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-Aaron Wood

ENERPO Student Aaron Wood looks into the changing order of gas markets in the Baltic. [Read More](#)



Castoro Sei semi-submersible on station in the Baltic Sea south-east of Gotland (Sweden) whilst pipe-laying for Nord Stream. Public Domain



## Energy News Blog

### Traditional Gas Markets are Changing in the Baltic

–Aaron Wood

The Baltic States traditionally have relied solely on Russian gas, as circumstances of both geography and history have prevented them from finding other sources. However, low gas prices following the North American shale boom have made the relatively fungible and versatile LNG more available to nations in need of options.

In the independence fever of the 1990s, the Baltic states scrambled to distance themselves from their Soviet past and establish their own national identity and sovereignty. The Seimas in Lithuania, while often fractured by party disputes, has been able to establish a unified consensus in moving away from reliance on Russian natural gas, and has pivoted towards Europe via accession to the EU. Lithuania first accomplished this through unbundling its electricity utilities and, following a long battle with Brussels and its public, decommissioned a Soviet-era nuclear power plant, switching to gas burning plants and electricity import. While becoming more reliant on natural gas, Lithuania was able to retain energy independence from Russia via Klaipeda floating LNG terminal on lease from Hoegh Ltd.

Estonia recently announced their own plans for an LNG terminal. Funding is hard to come by however, and it seems that for the time being, Estonia will rely on short contracts with Gazprom via the state-owned Eesti Gas in which Gazprom is a [37% shareholder](#). For Estonia, however, the desire to diversify away from Russian gas is less urgent. Of the Baltic states, Estonia is the least dependent on Russian gas; Gazprom imports make up [only 10-15%](#) of the country's total primary energy mix. In the meantime, Estonia looks forward to the newly established [Balticconnector](#) via Scandinavia to provide the extra power they need while gas import options are explored.

Latvia recently broke up its state owned gas company, Latvijas Gaze, in an effort to join the increasingly liberalized markets of the region. The Saeima approved the split in February, and has included provisions mandating that all households be allowed to choose their supplier. Gazprom holds 34% ownership in the company however, and any moves toward using alternate suppliers will have to [wait until April of 2017](#), when Gazprom's contracted sales monopoly expires. Romans Naudins, the chairman of the economics committee of the Saeima [remarked that](#), "By stipulating effective rules for the natural gas market, we are opening the door to new gas

suppliers, thus promoting competition in the sector. This will be beneficial to both the public and businesses, and the opening of the market will ensure a stable and predictable energy policy in future."

Energy independence is a vital issue for Baltic states overall and enjoys a general consensus as being vital to the hard security of region. Recent developments in gas markets in the Baltic come on the heels of tense geopolitical developments in the region. After the annexation of Crimea, the Baltic states became concerned that another hybrid war like the one in Eastern Ukraine could develop on their territories with the worst case scenario being an invasion by Russia itself. NATO commanders have claimed that based on Russian troop deployment in the area, NATO forces need to be prepared. NATO exercises in the region have increased along with commitments of men, arms, and ordinance over the past year.

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The Baltic is challenging the traditional order of gas business in the region by establishing stronger connections to liberalized markets in Europe by integrating into the EU electricity market through EU sponsored projects, unbundling state corporations and searching for alternative supply sources. Gazprom cannot be expected to bow out however. Late last month, Gazprom held a trial gas auction in which it sold [560 MCM of gas](#) to Latvia and Lithuania, followed by a second round from March 15-17. Gazprom's export boss, [Elena Burmistrova, stated that](#), "The results of the auction demonstrate that there is a niche for gas trade via auctions, and this trading mechanism can successfully work on the Baltic market as well. We are satisfied with these results and will apply this model on other European gas markets." It appears then, that while the Baltics have made strong moves in their domestic energy policies to move away from Gazprom and reliance on Russian gas, that Gazprom itself will change its strategy in order to remain an important supplier in the region.



