Oil & Gas Bulletin

► *21.12.2012*

Turkey to purchase 2 seismic ships

Today's Zaman, *17.12.2012*

Turkish Petroleum Corporation (TPAO) and the Mining Exploration Institute (MTA) each plan to buy a seismic research ship soon.

TPAO's new seismic research ship will be purchased for approximately $150 million, officials from the Ministry of Energy and Natural Resources said. The purchase, however, needed to be concluded through a specific procedure that required the TPAO to first lease the ship and subsequently finalize the purchase after completing the necessary paperwork and obtaining clearances.

TPAO decided to purchase a seismic research ship to search for oil in the seas surrounding Turkey after the Greek Cypriots started their oil exploration in the east Mediterranean. The ship will primarily explore in Turkish waters but will carry out explorations in international waters if needed. Officials said TPAO is reviewing the ships on offer and will announce its decision soon. The MTA is currently having a third ship built for its own use in a simultaneous development. The ship will enable Turkey to conduct research more efficiently, the officials said.

Turkey recently leased a seismic research ship called 'Piri Reis' for oil and gas exploration. Rejecting claims that Turkey only has one research ship in the east Mediterranean, the ministry said there are currently two Turkish ships the Piri Reis and another ship conducting research off the coast of the Turkish Republic of Northern Cyprus (KKTC). With the two seismic ships that the TPAO and the MTA are planning to purchase, the total number of Turkish seismic ships will reach four.

One of every three TPAO wells fruitful

Hürriyet Daily News, *17.12.2012*

Turkish Petroleum Corporation (TPAO) has successfully found oil or gas in one of every three wells it drilled in 2012, figures have revealed.

The company drilled 57 wells, 11 of which had oil and six with gas. TPAO had planned to drill 54 on-shore wells and two offshore wells in 2012, according to data obtained from the Energy Ministry. It finalized the drilling of 57 wells while seven of them are still in the drilling process. Officials will continue work to find hydrocarbon in nine wells. The company conducted eight oil inspections in Southeastern Anatolia and three gas inspections in Thrace.

The drilling of the Türkyurdu-1 well in Turkish Cyprus that began on April 26 has also been completed. The geological information acquired from this survey is expected to enlighten other on-shore and offshore drilling. Greek Cyprus started exploring for gas in the Mediterranean Sea south of the island in Sept. 2011, a move to which Turkey reacted harshly. Turkey and Turkish Cyprus then signed a deal paving the way for oil and gas exploration in the region.

TPAO to resume Libyan oil exploration soon

Today's Zaman, *16.12.2012*

Following an almost two-year break in oil exploration due to domestic unrest in Libya, the state-owned Turkish Petroleum Corporation (TPAO) is expected to shortly resume work in the country.

Amid increasing uncertainty during the protests against the ousted Libyan leader Muammar Gaddafi, TPAO had decided to suspend operations in the North African country back in early 2011. The company, however, said that the "operations were suspended temporarily," signaling a willingness to resume operations.

Energy Ministry officials who wished to remain anonymous told last week that a group of TPAO officials recently visited the Murzuq Basin oil field to see when operations could be resumed. TPAO first entered the Libyan oil market with its subsidiary Turkish Petroleum Overseas Company (TPOC) in 2000, when it initially carried out market research and minor exploration. The company won its first large tender to explore for oil in Libya in 2005 in the Murzuq Basin in Fizan province. The company commenced drilling in the field in 2009 and out of 11 exploration wells drilled until 2011; seven resulted in oil discoveries, a critical success for TPAO overseas operations.

Yildiz: Turkey to respect Iraqi constitution

Today's Zaman, *21.12.2012*

Energy Minister Taner Yildiz has once again affirmed Turkey will act in conformity with the Iraqi constitution in its energy dealings with the Kurdish Regional Government (KRG). "We will abide by the principles set forth in the Iraqi constitution in our oil dealings in northern Iraq," he told.

