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The Week in Review

Gazprom on Top of the News in European Gas Markets

Gazprom's European export estimate (including Turkey) has increased to 158 bcm, compared to earlier predictions of 152-155 bcm made for this year. Exports totalled 159.4 bcm in 2014. The price for the winter season is expected to be at 6.2 USD/mmbtu. The average price includes contracted prices as well as prices of the spot market. These volumes already include sales at first-ever auctions held by Gazprom Export. The aim is to sell 10% of its gas volumes destined for the EU via auctions by 2017-18, and thus maintain European export volumes without the need to attract long-term contracts or oil-indexation. According to Platts, 48 lots were sold in total: 37 of them were awarded at Greifswald NEL, 10 at the Olbernhau II delivery point, and only one at Greifswald OPAL. On the southern front, the construction of the Turkish Stream pipeline experiences likely delays and doubts on its future, because of "political uncertainties" in Turkey, according to Gazprom. Talks have been frozen for now. The construction of the pipeline was announced last year at the same day as the long expected South Stream pipeline has been cancelled.

Nadia Rodova, 2015. Gazprom Raises Estimate of Europe-Bound Gas Exports to 158 Bcm. Platts, 14 September 2015.
Lucie Roux, 2015. Russia's Gazprom edges towards flexible gas market-driven auctions. Platts, 16 September 2015.
Gazprom Confirms Turkish Stream's Delays, Blames Ankara's Political Instability. Natural Gas Europe, 14 September 2015.

Ukraine Expects a New Gas Deal with Russia

The Ukrainian energy ministry announced it would soon reach a gas deal with Russia to secure deliveries for the winter months. The agreement will come in trilateral talks between Russia, Ukraine and the European Commission. The expected price is 6.16 USD/mmbtu, which is close to the European average price. The Ukrainian Minister of Energy anticipated a higher price, so that the lower price would be seen positively by the consumers, according to him. Ukrainian-Russian gas relations have been subject to permanent disputes over pricing issues over the last decade. Ukraine is still a key transit route for Russian gas supplies to Europe.

Pavel Polityuk and Alessandra Prentice, 2015. Ukraine Expects New Gas Deal With Russia by End of Next Week, The Moscow Times, 15 September 2015.

Poland's First LNG Terminal to Be Ready for Commercial Use in May 2016

The LNG terminal at Swinoujscie (Poland) is likely to reach full capacity in 2018. The terminal was scheduled to open in 2014, but has been delayed several times. Jan Chadam, head of state-owned Polskie LNG, which will operate the terminal, said he is confident of securing more supply contracts to push the terminal to close to its full capacity of 5 bcm by 2018. The project is part of Poland's attempt to diversify gas imports and to decrease dependence on Russia. It will also help to reduce dependence of other Central European countries. A proposed pipeline to Lithuania will link Poland with the Baltic States. The Czech Republic, Slovakia and Hungary have also made strides in recent years to connect their systems and find new sources of supply to ease their heavy reliance on Russian gas. However, the terminal operator still lacks potential suppliers. So far, there is only one supply contract – with Qatargas. According to Chadam, partners in the U.S and Canada have shown significant interest.

Agnieszka Barteczko and Anna Koper, 2015. Poland's LNG terminal likely to hit full capacity by 2018 –operator. Reuters, 16 September 2015.

Turkmenistan Intends to Start Construction of TAPI

The gas pipeline project, connecting Turkmenistan's gas fields with Afghanistan, Pakistan and India, has been planned since 1990, but delayed mostly because of political instability in Afghanistan. The pipeline allows Turkmenistan reach new customers for its gas, since Russian demand on Turkmen gas has declined considerably in recent years and the only significant customer currently is China. The amount of costs reportedly are at USD 10 billion, which will be supported by the United States and the Asian Development Bank. The annual capacity of the pipeline is set to be 33 bcm.

Marat Gurt, 2015. Turkmenistan to start work on TAPI pipeline in December. Reuters, 15 September 2015.

Energy Sanctions and Russia: What Comes Next?

The study investigates the impact of sanctions on Russia on its energy sector. From the first sight, sanctions appear to have a limited impact, as neither oil nor gas exports suffered. However, the sanctions' long-term implications may prove more important. Punitive measures against the Russian oil sector have come at a time when the industry was facing growing urgency for collaboration with international partners. Developing a new generation of Russian oil fields hinges on these partnerships to a much greater extent than in the recent past. For the Russian gas sector, on the other hand, the main challenge appears to be a lack of markets. Sanctions could further magnify this challenge by hampering Russia's liquefied natural gas growth plans and fostering the EU's drive to diversify its gas imports.

