ENERPO NEWSLETTER

Volume 2 Issue 4
4th March 2016

Week in Review

- Glenda Pavon-Suriel, Zachary Waller

Energy News Blog

By Tropenmuseum, part of the National Museum of World Cultures, CC BY-SA 3.0,

ENERPO NEWSLETTER

Volume 2 Issue 4
4th March 2016

Energy News Blog

The EU Releases New Directive on Gas Contracts

–Henrik Vorloeper

In February 2016, the European Union Commission proposed a new directive on gas contracts, in which the Commission further extends its control over EU member relations with non-EU suppliers. Even if the new directive might take up to two years, which is according to Platts a normal time exposure to adopt new regulations in the EU and will thus not have an immediate impact on the current contractual situation, the draw is yet another step of the EU to increase its energy security in a situation of high reliance on imports.

In the past several of years, the EU has taken multiple initiatives to reduce the reliance on foreign markets, mostly by efforts to integrate and liberalize the market and to create diversification on the supply side. Most significant was the implementation of the "Third Energy Package" of 2009 and the decision of 2015 to create the "Energy Union".

Most of the EU gas demand is satisfied by Russian gas and the main supplier Gazprom. Gazprom's dominant position in Europe is a thorn in the flesh of the Commission. The EU wants to reduce Gazprom's influence in Europe and any new adopted regulation is certainly perceived in Russia as another attempt to create a barrier to Gazprom's export strategy.

Indeed, the new directive proposes several novelties, amongst which one appears troublesome for Gazprom. With the implementation of the new directive, any EU gas company that signs a supply contract with duration of more than one year with a non-EU supplier has to submit the contract conditions for review to the national authorities and the EU prior conclusion. The Commission will review the conditions and the parties are expected not to sign until the Commission has given its feedback. Companies retain the right to sign any contract, but are expected to take the Commission's recommendation into consideration. Whether or not the companies and member states will follow their advice, the EU sends a political message that it does not hesitate to expand its influence over the gas sector and that it demonstrates mistrust over Gazprom's opportunity to utilize its dominance on the market in many European countries. Currently, the Commission investigates possible violations of the antitrust law in the EU by Gazprom.

Also, it is no secret that the practice of long-term gas supply contracts is a caveat to EU's liberalization policy. This however, reveals the problem that regulatory control influences the evolution of energy markets. While the EU encourages the liberalization of its energy sector and attempts to restrict

Gazprom supply monopoly, it appears to forget the certain aspect that the hydrocarbon sector requires above-average investments into sunken costs, such as exploration, the construction of pipelines or LNG facilities. Gazprom so far has recovered its cost with guarantees of demand via the implementation of long-term contracts.

In theory, less long-term contracts and the creation of spot markets will lessen Gazprom's security of supply. In practice, the EU wants to diminish Gazprom's ability to implement unfair gas prices over its customers who are unilaterally dependent on Russian gas. In general, the EU sends a political message to Moscow, since it does not have the authority to liberalize the Russian energy sector and to cease Gazprom's export monopoly. For more than a decade, the EU has gradually reduced its vulnerable position of being dependent on Russian gas, while admitting that Russia is still the most economic viable option. On the pro side for Gazprom, the new regulation signals that Europe anticipates long-term contracts to part of the pricing mechanism in the future, yet any contract longer than one year is now considered to be "Long-Term".

Thijs ter Haar, European Union Flags 2, flickr, CC BY 2.0

ENERPO NEWSLETTER

Volume 2 Issue 4
4th March 2016

The Week in Review

Shale Rebound Could Take Longer Than Thought

U.S. shale producers are worried it may take longer for them to become competitive again if $US 30-per-barrel oil prices stick around. As the oil price stays low, shale producers are scaling back operations more and more, meaning it will take longer for them to get back up and running when prices begin to climb up again (the main problems will be in the areas of staffing and capital spending). Producers are optimistic they will be able to make comebacks when the price increases, but many say they are simply trying to stay afloat right now and have had to cut back their businesses so far it will be hard for them to jump back into the game as quickly as they would like. According to Scott Sheffield, CEO of Pioneer Natural Resources, "This is the worst I've seen it from a balance-sheet standpoint. Everybody's debt is trading at 30 cents on the dollar, 40 cents on the dollar." In order for the American shale industry to continue the impressive growth it saw before prices plummeted, Sheffield estimates a barrel of WTI would have to sell for above $50 per barrel. American shale can come back, but it will not be as quick as hoped.

Domm, P., 2016. At $30 Oil Price, Shale Rebound May Take Much, Much Longer. CNBC, 25 February.