Noting that the Iraqi constitution requires that 17 percent of all oil revenues be transferred to the KRG, the minister said, "Turkey will stick to that." Presently, 39 companies from 19 countries are engaged in the energy business in northern Iraq, and the minister confirmed that Turkey is also subject to the same conditions as other companies.

The Iraqi central government is not happy with the energy initiatives Turkey started with the KRG, and in protest recently denied permission for the private plane carrying Yildiz to land in Arbil. In an effort to mend ties with the Iraqi government, the energy minister invited the Iraqi deputy prime minister in charge of oil to Istanbul for talks, but as yet, no positive answer from the Iraqi side has been received. Yildiz was expecting Turkey to be in a more advantageous position in Libya following the downfall of Muammar Gaddafi, but he conceded that Turkey is far from being at that point at the moment. "We have only six oil wells in Fezzan," the minister said.

Northern Iraq output 'in new drop'

Upstream Online, *20.12.2012*

Oil shipments from Northern Iraq have fallen to around 5000 barrels per day from around 30,000 bpd at the start of the week, Iraqi oil officials were reported as saying.

Two officials at the state-run North Oil Company did not give a reason for the decline, but the fall comes at a time of increased tension between the northern region and the central government in Baghdad over payments to companies there. A spokesman for the Ministry of Natural Resources of the Regional Government could not immediately be reached by Reuters for comment.

Shah Deniz II in talks for 50% Nabucco stake

Upstream Online, *20.12.2012*

The Shah Deniz II consortium is in advanced talks on acquiring a 50% non-controlling stake in Nabucco Gas Pipeline International, a partner in the European pipeline project has revealed, according to reports.

Speaking to journalists in Sofia, Bulgarian Energy Holding boss Mikhail Andonov said that the Nabucco partners hoped to seal a deal on the stake when they meet on 10 January. "We are holding talks almost every day. We expect Shah Deniz to acquire 50% of the shares in the Nabucco consortium," Andonov said, according to Reuters.

The Shah Deniz II mega-project in Azerbaijan is operated by BP with Statoil, Socar, Total, Eni, Lukoil, TPAO and NIOC also involved. Nabucco's rival, the Trans-Adriatic pipeline (TAP) pipeline, is owned by Statoil, E.ON Ruhrgas and Switzerland's EGL. The Shah Deniz II consortium is due to decide by the middle of 2013 on its export route to Europe, with TAP and Nabucco West being the two remaining contenders. Nabucco West runs 1300 kilometers from the Bulgarian-Turkish border to the Austrian hub of Baumgarten, while TAP runs 520 kilometers from the Caspian through Greece, Albania, the Adriatic Sea to southern Italy.

The Shah Deniz II consortium has already signed a funding deal with TAP, although at the time Shah Deniz II said it also planned to agree a deal with Nabucco, and has also said that Nabucco would have to hand over a significant stake in order to stay in the race. "There are two semi-finals for the Azeri gas. Such a deal will boost significantly the prospects for Nabucco," Andonov said.

A Nabucco spokesman declined to comment to the wire service on the talks. Nabucco is owned by six players on an equal 16.7% slice: Austria's Hungary's MOL, Turkey's BOTAS, Germany's RWE, Transgaz of Romania and Bulgaria Energy Holdings. German utility RWE is currently holding talks to sell its stake in Nabucco to OMV.

Greek Cyprus says makes strides in offshore energy search

Rigzone (Dow Jones), *19.12.2012*

Greek Cypriot government said it was making good progress with a second round of licensing for exploratory drilling aimed at exploiting offshore oil and gas deposits.

In October drilling permits, subject to negotiation, were approved for blocks 2, 3, 9 and 11, and on Wednesday block 10 was also added to the list. "Negotiations with applicants for blocks 2 and 3 have made significant progress while progress has been made in negotiations for block 11," said government spokesman Stefanos Stefanou. However, talks with preferred bidders for block 9 --a French-Russian tie-up involving Total and Novatek-- have ceased, he said.

