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Israeli Oil Jetty, by Dr. Avishai Teicher CC BY 2.5, Accessed via Wikipedia Commons



Energy New Blog

Natural Gas in Israel's Relations with Turkey and the EU

– Timothy Abraham

In a region where energy resources can be found in masses, both Turkey and Israel have been mostly reliant on imports. For this reason, energy has never really played a major role in the relationship between these two countries. This might change after the discovery of major gas fields off the coast of Israel – the Leviathan and Tamar gas fields. This discovery might not only change the geopolitical situation in the region, but also might reach far beyond to influence the Eurasian geopolitical situation. Significant consumers of natural gas in Europe also seem interested in further diversifying their supply sources.

Turkish-Israeli relations might be considered as one of the most interesting relationships in the region. Turkey was the first Muslim country to recognize the Jewish state in 1949; but more recently, Turkish-Israeli relations have taken a turn for the bad (especially after Justice and Development Party, also known as AKP, won in the Turkish general elections of 2002). All diplomatic relations were frozen in 2009, after Israel entered a Turkish Flotilla heading to Gaza. This relationship has definitely known its ups and downs. Would the discovery of natural gas by Israel mean any improvement?

The Israeli gas fields might not only improve Israel's energy security; natural gas produced at these fields can also be used for exports. With both Turkey and the European Union mostly relying on Russian gas, it is no secret both have been looking for opportunities to diversify their sources of imports. This economic cooperation can strengthen the interdependence between Israel and Turkey. This in turn could stabilize diplomatic ties. The first steps were made on June 27, 2016. The Israeli security cabinet approved the Reconciliation agreement on June 29, on August 20 it was approved by the Turkish parliament and signed by Turkish president Recep Tayyip Erdogan on August 31.

Much speculation has been going around that the potential energy exports played a key role in the reconciliation agreement. According to a Bloomberg report, energy talks are set to open "immediately after reconciliation is announced." Yet it will not be as simple or cheap as it sounds to export the gas from Israel. A pipeline is out of the question since it will have to go through Lebanon and Syria first to reach Turkey. With Hezbollah in Lebanon keen on destroying the Jewish state and an overall tumultuous situation in Syria, a secure

pipeline will never be constructed. The only other solution for Israel to export its gas would be over sea by turning it into liquefied natural gas (LNG). On top of investments Israel would have to make to be able to export all of this gas, LNG is considerably more expensive than pipeline gas. Taking financial constraints and the objective amount of resources in question, Israel will never be able to compete with Russia, let alone replace it. Therefore it would be a strategic move for both Israel and Turkey to limit gas exports and use it very carefully in cases of energy shortages or when ties with Russia deteriorate. Notably, Turkey's relations with Russia have been through a major test after the downing of a Russian jet in Syria.

For Europe things are looking more positive, its energy imports are already more diversified than Turkey's. And transport would be much simpler with the Energy Triangle cooperation between Cyprus, Greece and Israel. Gas from the Tamar, Leviathan and Aphrodite gas fields would go to the Vasilikos Power Station in the south of Cyprus, from there it will be transported to mainland Greece and further to Italy and Bulgaria. Combining the Israeli and Cypriot gas supplies would amount to a stable supply of gas to Europe for the coming 20 years. Not only would this allow the EU to diversify its energy imports to comply with the 2030 energy and climate framework, it would be able to achieve diversification with a country with which it has more stable diplomatic connections.



Map of new pipeline from Israel to Italy
Source: [Lebanon Gas News](#)



Russia and Saudi Arabia Stabilizing the Oil Market: A Prisoner's Dilemma?

– Daniel Tsvetanov

During the G20 summit in Hangzhou, China, the Russian Energy Minister Alexander Novak and the Saudi Arabia Minister of Energy, Industry and Natural Resources Khalid bin Abdulaziz Al Falih [signed a joint declaration for the stabilization of the oil market](#). Novak and Al Falih agreed on joint measures and steps, recognizing the output freeze as the most important and effective measure. After the news broke, Brent crude from the North Sea for November delivery [rose by 5.4% to 49.15 dollars per barrel](#).

[The deal has been quickly lauded](#) as a 'historical step', because it would be the first instance of cooperation between OPEC and Russia in the past 15 years. Since 2014, a period in which oil price has fallen by more than 40%. Back in 2014, Saudi Arabia decided to abstain from any actions influencing the oil price, largely striving to expand its market share in various regions and allow extra stress on the US shale oil industry.

However, as of today, Saudi Arabia begins to struggle with low oil prices and budget deficits. Riyadh's oil provides 70% of the government revenues and 90% of the exports. Government revenues fell by 23% last year, and the Kingdom cannot afford to continue its predatory pricing policy. One sign of the Saudis' economic problems is their first international debt issuance in 25 years, which is expected to be signed before the end of April 2017. Saudi Arabia is now willing to cooperate with Russia, its market rival, in order to raise oil prices.