Geopolitical Tensions Keeping Oil Price Down, According to Yergin

Daniel Yergin, author of The Prize and Vice Chairman of IHS, a public publishing company based in Colorado, discusses one of the many ways geopolitics amongst OPEC countries is keeping oil prices down. Although many oil companies and countries believed the market would stabilize later in 2016 they are now realizing they may need to cut budgets further. Particularly in the US, where budgets were already cut from 2014 levels, production will continue to decline. For many countries reliant on oil revenues budgetary cuts mean not only loss of revenue but also social instability. At a Davos meeting between oil producers, the key issue was which countries would cut production and when. Saudi Arabia as well as other Gulf producers insisted they not be the only countries to cut production. However, producers have agreed to freeze production at current levels. If some countries agree to hold their 2016 levels, combined with production declines in other countries, it may re-stabilize the market. Until recently Russia did not want to freeze production but due to persistently low oil prices, Russia has agreed to maintain 2016 production rates. All OPEC countries have agreed but Iran is missing. This increases tensions in the region particularly between Iran and Saudi Arabia. According to Yergin, "the Arab Gulf countries are determined not to reduce their output in order to facilitate Iran's capture of markets." This is how, according to Yergin, geopolitics in the region are driving prices down instead of up, as it usually would. "Normally, geopolitical tensions would drive prices up, as they did, as late as June 2014, when an ISIS advance toward Baghdad sent prices soaring to $115 a barrel. This time, however, geopolitics is having the opposite impact. Indeed, what happens to the oil price is subordinate in part to the high tensions between Saudi Arabia and Iran." Saudi Arabia as well as other Gulf states refuse to give Iran market share.

Yergin, D., 2016. Challenges Loom for Producers to Stabilize the Oil Market. CNBC, 22 February.

Saudi Arabia Says Oil Production Cuts Will Not Happen

Ali Al-Naimi, Saudi Arabia's oil minister, had blunt words for other oil producers last week. When asked about potential production cuts, he simply stated, "It's not going to happen." and added, "They will not deliver, so there is no point in wasting time." Al- Naimi's position shows just how hard many oil producers find it to work together. Immediately after he spoke, Brent crude fell by almost $US 2 a barrel. Many believe Saudi Arabia is particularly wary of working with Russia and Iran, as the Saudis feel the Russians cheated them in 2001 by not cutting output after an agreement. Both Russia and Iran also sit opposite Saudi Arabia in the conflict in Syria, with the Saudis wanting Bashar Al-Assad out. It is unclear whether this means the Saudis will not live up to the deal they signed with the Russians, Venezuelans and Qataris two weeks ago, agreeing to freeze production at January 2016 levels. In any case, most experts believe the agreement to freeze production will not have any real effects. Iran and Iraq are both planning to boost production and even if production does stay at January 2016 levels. What matters then, is whether or not oil producers will be able to come together to cut production. That now seems quite unlikely.

Evans-Pritchard A., 2016. Saudi Arabia Dashes Hopes of Output Cut as Oil Woes Deepen. The Telegraph, 23 February.

Kuwait Petroleum Corporation and Gazprom to Pursue Joint LNG Project

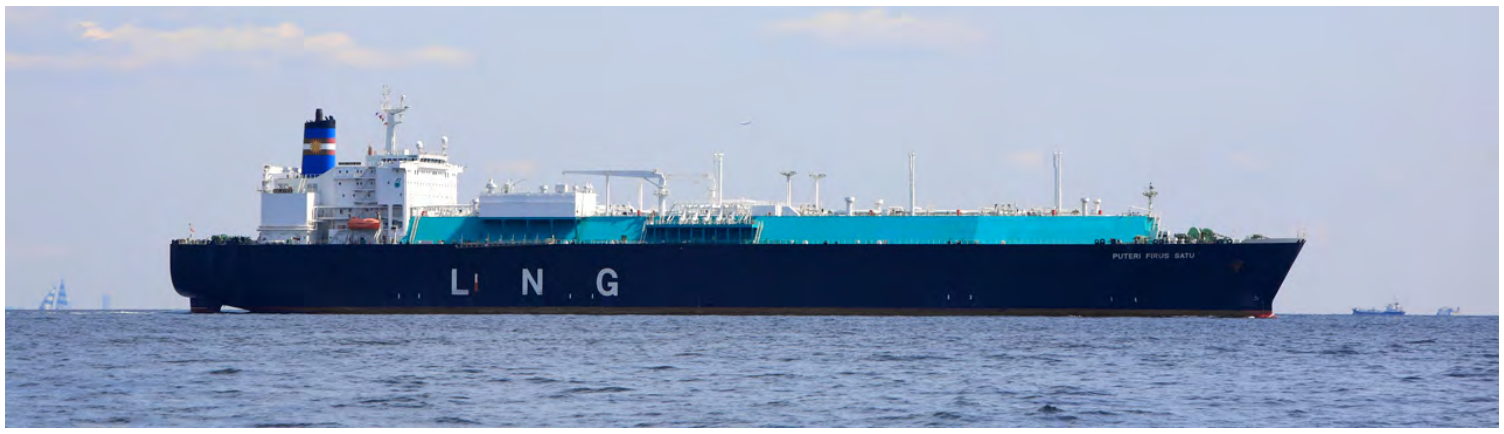
Kuwait Petroleum Corporation (KPC) confirmed Wednesday that Russia and Kuwait are both looking to pursue negotiations for a LNG project. Nabil Bourisly, head of KPC international's marketing department told Sputnik News that a Russian delegation recently visited Kuwait and that they are continuing discussions with Russia on a joint LNG project. Progress will be slow but KPC hopes to move forward in the near future. In November of last year Gazprom and KPC signed an agreement to cooperate in the area of LNG. The agreement between the two countries not only outlines prospects in LNG, but also LPG, other petroleum products, as well as science and technology development and investment.