He said the cabinet had decided direct negotiations should end as they had been 'unsatisfactory', and they would now move on to ENI and Korea Gas. The government is also negotiating a deal with the same Italian-South Korean partnership for blocks 2 and 3. France's Total is still in the running to exploit block 11 on its own and the government has also decided to negotiate directly with it for the adjacent block 10. A launch for tenders for a second licensing round that ended in May covered 12 blocks. A decision on the remaining blocks will be made gradually.

US firm Noble Energy Inc. was awarded Block 12 and announced last year that it discovered gas reserves of up to 8 trillion cubic feet (226.5 billion cubic metres), which has an estimated value of 100 billion euros ($129 billion). This would satisfy the island's domestic gas needs for decades.

Media reports predict there could be greater riches, not only of gas but also of oil, in adjacent blocks. Greek Cyprus hopes its energy bonanza can eventually help pull it out of recession as it seeks a European Union bailout. On the other hand, Turkey has protested strongly against the Greek Cypriot government's offshore energy search, branding it illegal and retaliating by beginning its own exploratory drilling off the breakaway north. Ankara has warned that companies involved in the Greek Cyprus process could be shut out of Turkey's energy investment.

TOBB warns over gold for gas trade sanctions

Hürriyet Daily News, *19.12.2012*

Ankara will become more dependent on Russian oil and gas if sanctions are expanded to Turkey's gold for gas trade with Iran, Rifat Hisarciklioglu, chairman of the Union of Chambers and Commodity Exchanges of Turkey (TOBB), said in Washington.

Turkey insists on continuing to buy natural gas from Iran and letting the supplier convert Turkish money into gold in Turkey. Energy Minister Taner Yildiz said that Turkey had not received any new request from the United States to reduce its level of crude purchases from Iran.

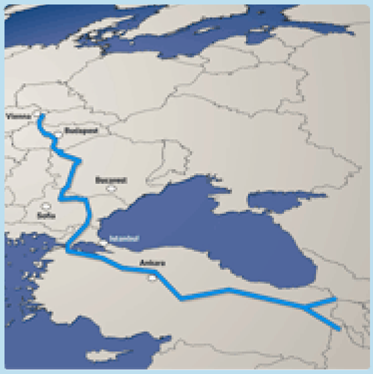
In June, Washington exempted Turkey, along with six other countries, from its financial sanctions on Iran's oil trade for six months in return for a 20 percent cut in Ankara's purchases. Speaking at the German Marshall Fund in Washington, Hisarciklioglu said Ankara would become more dependent on Russia in the gas and oil trade if sanctions were placed on gold for gas trade with Tehran. "A possible situation like this will create risks for Turkey and harm the investment climate," Hisarciklioglu said, proposing Turkey find an alternative payment method for Iran or seek energy source alternatives in Arbil or Hazar. He added that increasing tension between Arbil and Baghdad impairs the Ankara-Baghdad relationship as well.

Asked about the recent developments in the Middle East, Hisarciklioglu pronounced Middle East peace as the provision of world peace and said there shouldn't be tension with Iran in addition to existing problems in the region. Hisarciklioglu said Turkey is now using alternative ways to export goods despite the situation in Syria.

"With the Syrian border closed to commercial traffic, Turkey's exporters are using alternative routes to bring goods to Middle Eastern markets and the İskenderun-Haifa line is one of them," he said, adding that there were no problems with the economic relationship between Israel and Turkey. Commenting on the economic crisis in the EU and in the world, Hisarciklioglu said, "In order to cope with the threat, Turkey should leap to high-income-country status from middle-income status by becoming a high-tech country."

Nabucco EIA report approved in Bulgaria

Today.Az, *20.12.2012*



Bulgarian Ministry of Environment and Water approved Nabucco National Environmental Impact Assessment (EIA) Report, Nabucco Gas Pipeline International GmbH reported.