However, it is hard to predict whether the agreement will be followed by action. Production volumes are yet to be decided during the XV International Energy Forum in Algeria later this September. OPEC and non-OPEC member countries have to resolve a 'prisoner's dilemma'.

Indeed, there is no assurance that the 'historical agreement' will be followed by 'historical action'. Previous attempt towards stabilization of the oil market was undertaken in spring, and failed. Saudi Arabia refused to sign any agreement without the participation of Iran. Tehran in the meantime seeks to recover and boost exports that have been restrained by Western sanctions. Iran reported that after the removal of the sanctions it increased exports to almost nearly 2 mb/d and it is ready to freeze production only after reaching the volume of 4 mb/d.

Some experts may argue that the agreement between Moscow and Riyadh is just a speculation. Freezing of quotas can only provide some short-term effect, if it can provide any at all; and the player that can undermine this effect is small producers in the US, thousands of them. Thanks to the boom in shale oil production, the United States has witnessed more growth in daily output than any other major producer. OPEC raised its forecast of oil supplies from non-member countries in 2017, as new fields come online and U.S. shale drillers prove more resilient than expected to cheap crude, pointing to a larger surplus in the market next year.

There are more prisoners in this dilemma than just Moscow and Riyadh.



The commercial oil tanker AbQaiq in ballast. Public Domain



The Week in Review

ExxonMobil: Asset Valuation Reporting Standards

In the oil and gas industry, many companies have gone through reductions in assets values over the past two years; this normally was accompanied by non-cash charges (expenses that reduce earnings but not cash flow), running into the billions of dollars. Concerns have mounted about oil companies' ability to finance their capital spending programs while continuing to pay their dividends, investors have come to focus more on cash flows, which exclude asset write downs as the most significant indicator of financial health. Exxon did not follow other companies in taking non-cash charges for writedowns in the value of its assets. NY state's attorney general, Eric Schneiderman, is investigating ExxonMobil over its reporting of its asset valuations. Exxon said in a statement that it had valued its assets in accordance with reporting standards. This attracts attention to the importance of transparency and ExxonMobil's financial health amidst the period of low oil and gas prices in the last two years. NY state's attorney general attention toward an industry leader, ExxonMobil, should be read as a signal to other companies. Companies are trying to continually get their finances right in this climate as well as keep investors pleased, but at the same time they need to play by the rules of the game in their financial and legal decision making and be ready to report on their activities.

[*Crooks Ed. New York state attorney- general widens Exxon-Mobil probe. Financial Times, September 16, 2016.*](#)

Russia's Nord Stream II on Track

Nord Stream II is the extension of an offshore natural gas pipeline between Russia and Germany, that would boost Gazprom's ability to supply the German natural gas market. Gazprom's partners are E.ON, Wintershall, Shell, OMV and Engie. Last week, Nord Stream II started the process aimed at gaining official approval of the Baltic sea states whose territorial waters pipeline will go through. Permit application was submitted to Sweden. There are four other countries that need to officially approve the pipeline – Finland, Denmark and Germany. The permit applications are planned to be submitted in early 2017. The new pipeline project has become increasingly politicized since 2014 after the Crimean crisis. Currently the half of the gas EU imports from Gazprom is pumped via Ukraine; Nord Stream-2 is part of transit avoidance strategy. There is a lot of skepticism about this project and an official approval is yet to be announced. Despite criticism, the construction is on track: in December or January, the pipes will be supplied for the realization of the project , according to Reuters.

[*Simon Johnson. Nord Stream-2 submits first pipeline permit application. Reuters. September 16, 2016.*](#)

[*Svetlana Burmistrova. Russian Nord Stream-2 on track with pipes expected soon. Reuters. September 13, 2016*](#)

Iran's Crude Oil Exports at 5-year Maximum

Iran is trying to retake market share that it lost as a result of international sanctions. Iran continues to increase production with the goal of reaching pre-sanctions levels. Export increases are made possible because of demand from India and European customers. There are fears that Iran's strengthening presence in international oil market will not help the oil price dynamics.

[*Julianne Geiger. Iran Bumps Up Crude Exports To Highest Level In Five Years. Oilprice.com. September 16, 2016.*](#)



'Peak Oil' is Dead

Bloomberg gives a perspective on general people's expectations with an analysis of google searches for "peak oil", done by Sanford C. Bernstein. The report says the topic is about 20 times less interesting to the internet users than 10 years ago, though the contrary notion of "too much oil" has somewhat steadily gained popularity throughout the years and recently has shown itself twice more popular than the conservative "peak oil". Basically the worries that supply must end soon laid ground to the situation when we started doing something to postpone it.