Natural Gas Asia, 2016. Kuwait Petroleum to Continue Talks on Launching an LNG Project in Russia, Newsletter. Natural Gas Asia, 24 February.

First American Shale Gas Exports Headed to Brazil

Brazil's Petrobras agreed last Monday to buy the United States' first shale gas export from Cheniere Energy. The LNG shipment will leave from Cheniere's terminal in Louisiana and head for Brazil. Like oil, natural gas is currently suffering from a production glut, which is bad news for American producers. South America is likely to require more LNG imports this year, however, as a drought has caused Brazil to become more reliant on gas-powered power plants. Even so, the U.S. is likely to see little immediate demand for its gas exports, given the current supply glut. In the long run, however, this shipment will be seen as an important one, as it will mark the beginning of the United States entering the market as a shale gas exporter.

Weber, H., Narueen, M., 2016. Petrobras Said to Buy Cheniere's First U.S. Shale Gas Export by Sabrina Valle. Bloomberg, 23 February.



By Tennen-Gas - Own work, CC BY-SA 3.0,

Decreased Investments in Norway's Oil and Gas Extraction and Pipelines

The Norwegian oil and gas market continues to face challenges throughout 2016. Statistics Norway recently released figures showing that investments for extraction as well as pipelines will be cut by more than 13%, compared to 2015 figures. This is the second year that investments in the oil and gas sector have seen a decline in Norway. In 2014 the decrease was 11.5%. Further, this 13% decline is down 4% from Statistics Norway's November estimate. The company stated that, "this downward revision was largely due to decreased investment in exploration and companies' concerns over lower oil prices." Statistics Norway explains that due to uncertainty over long-term oil prices, "Exploration investments do not affect production in the short run. Thus are these kinds of investments easy to cut. Many oil companies on the Norwegian Shelf have only exploration activity and can therefore only cut these kinds of investments." These investment cuts follow several years of 68% growth in investments in the oil and gas sector. The UK, which like Norway saw years of increasing investment, has also seen recent declines in its oil and gas extraction and pipeline market due to falling oil prices.

Mills, E., 2016. Norway's Oil and Gas Investment in Steep Decline. Natural Gas Europe, 25 February.

IEA Says Oil Supply Glut Will Last into 2017

The IEA released its medium-term outlook last Monday and claims the current supply glut will last into 2017. According to the IEA report, "The enormous stocks being accumulated will act as a damper on the pace of recovery in oil prices." According to the Agency, unless major non-OPEC producers significantly reduce output over the course of the next year, these stockpiles of oil will keep the price low and the supply high for quite some time. The report went on to state that the United States has not reached peak light tight oil production yet and predicts the country will play a major role in growing world oil supplies over the next five years. According to IEA executive director Fatih Birol, U.S. shale production should begin to grown again when prices hit $US 60 per barrel. When that happens, U.S. shale will enter the market at larger and larger rates, effectively capping price rallies. Where the report really sees trouble, however, is towards the end of the decade. With prices so low right now, many producers are not investing as much as they used to. This lack of investment right now could cause problems with future production capacity and lead to sharp price rises towards the end of the decade.

Raval, A., 2016. Oil Supply Glut to Last into 2017. Financial Times, 22 February.

Rosneft Agrees to Invest $US 500 Million in Venezuela Oil Project

Rosneft agreed to invest a further $500 million in Venezuela's Orinoco oil belt project, upping the Russian giant's stake in the project from 16.7% to 40% (Petroleos de Venezuela SA (PDVSA) holds the remaining share). Venezuela has been especially hurt by low oil prices and the country's reeling economy is almost unable to handle the significant decrease in state revenues. Rosneft's infusion into Venezuela should help the country hold on a little bit longer. Currently, the Orinoco project produces 130,000 barrels of oil per day. Rosneft also took a 50% stake in a joint natural gas project with PDVSA, which will see the two companies develop Venezuela's Patao and Mejillones natural gas fields (and possibly the Rio Caribe field as well). If all three fields are developed, they could produce up to 25 million cubic meters of natural gas per day.