Bulgarian Ministry issued a statement endorsing the quality of the national EIA Report and Appropriate Assessment Report for the Bulgarian section of the pipeline to the local company Nabucco Gas Pipeline Bulgaria EOOD. According to the Managing Director of Nabucco Gas Pipeline, Reinhard Mitschek, this is a significant milestone for the project before the public disclosure, which will contribute to a swift implementation of Nabucco.

The documentation relating to the EIA procedure was submitted to the Ministry of Environment in Bulgaria on 31 October 2012. Nabucco West is a short-cut version of Nabucco project, which envisages construction of the pipeline from the Turkish-Bulgarian border to Austria.

TAP and Greece start talks on Host Government Agreement

Todays.Az, *20.12.2012*

Trans Adriatic Pipeline (TAP) and the Greek government formally initiated the process to conclude the Host Government Agreement that will govern the group's investment. "At 1.5 billion Euros, this is expected to be the single largest current Foreign Direct Investment (FDI) in Greece," TAP's report said.

TAP is designed to transport gas from the Caspian region via Greece and Albania and across the Adriatic Sea to southern Italy and further into Western Europe. Gas to be produced within the second phase of Shah Deniz gas condensate field development is considered as the main source for TAP.

TAP's initial pipeline capacity will be 10 billion cubic meters per year, but is easily expandable to 20 billion cubic meters per year. TAP's shareholders are AXPO of Switzerland (42.5 percent), Norway's Statoil (42.5 percent) and E.ON Ruhrgas of Germany (15 percent). Shah Deniz consortium will make its final decision on a pipeline route in 2013. The construction of TAP would start, should the Shah Deniz consortium select the pipeline as the preferred gas transportation solution.

Ukraine seeks part in TANAP

Hürriyet Daily News, *17.12.2012*

Russia has started construction of the South Stream gas pipeline in an effort to diversify its supply routes to Europe by bypassing Ukraine, but Kyiv is also seeking to diversify its gas supplies by participating in the Trans-Anatolian Pipeline Project (TANAP).

"Ukraine intends to take part in the implementation of the Southern Energy Corridor project, through which Caspian gas is [set] to be supplied to Europe. With this in mind, we are negotiating new routes of gas supplies with Turkey," said Ukrainian Foreign Minister Kostyantyn Gryshchenko said.

Ukraine and Turkey in the energy sector is a vital element of enhancing the strategic partnership between the two states, said Gryshchenko, who was in Istanbul over the weekend to participate in the ministerial meeting of the Black Sea Economic Cooperation Organization. Ukraine has a great interest in TANAP, he said. "This implies, in particular, the involvement of the leading Ukrainian companies that have extensive expertise in the construction, maintenance and operation of transport and energy infrastructure."

Ukraine has already submitted an official application to the Shah Deniz Consortium where it was outlined that Turkish and Azeri partners can benefit from Ukraine's transportation system, including gas storage facilities adjacent to the European Union, he said. Gryshchenko said Ukraine was committed to ensuring the uninterrupted transit of Russian natural gas to Turkey via Ukrainian territory in accordance with two long-term contracts which are in force until 2023 and 2025, respectively. "No one should have any doubts about this," he said. Russian-Ukrainian gas disputes in the past have interrupted the transit of Russian gas to Turkey.

Ukraine is seeking to diversify its cooperation in the energy field with Turkey, according to Gryshchenko. "We view that we could implement mutually beneficial projects not only in pipeline construction, but also in the construction of underground gas storages, oil pipelines, as well as the joint exploration and production of hydrocarbons in the Black Sea shelf and in third countries," he said. Meanwhile, Gryshchenko said Ukraine provided the shortest, cheapest and most reliable route for hydrocarbons' transportation to EU. "Ukraine has a sophisticated gas-transportation network which is supported by [large] gas storages and infrastructure. This, in turn, leads one to question] the economic viability of the construction of new, costly pipelines that bypass Ukraine."