## The Week in Review

### Algerian Gas Infrastructure Suffers Rocket Strike

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*A Statoil and Sonatrach joint venture in Algeria suffered an as of yet unidentified rocket strike. In Sallah suffered damage to its central processing system on March 18th, although luckily no staff have been reported harmed. The station has been powered down to assess damage, conduct repairs, and improve security. This attack follows one earlier this month in Nigeria where oil infrastructure was attacked, severely cutting in to the production abilities of the country.*

[\*Powell, W., 2016. Rocket Attack Hits in Salah, Natural Gas Europe, 18 March.\*](#)

### Gas Auctions in the Baltic

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*Following a trial run earlier this month, Russian gas giant Gazprom has successfully sold gas at auction to the Baltic States. Stating that it was a complement to the long term contract system already preferred, Gazprom sold 420 million cm of gas to be delivered throughout the from Q2-4 of the FY 2016. Gazprom's export boss, Elena Burmistrova, stated that, "The results of the auction demonstrate that there is a niche for gas trade via auctions, and this trading mechanism can successfully work on the Baltic market as well. We are satisfied with these results and will apply this model on other European gas markets." What this could signal is a change in how business is conducted in the region in regards to gas, while staying in a framework in which Gazprom feels comfortable and at an advantage, i.e. long-term contracts.*

[\*Powell, W., 2016. Russia Auctions Gas to Baltics. Natural Gas Europe, 18 March.\*](#)

### Upset Over Offshore Ban

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*Republican lawmakers in the US are speaking out against the Obama administration's policy reversal in blocking oil drilling off the Atlantic seaboard. Some claim that this follows a long line of lies from the President in keeping bi-partisan promises that he ran on. Louisiana Senator Gohmert (R) claims that he has the support necessary to force the presidents hand by taking action through the legislature. Environmentalists are celebrating this policy shift as a victory for protecting America's aquamarine life. Some are skeptical however, as the President's move coincides with the Navy reporting that off-shore drilling would interfere with the ordinance tests and maneuvers they need to remain prepared, they are not convinced that this move was done expressly or even slightly for environmental concerns.*

[\*Corombos, G., 2016. Republicans Fuming After Obama Breaks Oil Promise. WND, 19 March.\*](#)

### Future for Canadian Fossil Fuels

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*Canada is undergoing a demographic shift in how the nation relates to fossil fuels and the perception of their importance to the Canadian economy. While older Canadians are more inclined to support fossil fuel expansion as part of developing the national economy, Canadians under 35 support stricter measures in regulation and environmental protection. Above 80% of Canadians between the ages of 18-30 support preference for green job development and environmental protection even if it means increasing energy costs for end-consumers. Some experts claim that the increasing skepticism for the future of fossil fuels for Canada is a result of the younger generation not having lived in times of great recessions in Canada in the 1980s and 1990s. As this generation grows older and begins to take a larger part in shaping the policy of Canada, high consensus opposing fossil fuel development could have dramatic effects on the energy economy of North America.*

[\*DeCillia, B., 2016. Young Canadians more likely to see a future without oil and gas. CBC, 19 March.\*](#)



## **The Kingdom Looks to Renewable Future**

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*Saudi Arabia, despite pumping oil at record levels, is already searching for a future for the country in an “after-oil era”. Oil Minister Ali al-Naimi was a guest at a conference in Berlin on March 17, in which he stated that there is hardly a more ideal country for renewable development than Saudi Arabia. With its ample sunshine and open spaces, it could become an important player in the use and development of photovoltaic electricity generation. The Kingdom aims to increase its electricity generation via renewables by 54 gigawatts by 2040. In addition to speaking on oil and renewable possibilities, al-Naimi also confirmed talks in Doha in April, in which a production freeze with Russia would again be discussed.*

[\*Smith, G., 2016. Saudi Arabia's Oil Chief Prepares for a World After Fossil Fuels. Bloomberg, 17 March.\*](#)

## **Weak Ruble Helps Russia to Win Nuclear Contract with the SAR**

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*The Russian state nuclear agency is confident regarding the construction of several nuclear power plants in South Africa. Thanks to the weakness of the ruble and the oil price, the investment costs for such a project would be considerably reduced, reaching less than US\$ 100 Billion. Moreover, considering that Russia has the best technology in terms of nuclear energy, South Africa could highly benefit from both price and quality. Rosatom said it would help to train staff in order to develop South Africa's nuclear power industry via industry training programs. South Africa is currently producing 5% of its electricity generation with two nuclear reactors and would reach 25% by 2030.*