Adnan Vatansever, 2015. Energy Sanctions and Russia: What Comes Next?, 10 September 2015.

Drop in Russia's Oil Extraction Possible If Prices Fall Beyond USD 40 per barrel

Russian Deputy Energy Minister Alexei Teksler said that it is possible that Russia reduces its extraction of oil if prices fall below USD 40 per barrel.

Sputnik News, 18 September 2015. Drop in Russia's Oil Extraction Possible If Prices Fall Beyond $40/Bbl.

E.ON Makes Case for TPA Exemption for OPAL Extension

European companies that recently signed the Shareholders' Agreement on the implementation of the Nord Stream II with Gazprom, argue that the project connecting Russia with Germany is good news for European energy security. These companies' strategy hinges on two main pillars: 1. asking politicians and the public to acknowledge the role of natural gas in the energy mix, especially in light of the looming Paris climate negotiations in December, 2. trying to convince with the notion that strong ties with Russia implies energy security, arguing that the Nord Stream II project would decrease risks connected to gas transit countries. Despite the clear opposition of the European Commission, Gazprom's five partners in the Nord Stream II project remain united. Against this backdrop, on Thursday, E.ON made the case for third-party access (TPA) exemption for OPAL extension.

Sergio Matalucci, 2015. E.ON Makes Case for TPA Exemption for OPAL Extension, Natural Gas Europe, 18 September

China Announces to Double Imports from Russia via ESPO Pipeline by October 2017

China wants to double its pipeline imports of Russian ESPO crude to 30 mt/year as early as October 2017, after the second Mohe-Daqing pipeline comes on stream. The pipeline was built to take 15 mt/year of ESPO crude from Rosneft for 20 years. As part of earlier deals, Russia's state-owned Rosneft agreed to increase ESPO deliveries to China National Petroleum Corp. by five mt/year in 2015 and another five mt/year in 2016. So far this year the delivered volume has only increased slightly. PetroChina has taken a total of around 11.02 million mt from the existing pipeline over January-August, or an average 33,105 b/d, with the yearly volume for 2015 expected to hit 16.48 million mt at the current transmission rate. While well below the 20 mt/year target, this would be up 5.7% from 15.6 mt shipped in 2014.

Meghan Gordon, 2015. China to Double Russia ESPO Pipeline Imports to 30 mt/year in Oct 2017, Oil and Gas Eurasia, 18 September 2015.

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Energy News Blog

Turkish Stream versus Nord Stream II: What Is This Battle of Russia's Pipelines About?

– Fatma Babayeva

Throughout the past year, we witnessed a number of changes in Russia's priorities concerning its pipeline exports to Europe, particularly in the context of transit-avoidance strategy. This strategy was developed in the mid-2000s as a reaction to Ukrainian transit crises and included two core directions of the European supplies: Northern (via the Baltic sea) and Southern (via the Black sea). The stagnating demand in the European market and challenges of regulatory nature led to a situation when the realization of this grand strategy is under a big question.

The agreement on extension of Nord Stream II pipeline from Russia to Germany via the Baltic sea was reached during the Eastern Economic Forum, which took place in Vladivostok, Russia, on September 3-5, 2015. About one week after signing a binding shareholders agreement with European energy companies, Russia's gas giant Gazprom has announced the delay in implementation of Turkish Stream. The Turkish Stream was planned to carry 63 bcm of gas annually from Russia to Europe via Black Sea, and came as replacement for the South Stream project back in 2014. The launch of the Turkish Stream was initially scheduled for late 2016.

Russian and Turkish sides provided different explanations of reasons for this delay. For example, the Turkish Energy Minister, Taner Yildiz, said last month that there was a delay from the Russian side in terms of providing route coordinates needed to construct the Turkish part of the pipeline, and Turkey could not begin any installation without these coordinates.

Governments of Russia and Turkey have not signed a formal agreement on the implementation of the Turkish Stream. In mid-2015, the Kremlin sent two offers to the Turkish government for consideration, but did not get any reaction from Ankara. Moreover, should there be an agreement, there is no Parliament to ratify it – after the June elections in Turkey, the formation of the coalition government is still in the process. This puts the Turkish Stream on hold. The Energy Ministry of the Russian Federation expects the deal on the pipeline to be signed in November, when the government in Turkey is formed.