"We are looking forward to implementing a goal set by President Viktor Yanukovych and Prime Minister Recep Tayyip Erdogan to make the trade turnover reach a level of $20 billion by 2015," he said. Work on a free trade agreement is continuing, as four rounds of negotiations were held, including one special round of consultations on liberalizing the trade in agricultural goods. "We have agreed on most provisions of the draft agreement. Now we need to reach a consensus on terms of access to the goods markets and solve the issues of export duties and export support," he said.

Iran Economy Minister: Oil revenues halved by sanctions

Hürriyet Daily News, *18.12.2012*

Iran is losing half of its oil revenues because of international sanctions imposed over its disputed nuclear program, Economy Minister Shamseddin Hosseini said.

"Iran is facing a 50-percent drop in its oil revenues due to sanctions," Hosseini told, Jomhuri Eslami newspaper reported. Hosseini put down the loss to difficulties in repatriating oil money. Subject to harsh Western sanctions over its controversial nuclear work, Iran is struggling against what it calls an "economic war" to cope with punitive measures targeting its vital oil income and access to global financial systems.

An oil embargo on Iran imposed by the European Union came into effect in July, ending European purchases of Iranian crude and also decreasing Tehran's oil exports to its Asian customers from 10 to 30 percent. According to the International Energy Agency, Iranian exports in November were estimated at 1.3 million barrels per day, down from nearly 2.3 million last year. A number of Iranian lawmakers and government officials have hinted that the drop in oil revenues will shrink the budget for the next Iranian calendar year, starting on March 21, 2013.

BP to sell stake in North Sea

Hürriyet Daily News, *18.12.2012*

BP said that it had agreed to sell its 50-percent stake in a North Sea gas field to energy firm SSE as part of its divestment plans. "BP announced today that ... it has agreed to sell its interest in the Sean gas field in the U.K. North Sea to SSE plc for $288 million in cash," it said in a statement, adding it will complete the deal in the first half of 2013.

Sean is a gas field in the southern North Sea and is operated by Anglo-Dutch rival Shell. BP's current net BP production from Sean is around 18,000 barrels of oil equivalent per day. The latest disposal comes as BP seeks to sell $38 billion worth of assets by the end of 2013 to help pay for cleaning up and for compensation after the U.S. Gulf oil spill disaster.

IEA expects coal to rival oil by 2017

Financial Times, *18.12.2012*

Coal will rival oil as the world's top source of energy in five years, as the mineral benefits from booming demand for electricity generation and steel and cement production in China, India and other emerging nations of Asia.

The International Energy Agency said that by 2017 coal will come close to surpassing crude oil even if demand growth for coal slows down somewhat from the torrid pace of the past decade. "Coal's share of the global energy mix continues to grow each year, and if no changes are made to current policies, coal will catch oil within a decade," Maria van der Hoeven, IEA executive director, said.

The new IEA medium-term projections, covering the 2012-17 periods, bode well for the world's top coal producers, including Shenhua Group of China, Coal of India, and Anglo America, the combination of Glencore and Xstrata, and Peabody Energy. Benchmark coal prices earlier this year dropped to a two-year low of $85 per ton because of surging exports from the US, where coal is battling with cheap natural gas supplies, and Indonesia, but have since then recovered somewhat.

Spot coal prices in Rotterdam, the European benchmark, on Tuesday were quoted at $91 a ton, while in Newcastle, the Australian port that serves as the reference, for Asia, were at $92-$95. Coal prices peaked in 2008 at more than $200 a ton. Lower prices have led miners to lay off workers, close some pits and cancel future expansions. "Considering the significant lead time needed to ramp up supply, through simultaneous mine and transport infrastructure development, decelerating development projects might lead to tightened international coal markets during the outlook period," the IEA said, suggesting higher prices lay ahead.