[*Tracy Alloway, 2016. Here's One Sign 'Peak Oil' Is Dead. Bloomberg. September 12, 2016.*](#)

IEA Releases Oil Market Report for September

Global oil demand is slowing faster than predicted, says report by the International Energy Agency. Numbers though are not as strong as the headlines, demand is estimated to rise 1.3 mb/d, which is just a correction from the previous forecasts. For the next year, slowdown is expected to be more prominent, analysts say. If the Paris Agreements will be set under way and the electric vehicles will gain popularity, the demand may start to reduce fast. The Oil Market Report is published monthly by IEA; it reviews the international oil market and gives projections for oil supply and demand.

[*IEA releases Oil Market Report for September. IEA. September 13, 2016.*](#)

New Geopolitics of Oil

Prominent industry expert Jason Bordoff from the Columbia University gives his opinion what all that means in a recent article for WSJ. According to this publication, the end of Oil Age might be in sight with all the consequences it brings, with increased risks of instability for states, whose economy relies on oil exports, and even reshuffling many points of current world order (like US - Saudi Arabia "oil-for-security" bargain). "Even if peak oil demand does not mean the world is getting off oil any time soon, expectations that oil demand would gradually decline over time would have seismic impacts on the market. Prices are set on the margin, so slight changes in demand can cause big shifts in price. Seeing the looming end of the Oil Age, petrostates would ramp up output to sell what they could while they could, further depressing prices. Any possibility that OPEC might reassert itself would be put to rest. The collapse of expectations of future oil prices could lead companies to sell off inventories as well. At the same time, new investment would dry up, even though new supply is needed just to offset current decline rates of around 5 million barrels a day, which could cause increased price volatility." – the expert explains why should we expect somewhat a turmoil on the markets in the future. Seemingly insignificant details combine in a striking picture.

[*Jason Bordoff. The New Geopolitics of Declining Oil Demand. The Wall Street Journal Blogs. September 13, 2016*](#)

Europe's Biggest Natural Gas Producer Is Running Out of Fuel

The Netherlands has used up almost 80% of its natural gas reserves. Production fell 38% over the previous two years and is set to fall further as the government limits extraction because of earthquakes in Groningen. Gas production by NAM, a joint venture of ExxonMobil and Royal Dutch Shell, has reportedly damaged thousands of homes in the province. This is bad news for the already unpopular coalition government between socialists and liberals. Gas revenues now only account for 3% of state income, coming from 9% only two years ago. This shortage of supply to the European market will most likely be compensated by Russian supply.

[*Huileng Tan. China will shut small coal boilers to cut pollution but LNG oversupply will remain. CNBC. September 15, 2016.*](#)



Shell Begins Production in Ultra-Deepwater Gulf of Mexico

Royal Dutch Shell recently began production at the Stones offshore field in the Gulf of Mexico. The Stones was discovered in 2005 and is the world's deepest offshore oil and gas project to date, at 2900 meters below water. According to Shell, the floating production, storage, and offloading vessel (FPSO) called *Turritella* will reach peak production of 50,000 barrels per day by late 2017. The FPSO is not only record breaking in terms of its underwater drilling depth, but the vessel differs from other offshore projects because of its ability to disconnect and sail away from the field (for example, in the event of unsafe conditions, such as hurricanes). The fact that Shell took up the project demonstrates that Royal Dutch Shell is committed to becoming worldwide industry leader in deepwater exploration and drilling. Firstly, they go ahead with the Stones project while offshore exploration and drilling is politically charged and an ongoing source of controversy. The world's largest marine oil spill took place in the Macondo Prospect oil field in the Gulf of Mexico in 2010. Secondly, the Stones project is also a display of confidence by Shell given the price of oil. Thirdly, the company has partnered with the Marine Science division of the University of Mississippi. Shell is enhancing marine research efforts by allowing scientists to attach instruments to deepwater buoys, which scientists can later use to collect important data about underwater organisms, as well as deepwater currents, temperatures, and carbon monoxide levels that may affect weather patterns.

[Simon Goodley. Shell presses ahead with world's deepest offshore oil well. The Guardian. May 8, 2013.](#)

[Zainab Calcuttawala. Shell Starts Production in Ultra Deepwater Field in Gulf Of Mexico. Oilprice.com. September 6, 2016](#)

China Switches from Coal to Gas, but LNG Markets Remain Oversupplied

In a bid to tackle pollution China aims to close around 400,000 coal boilers by 2018. They should be substituted by gas boilers. The government made this decision based on domestic aspirations to tackle pollution, but also in the conditions of low international prices for natural gas. The switch from coal to gas is supposed to lead to higher natural gas demand, which might seem like a positive development for the oversupplied LNG market. However, Huileng Tan of CNBC concludes that China's LNG imports will still fall behind those of Japan and South Korea, which together account for almost half of global imports. The forecast rise in Chinese imports will likely be offset by an even bigger jump in supply. Much of this supply will come from new LNG capacity, predominantly from Australia and the U.S. Australia's current committed LNG projects will make it the world's largest LNG producer by 2020.

[Huileng Tan. China will shut small coal boilers to cut pollution but LNG oversupply will remain. CNBC. September 15, 2016.](#)



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