However, judging from the last developments, it looks like Russia, instead of pursuing an integrated transit-avoidance strategy, is actually testing which route would be easier and which partners will be more reliable. Nord Stream II has apparently won the spot of the favourite for now. This new pipeline will have capacity of 55 bcm and lead to Germany.

Ultimately, this battle of pipeline projects shows that Russia's strategy for European gas supplies is still in formation and is not set in stone.

There is another dimension of the story. If we look from the European perspective, there is a lot about transit countries in this battle of transit projects. From the one side, there is Germany, whose E.ON goes on with signing a deal with Gazprom despite the complications on the European territory with third-party access to OPAL. Plus, Germany has some weight in making decisions deviating from the general political line within the EU.

On the other hand, there is Turkey, an ambitious actor to play central role in possible Southern Gas Corridor, a supply corridor to bring natural gas to Europe from various sources – primarily Azerbaijan, but possibly even Iran and Turkmenistan. Add Russia, who agreed to provide with cheaper gas once the Turkish Stream is built, and the role of Turkey as a transit country for the EU increases significantly.

It still remains to be seen what transit option is preferred by the EU, but from the Nord Stream II advance it seems obvious which partner is preferred by Russia.

The Arctic Race

– Michael Roh

The Arctic region bears strategic importance as home to both new transport routes and new exploration and production areas. There are unending debates about the ecological dimension of these developments; however, what caught my eye in the recent news is that some countries are more proactive than others in their activities in the Arctic, and this is not often about availability of funds but a strategic choice.

President Obama was recently quoted as saying the U.S. will "accelerate the acquisition of new Coast Guard icebreakers … to develop and maintain capacity for year-round access to greater expanses within polar regions."[1]

The U.S. currently has two functioning icebreakers, the USCGC Healy and the USCGC Polar Star, and a third nonfunctioning icebreaker, the USCGC Polar Sea. Both the Coast Guard and Department of Homeland Security have expressed the need for greater icebreaker capabilities, with the latter expressing in its Mission Need Statement, "the need for polar icebreaker capabilities provided by the Coast Guard, to ensure that it can meet current and future mission requirements in the polar regions," elaborating that the Coast Guard is in need of up to six icebreakers to meet this mission. The debate in carrying out this project is centered on the lack of funding for these icebreakers, with the Coast Guard only receiving 2 million USD for the project in 2014, in comparison to the 7.609 million USD budget of 2013. Constructing a single icebreaker would cost approximately 1 billion USD and take 10 years to build.

Russian exploration and development in the Arctic has far surpassed U.S. presence in the Arctic region, despite the fact that the U.S. GDP is eight times that of Russia. The U.S. has alternatively leased icebreakers in the past, including the Swedish "Oden," which was returned in 2013 due to ice conditions in the Baltic Sea. The U.S. is seriously behind in its exploration of the region, and despite the potential benefits which could be derived, including scientific research, rescue capabilities, and of course, the potential for natural resources, the U.S. has simply not prioritized this endeavor. Members of Congress have asked the administration to propose exploration in the region, yet no formal request has been relayed to Congress. Perhaps President Obama's recent statement means the region may be a federal priority.

So would it mean stronger presence of the U.S. in the Arctic?

Not necessarily. Until President Obama makes clear his intent to mobilize support through Congress, his statement can only be seen as rhetoric. As his term is drawing to a close, the financial and time constraints of this endeavor are substantial hurdles that make the possibility of prioritizing the Arctic unlikely, in lieu of bureaucratic and funding constraints which will inevitably hinder the impetus for this project, despite the push by the Department of Homeland Security and the Coast Guard. The Polar Star is not at full utilization, and the administration has yet to comment on the 500 million USD needed to resurrect the Polar Sea. Even if action were to be taken now, the year 2030 would be the earliest that a new icebreaker would be up and running. The race to the Arctic will be the new arena for competition between the U.S. and Russia, if the Obama administration makes steps toward exploring the region, necessitating new icebreakers.

The Arctic is estimated to house 30% of the world's untapped natural gas reserves, yet despite the potential benefits of exploring this region, the United States may just be on the sidelines, as it clearly has not prioritized the value of this region as Russia has.

1 Conley, Heather A, 2015 To Build or Not to Build and Icebreaker? That is the $1 Billion Funding Question. Center for Strategic Studies, 1 September.

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