The watchdog anticipates that strong demand growth in Asia would more than offset the decline in consumption in industrialized countries, where the commodity faces strong head winds because of green policies and competition from cheap natural gas in the US on the back of the shale revolution. "Thanks to abundant supplies and insatiable demand for power from emerging markets, coal met nearly half of the rise in global energy demand during the first decade of the 21st century." Ms van der Hoeven said. The IEA forecast annual coal consumption growth of 2.6 per cent between 2012 and 2017, slower than the 4.3 per cent of the first decade of the century. "Consequently, coal will continue to grow more than any other fossil fuel to 2017, although at slower pace than gas," the watchdog said.

India will drive consumption, with demand increasing at 6.3 per cent a year over the next five years. "This surge in coal consumption is not matched by production growth from domestic mines, causing strong growth in imports", the IEA said. The report anticipates India would overtake China as the world's biggest buyer of seaborne traded coal by 2016. China became the top importer last year, displacing Japan from the top of the ranking for the first time in roughly 30 years.

China, nonetheless, will remain a key factor in consumption, even if the increase in demand is largely met by local production. The IEA said that it projects Chinese coal consumption “to account for more than half of global coal demand by 2014”. Australia will continue to dominate the supply of coal over the next five years but supply from Indonesia, even of mineral of lower quality, is growing faster.

The IEA said that global seaborne trade of coal, which last year surpassed the 1bn ton level for the first time when thermal and coking, or metallurgical, coal are combined, will continue to grow strongly. The watchdog anticipates growth of 3.2 per cent a year, higher than overall consumption growth of 2.6 per cent, as more countries need to import coal to meet growing domestic demand. The strong trade outlook bodes well for commodities trading houses, including Glencore, but also Singapore-listed Noble Group, and privately held Trafigura and Vitol.

Half a million Texas jobs added by oil and gas boom

Dallas News, *19.12.2012*

Texas has gained more than 576,000 jobs from the ongoing U.S. oil and natural gas boom, far more than any other state, the IHS CERA analysis group reported. The estimate includes both direct hires by oil and gas companies and other jobs in manufacturing and services that contribute to the boom or benefit from cheap energy supplies.

By 2020, IHS CERA estimates Texas will have gained 929,482 jobs from development of unconventional oil and gas. Texas has garnered 45 percent of the nearly 1.3 million jobs created by new production from fields drilled with hydraulic fracturing and horizontal drilling.

Pennsylvania and California each got 8 percent of the new jobs. The number of jobs created nationwide was put at 1.7 million, and that is expected to grow to 3 million by 2020. The boom has contributed $238 billion to the U.S. economy this year. By 2020, that contribution will grow to $416 billion, IHS CERA found. In Texas alone, government revenues from the new oil and gas plays are expected to be $22.168 billion this year and $38.538 billion by 2030.

Eni to invest $8 billion to boost Libya production

Reuters, *16.12.2012*

Eni plans to invest $8 billion in Libya over the next 10 years to develop its upstream business as it moves to strengthen its grip as the leading international oil and gas producer in the country.

In a statement, Eni said its Chief Executive Paolo Scaroni had presented the plan to Libyan Prime Minister Ali Zidan and Minister of Petroleum Abdelbari al Arusion in Tripoli. The investments are designed to develop ongoing production as well as new exploration activities, it said. Eni, which has operated in Libya since 1959, had to halt production early in 2011 after civil war broke out.

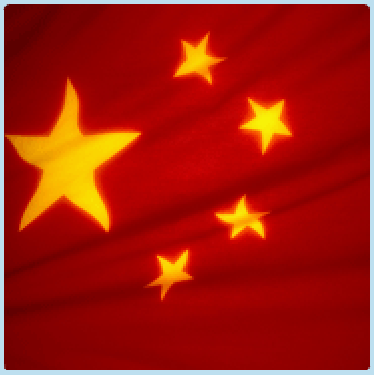
Some analysts expressed concern at the time a new Libyan government could punish Eni because of lukewarm support offered by the then centre-right government of Silvio Berlusconi to the opponents of the former regime of Muammar Gaddafi. Eni said the Libyan prime minister had also asked Eni at the meeting if it was prepared to develop new projects in the downstream sector “in conjunction with the new branch of the National Oil Corporation, which will be based in Benghazi”.