[\*CNBC team, 2016. Russia confident of winning South Africa nuclear power bid. CNBC Africa, 16 March.\*](#)

## **The G50 Has Passed the Test to be the World's First Ethane-Fueled Engine for Carriers**

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*The German company Man Diesel & Turbo, a specialized engineering firm, has launched its first G50 engine running on LEG for Liquefied Ethane Gas. This new engine will allow the shipping industry to reduce production costs with a lower weight and shorter length. Moreover, the new engine design expands fuel flexibility as it can run on HFO, MDO and MGO, improving the propulsion efficiency.*

[\*BI team, 2016. Engines for world's first ethane-fuelled LEG carrier passes test. BunkerIndex, 17 March.\*](#)

## **Hillary Clinton Does Not Want Coal Anymore**

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*With more than 175,000 coal workers in the US in the 1980's, the coal industry was a large provider of employment, especially in several regions such as Boone County, West Virginia. Now, the coal industry is threatened by new ecological policies against CO2 and sulphur emissions. “We're going to put a lot of coal miners and coal companies out of business,” Hillary Clinton said last week. Today, the number of coal workers in the US has drastically reduced, reaching 57,700 workers in 2016. This war against coal has generated huge unemployment rates in some regions of the country. The current runner for the US presidential elections plans to replace jobs generated by the coal industry with clean energy jobs, but will it be sufficient to convince coal workers who do not have the adequate training in solar energy and other environmentally friendly energies? Replacing entire fuels comes with risk. When France decided to choose nuclear energy as its main source of energy for electricity generation instead of coal, it was unable to adequately provide for retraining and assignment of workers in the coal industry. The current unemployment rate of former coal mining regions exceeds more than 12%.*

[\*Patrick Gellespie, 2016. Hillary Clinton can't kill coal. It's dying. CNN Money, 14 March.\*](#)



## **The Meeting Between Presidents of Uganda and Kenya for Oil Pipeline Construction**

*A new project for oil supply has been designed to move crude oil from Hoima (Uganda) to the Port of Lamu through Kenya's own field at Lokichar. This new oil pipeline would be built with Uganda's oil producers, the Irish company Tullow Oil, the French Total SA, and the Chinese CNOC. The aim of such a project is to "transform infrastructure and the way of life of the people in the towns and counties across its path" and of course it will deal with political and security developments in the region.*

*[Nancy Agutu, 2016. Uhuru to host Museveni for talks on Uganda-Kenya oil pipeline. The star, 20 March](#)*

## **A Gas Pipeline Between Iran and Oman Could Bring New LNG Opportunities**

*The Korean gas corporation KOGAS is currently trying to build a new pipeline with a seabed section in order to deliver natural gas from Iran to Oman. The pipeline will be 400 kilometers long is estimated to cost US\$ 1.5 billion. The two countries have already signed basic agreements, which mention that Iran will export a daily amount of 28 MCM of natural gas to Oman. Moreover, approximately 1/3 of this gas will be sent to the Qalhat liquefaction terminal for European and Asian clients. The rest of the gas will be consumed in the Persian Gulf. The Qualat liquefaction plant can liquefy until 10.4 million tons per year, which means that Iran will be able to provide more natural gas to the international gas market.*

*[PressTV team, 2016. KOGAS to build Iran-Oman gas pipeline. PressTV, 17 March.](#)*



Two of 200,000 tubes that constitute major Nord Stream gas pipeline is welded together on board the Italian pipelay vessel Castoro Sei By Bair175 - Own work, CC BY-SA 3.0



## This issue brought to you by

**Irina Mironova**  
**Michael Camarda**  
**Aaron Wood**  
**Pierre Jouvellier**

Editor-in-Chief (imironova@eu.spb.ru)  
Acting Editor-in-Chief (mcamarda@eu.spb.ru)  
Managing Editor (awood@eu.spb.ru) ENERPO  
Student (pjouvellier@eu.spb.ru)

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At Clinton Marine Terminal, workers load freight cars with coal and repair track. Public Domain