have already started to diversify away from Russia -- or at least build up countermeasures. For example, Lithuania is building a small floating natural gas import terminal, with completion expected by the end of 2014. Latvia has proposed a LNG import terminal of its own, and Estonia is attempting to partner with Finland on two similar projects. Poland is also expected to finish building a terminal this year. Kiev has long considered constructing a terminal on the Black Sea or collaborating with Croatia to build one on the Adriatic Sea connected by pipeline to Ukraine. Of these countries, Ukraine relies on Russian energy the most. Ukraine consumes 50 billion cubic meters of natural gas per year, with nearly 30 billion cubic meters imported from Russia.

Ukraine also serves as an important transit state for natural gas transiting from Russia to elsewhere in Europe. Baltic countries have two advantages that Ukraine does not. First, they have ideal coastlines for LNG terminals. Ukraine's only sea access is through the Black Sea, and Turkey does not allow LNG tankers to pass through the Bosporus. Second, Baltic States are members of the European Union and NATO, giving them greater access to European financing. For example, the European Investment Bank helped finance Lithuania's LNG import terminal when the country struggled to find funding from traditional avenues, and the European Union is expected to help finance projects in Finland and Estonia.

Ukraine is essentially stuck in limbo between Russia and the European Union. The ongoing political crisis is partly a result of Ukraine's position as a geopolitical buffer zone between two major global players. Moscow faces enormous constraints in expanding its military presence beyond Crimea, while EU members face their own challenges in integrating Ukraine. As a result, Kiev has been forced to take on largely independent initiatives to diversify away from Russia. Ukraine possesses 33 billion cubic meters of underground natural gas storage capacity, with around 11 billion cubic meters remaining following a mild winter.

While ultimately still reliant upon Russian natural gas, building additional natural gas storage facilities would give Ukraine more flexibility in the event that Moscow shuts off natural gas exports, as it did in 2006 and 2009. States in Russia's periphery favor shale gas extraction more than countries in Western Europe. Poland has an estimated 4.2 trillion cubic meters of shale gas, the most in Europe. Ukraine has Europe's third-largest reserves of technically recoverable shale gas, with an estimated 3.6 trillion cubic meters. Romania has about 1.4 trillion cubic meters. Ukraine is already attempting to exploit these resources. In January 2013, Kiev signed an agreement with Royal Dutch/Shell to develop a shale gas block in the Dnieper-Donets Basin in eastern Ukraine.

In November, Kiev signed an agreement with Chevron to develop a shale gas block in the Carpathian foreland basin in western Ukraine. The hope is that each project will eventually produce 5 billion to 10 billion cubic meters of natural gas, replacing a large portion of Russian imports. In addition, ExxonMobil is leading a consortium seeking to develop the Skifska offshore field in the western Black Sea that could provide another 5 billion to 10 billion cubic meters of natural gas. In the short term, a relatively small investment of around $20 million could reverse the flow of natural gas through Slovakia, allowing the European Union to supply some natural gas to Ukraine and make it more difficult for Russia to isolate the country from the rest of Europe.

Shale gas exploration is one area where the United States could help Ukraine and other Eastern European countries with large shale gas resources, including Poland and Romania. This would not necessarily entail companies investing directly, but it could mean helping these countries work on regulations and tax schemes that attract investment. For example, the United States helped the United Kingdom optimize its regulatory process and tax schemes to encourage development of British shale gas resources. Still, despite the recent investment deals in Eastern Europe, it remains to be seen if energy companies are prepared to compete with Russia. Moreover, the geology of Eastern European shale formations is more complex than in the United States, and production costs may be prohibitive.