The city of Benghazi was the stronghold of the former Libyan rebels in their struggle against the Tripoli-based Gaddafi regime. Eni, which produces about one third of Libya’s total output, was the first international company to resume production in September last year and currently produces 80 percent of pre-war output of roughly 280,000 barrels of oil equivalent per day.

The state-controlled major has oil production contracts in Libya that are in force until 2042 and gas contracts in force until 2047. Eni also said a social sustainability agreement, worth about $400 million, had also been discussed, adding it could be signed during Ali Zidan’s visit to Rome in late January next year. Eni is the leading foreign oil and gas producer in Africa, an area of the world it expects will help it achieve its goal of a rise in oil and gas production of around 3 percent per year.

Chinese shale gas still slow-going

Upstream Online, *20.12.2012*



China's latest shale gas bidding round had been intended to accelerate development by encouraging more players to participate but the process may not yield much results.

The Ministry of Land and Resources announced the winners of its second shale gas bid round on December 6, unveiling a raft of domestic state-owned companies and some private companies. The tender closed in late October and the ministry said it had received 152 bids from 83 companies for the 20 blocks on offer although one block was excluded after it failed to receive the minimum three bids.

State oil and gas companies such as Sinopec and PetroChina were glaringly absent from the list of winners and analysts attributed the result to other non-companies eager to gain acreage submitting generous bids. The oil and gas companies on the other hand, had a better understanding of the acreage on offer and therefore put up more conservative bids. State power company China Huadian Corp. and its subsidiaries were awarded four blocks Suiyang in Guizhou, Huayuan block in Hunan, Hefeng and Laifeng Xianfeng in Hubei. See a map of the major shale gas basins in China. Others went to companies affiliated to provincial governments and other state-owned giants such as coal producer Shenhua.

Privately held China Coal Geology Engineering Corp. was awarded the Fenggang block in Guizhou and the Sangzhi block in Hunan while coal giant Shenhua won the Baojing block in Hunan. PetroChina came in third with its bid for Sangzhi. A source with Sinopec said the company had bid for only one block while other industry sources said state oil trader Sinochem was also said to be interested in the bid round. Sinopec's bid for Qianjiang in central Chongqing province was unsuccessful and the block was ultimately awarded to Chongqing Energy, a subsidiary of the Chongqing provincial government. "Our bid was probably quite low compared to the other companies," the Sinopec official said. The other two shortlisted companies for Qianjiang were coal giant Shenhua and State Development and Investment Corp, which is a state-owned investment holding company under the direct management of the central government.

Bidding criteria had been expanded to allow the inclusion of foreign joint ventures to show that the government was indeed serious about opening up the acreage to foreign participation although to date no such ventures are known to have submitted bids. But a major drawback of the bid round was that the acreage on offer was not prospective. Both PetroChina and Sinopec had to give up some of their existing onshore acreage to the Ministry of Land and Resources for the bid round and the companies ceded frontier areas with little or no prior drilling.

The winners of the tender, completely lacking in expertise and technology, will almost certainly bring in both domestic and foreign partners to work on the blocks. "We don't intend to partner with the winners this time," said the Sinopec official. "Unless they approach us to help them with the technology ... but so far we have not been approached," he said, adding that Sinopec already has its hands full with its own shale gas acreage in China.

The challenges facing China's shale gas sector are by now well-known. Despite the abundance of reserves billed by some as the second largest in the world after the US -- too many above and below ground risks remain. The government has been slow to make public a regulatory framework for shale gas and midstream infrastructure bottlenecks will limit commercialization options for shale resources stranded in remote areas. Above all, the geological challenges are huge.