Газета, 2016. Мадуро заявил о сокращении валютных поступлений от продажи нефти на 4200% за шесть лет. 18 February. (accessed in English via Russia Beyond the Headlines, 25 February 2016)

Gulf Times, 2016. Rosneft to pay $500mn to Increase its Stake in Venezuela Oil Venture. Gulf Times, 21 February.

Solar Drones Create Their Own Grid in Remote Parts of the Developing World

German company Mobisol is testing whether or not drones could distribute solar panels to remote parts of the developing world. According to the World Bank 1 billion people still lack electricity and many others live in areas where the grid system is unreliable. Infrastructure for electricity for many remote areas is cost prohibitive and according to Mobisol, isn't anywhere in the near future. "People have been waiting 10 or 20 years for the grid and the grid is not going to come, because it's much too expensive and it's too big an infrastructure for what people really need." The German company has come up with a solution to this problem of the grid. They have become the grid themselves. "We're the only company that can claim to substitute the grid," argues Thomas Duveau, Mobisol's business development manager. The drones become interconnected and form their own network. The technology is also affordable. It costs $US 21 a month over 36 months but customers can pay back the cost of their equipment and then own it if they choose. They can also opt to become part of the drone network, offering their roof as a charging station for other drones and get credit on their bills to offset monthly repayment costs. The solar drones are not only affordable, but they can be profitable for many families. The company claims that the drone system could eventually enable "families to become micro-entrepreneurs, for instance charging phones and laptops for other villagers, and setting up barber shops or small cinemas." So far Mobisol has signed up about 40,000 families, or 200,000 people.

Schiller, B., Could Solar-Powered Drones Deliver Electricity to The Developing World?. Co.Exist, 9 February.

Will Gazprom-Kyrgyzstan Continue to Deliver?

Russian Gazprom purchased Kyrgyzstan's gas company Kyrgyzgaz in 2014 and formed Gazprom-Kyrgyzstan. According to the deputy general of finances, Olga Lavrova, Gazprom-Kyrgyzstan has struggled to get debtors to pay their bills. The largest of these is a German owned plate glass company called Interglass. Failure for debtors like Interglass to pay its bills to Gazprom-Kyrgyzstan has led the gas company to accumulate large debts, threatening its ability to pay its own bills. "Because of the debts owed by Interglass, the whole of Kyrgyzstan could end up without gas," Lavrova was quoted as saying. As of February 1, Interglass owes Gazprom-Kyrgyzstan $US 15 million. The gas company has begun legal proceedings against the glass producer but apparently there are no funds in Interglass' local bank accounts and a third party has already seized their assets. An advisor to Gazprom-Kyrgyzstan's general director recently stated gas supplies to Interglass would be suspended if the debts were not repaid. Following Lavrova's ill received remarks, the gas company later tried to backpedal and insisted that natural gas supplies to Kyrgyzstan would remain "stable and uninterrupted" but that "the inability of Interglass to settle its accumulated debts negatively impacts Gazprom-Kyrgyzstan's ability to fulfill its duties to pay for the gas that is delivered to this country." The Gazprom-Kyrgyzstan branch owes $12.5 million to its suppliers.

Eurasianet, 2016. Gazprom Threatens to Cut Off Gas Supply to Kyrgyzstan. Oilprice.com, 20 February.

ENERPO NEWSLETTER

Volume 2 Issue 4
4th March 2016

This issue brought to you by

Michael Camarda Acting Editor-in-Chief (mcamarda@eu.spb.ru)
Aaron Wood Managing Editor (awood@eu.spb.ru) ENERPO Student
Glenda Pavon-Suriel (gpavon@eu.spb.ru) ENERPO Student
Henrik Vorloeper (hvorloeper@eu.spb.ru) ENERPO Student
Zachary Waller (zwaller@eu.spb.ru)

Useful Links

ENERPO program	http://www.eu.spb.ru/en/international-programs/enerpo
ENERPO Twitter account	https://twitter.com/ENERPO_EUSP
Workshop Series videos	http://www.youtube.com/user/EUSPchannel
ENERPO Journal online	http://enerpojournal.com/
International Energy Center at EUSP	http://eu.spb.ru/en/international-programs/enerpo/international-energy-center

If you have comments or questions about the ENERPO Newsletter or are interested in contributing, send us an email at imironova@eu.spb.ru or awood@eu.spb.ru

Petróleos de Venezuela, Por Luisovalles - Obra do próprio, CC BY-SA 3.0