Moscow views Eastern Europe's shale gas and supply diversification potential as much more of a strategic threat than natural gas exports from the United States. Russian discounts on natural gas exports to the region are designed in part to dissuade energy companies and investors from funding projects that would compete with Russian supplies. The mere existence of these projects is a political tool in Central and Eastern Europe. Compared to the West, Russia has more tools with which to give peripheral states financial incentives to shy away from developing strong alternatives. Thus, while many in Washington are pushing for a strong and swift response to Moscow over the situation in Crimea, the United States remains constrained in its ability to reduce Eastern Europe's reliance on Russian natural gas. Ultimately, Russia will remain the dominant provider of natural gas to the region. The United States can play only a supporting role as Eastern European countries look elsewhere for their energy needs

Energy companies warn that rising costs threaten new projects

Today's Zaman, *08.03.2014*

Spiraling industry costs threaten the viability of new energy projects needed to meet growing global demand, Chevron's chairman said. "We're seeing a cost squeeze," Chairman John Watson said at the IHS CERAWeek energy conference.

"The new reality in our industry is that costs have caught up to revenue for many classes of projects." Oil companies from BP to Royal Dutch Shell have cut spending and embraced asset sales to shore up finances as costs outpace energy prices. Costs must begin to come down in order for companies to be able to deliver the extra supplies to meet global demand, Watson said.

The complexity of developing energy resources in the U.S. has created a situation where profits at major oil companies have failed to keep pace with the price of crude. While the price of global oil has more than doubled to $105 a barrel since 2009, the biggest oil and gas companies have gained just 13 percent, according to data compiled by Bloomberg. The Dow Jones Industrial average has surged 81 percent in that time. Global spending on exploration and production by the biggest publicly traded oil and gas companies in the world almost doubled from 2006 to about $120 billion last year, according to a December estimate from Barclays. Spending is expected to remain relatively flat this year, according to the report.

Offshore development costs are starting to approach the price at which oil can be sold for, Andrew Mackenzie, CEO of Melbourne-based BHP Billiton, said Tuesday in an interview. "Some of the rising costs have come about because of things being bid up, possibly being less productive," said Mackenzie, whose company's holdings include U.S. Gulf of Mexico wells in addition to iron-ore mining around the world. "You probably need another round of innovation." Cost is the most important issue facing energy producers, Christophe de Margerie, CEO of Total SA, Europe's second-biggest oil and gas company, said yesterday at the conference.

"We are responsible for what we deliver," he said. "What we are delivering today is too expensive." Both De Margerie and Chevron's Watson said the industry should negotiate with all of the companies involved in developing resources, from those they pay directly to those who service their suppliers. International oil companies are seeing little to no output growth despite boosting spending 400 percent in the past decade, said Lars Christian Bacher, Statoil's executive vice president of international development and production." A lot of companies are spending more and more just to stand still," Bacher said in a March 3 interview at the conference.

Announcements & Reports

► *Annual Report 2013*

Source : Energy Charter
Weblink : http://www.encharter.org/fileadmin/user_upload/Publications/AR_2013_ENG.pdf

► *Market Prices and Uncertainty Report*

Source : Energy Information Administration
Weblink : http://www.eia.gov/forecasts/steo/pdf/uncertainty.pdf

► *Short-Term Energy Outlook*

Source : Energy Information Administration
Weblink : http://www.eia.gov/forecasts/steo/pdf/steo_full.pdf

► *Drilling Productivity Report*

Source : Energy Information Administration
Weblink : http://www.eia.gov/petroleum/drilling/pdf/dpr-full.pdf

►*What the Ukrainian Crisis Means for Gas Markets*

Source : The Oxford Institute for Energy Studies
Weblink : http://www.oxfordenergy.org/wpcms/wp-content/uploads/2014/03/What-the-Ukraine-crisis-means-for-gas-markets-GPC-3.pdf

Upcoming Events

► *Unconventional Gas Aberdeen 2014*

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

► *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/

► *International Conference of Energy and Management 2014*

Date : 5 – 7 June 2014
Place : Istanbul – Turkey
Website : http://www.bilgi.edu.tr/en/news-and-events/news/3189/call-for-international-energy-and-management-conference/

► *2014 EIA Energy Conference*

Date : 14-15 July 2014
Place : Washington– USA
Website : http://www.fbcinc.com/e/eia/?src=home-b1

► *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