Even with the existing presence of Western oil majors, work has been slow. Sinopec has joint assessment agreements for technical evaluation with BP and ExxonMobil but no wells have yet been drilled even though the blocks were awarded at least a year ago because the geology is difficult to crack. Chevron has drilled one well at the Longli block in Guizhou province, but "results were not very good", the Sinopec official said. "Time and technology are the two major current challenges for Chinese shale," Credit Suisse analysts David Hewitt and Horace Tse said the bank's report on global shale gas published December 13.

China has drilled fewer than 100 shale gas wells versus over 150,000 in the US and its companies are still at the start of the learning curve and technology, Credit Suisse said. The government said it would offer producers a Yuan 0.4 (6 cents)/ cubic meter subsidy for shale gas production, at least until 2015, to help support the nascent industry. While this is double the current production subsidy given to operators of coal bed methane blocks, there is no definitive way of quantifying its significance, simply because drilling has been so scant and sparse and it is hard to get a clear picture of general costs and what they might be like in future. Yet the urgency to develop shale resources is particularly apparent in the aggressive acquisition strategies of the state companies abroad. Since 2010, Chinese companies have entered into at least $7.3 billion worth of shale gas deals in North America, primarily to strengthen their access to fracking technology and grow equity reserves and production. This does not include China National Offshore Oil Corp.'s $15.1 billion takeover of Nexen Inc., which will also give it greater access to technology, among other things.

Most recently, PetroChina entered into a $2.2 billion shale partnership with Canada's Encana to develop assets in the fast-evolving, liquids-rich Duvernay play in west-central Alberta on December 13. This came just two days after it announced a $1.63 billion deal to farm into the conventional Browse LNG project offshore Western Australia. PetroChina said it would take a 49.9% interest in Encana's 445,000 undeveloped acres in the Duvernay play. It paid Encana an initial C$1.18 billion, with a further C$1 billion payable over four years to cover half of Encana's share of the acreage's development capital. Valued at C$9,817/acre, the deal is more expensive than similar transactions in the Duvernay, said Bernstein Research, pointing out it was about 10 times the average 2011 price. While comparable with the Eagle Ford shale play, development costs in the Duvernay will be significantly higher given the greater drilling depth. Typical well costs are around $15 billion compared with $5-$7 million in the Eagle Ford, Bernstein said. Despite the hefty price tag, the acquisition gets PetroChina into "one of the most promising shale liquids resources in North America, Bernstein said.

Announcements & Reports

► *Amendment in the Underground Natural Gas Storage Legislation*

Source : Energy Market Regulatory Authority
Weblink : http://www.epdk.org.tr/documents/dogalgaz/mevzuat/kurul_karar/dogalgaz/Dpd_Krl_KUE__4139.doc

► *Revised Tables for Natural Gas Market Licensees*

Source : Energy Market Regulatory Authority
Weblink : http://www.epdk.org.tr/index.php/dogalgaz-piyasasi/lisans?id=124

► *IEA Medium-Term Coal Market Report 2012*

Source : International Energy Agency
Weblink : http://www.iea.org/W/bookshop/b.aspx

Upcoming Events

► *6th Annual Gas Transport & Storage Forum 2013*

Date : 28 – 29 January 2013
Place : Berlin – Germany
Website : http://www.gtsevent.com/?mc=EL

► *3rd European Unconventional Gas Summit*

Date : 29 January – 1 February 2013
Place : Vienna – Austria
Website : http://www.theenergyexchange.co.uk/european-unconventional-gas-summit-3rd-annual-meeting/s13/a274/

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

Date : 27 – 28 February 2013
Place : Istanbul – Turkey
Website : http://www.wplgroup.com/aci/conferences/eu-eug2.asp

► *6th Annual Unconventional Gas Conference*

Date : 6 – 7 March 2013
Place : London – UK
Website : http://www.smi-online.co.uk/energy/uk/unconventional-gas

► *6th International Petroleum Technology Conference*

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

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

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