TAPI gas line: Pakistan not to bear transit risk in Afghanistan

ISLAMABAD: Pakistan has told Turkmenistan in plain words that Islamabad will not bear the gas transit risk in war-ravaged Afghanistan under $8 billion TAPI gas line.

In case of halt of gas provision to Pakistan because of any subversive activity in Afghanistan, Pakistan will never take the risk at any cost, rather Turkmenistan will have to bear the risk.

More importantly, the financial commitment on behalf of Pakistan is to start when Turkmenistan ensures the gas supply on Pakistan border, not at border of Afghanistan shared with Turkmenistan. This has been clearly conveyed to Turkmenistan top authorities, top sources close to Special Assistant to Prime Minister on Petroleum Nadeem Babar told The News. Prior to it, Pakistan has already agitated with authorities of Turkmenistan the issue of reviewing the gas prices arguing that the gas price formula under which the gas prices of every buying countries (Afghanistan, Pakistan and India) has been worked out, is too much complicated and if new gas price is worked out while keeping in view the existing gas price formula, the gas price that we get is costlier even than the existing LNG price. ‘So we want Turkmenistan to review gas price formula prior to much awaited ground breaking of the portion of TAPI pipeline in the territory of Pakistan.

A high-power delegation of Turkmen Gas Company is due in Pakistan to discuss the issues raised by Pakistan. Now Turkmenistan wants, under new scenario, Pakistan experts’ delegation to come to Ashgabat and extends the date of August 11, 2019. Because of Eidul Azha the date may get changed.

“Yes, we wrote a letter to Turkmenistan authorities 7 months back seeking the dialogue for review of the gas pricing formula before embarking upon the construction of the portion of the pipeline in Pakistan’s territory and to this effect Special Assistant to PM on Petroleum Nadeem Babar asked the authorities of Turkmenistan to first review the gas prices downward before initiating the project,” a relevant top official confirmed to The News.

Coming to the new issue of bearing risk of gas provision because of Afghanistan highlighted by Pakistan that it will only honour its financial commitment when it gets the gas delivery on its border. Turkmenistan first asked Pakistan to discuss this issue with Afghanistan, but Islamabad responded saying that it is purchasing the gas from Turkmenistan and Pakistan wants gas delivery on its border. Since Afghanistan has been at war for many decades, so Pakistan cannot bear the risk of gas provision in Afghanistan.

During the recent visit, Afghanistan President Ashraf Ghani acknowledged the issue raised by Pakistan and assured that in this regard the authorities will soon meet counterparts of Afghanistan and Turkmenistan.

To a question, the top man in the Petroleum Division said that Turkmenistan has shown willingness to review gas prices.

The three buyer countries – Afghanistan, Pakistan and India – had inked the gas sales purchase agreement with Turkmenistan on bilateral basis. Now all the buyer countries want to unfold their prices and want the re-negotiations.

To a question, he said that the financial colure of the project is to be completed by September this year and ground breaking would be held in October 2019 for laying down the 800 kilometre portion of TAPI line in Pakistan territory. The project will be operational by 2020. The pipeline from Afghanistan that will enter from Chaman and pass through Zhob, DI Khan, Quetta, Multan and touch upon Fazilka – a city at Indian border which is 150 kilometer away from Multan. From Fazilka, the pipeline will enter India.

TAPI gas pipeline project aims to bring natural gas from the Gylkynish and adjacent gas fields in Turkmenistan to Afghanistan, Pakistan and India. The ADB is acting as the facilitator and coordinator for the project. It is proposed to lay a 56-inch diameter 1,680KM pipeline with design capacity of 3.2 billion cubic feet of natural gas per annum (Bcfd) from Turkmenistan through Afghanistan and Pakistan up to Pak-India border. There are two phases of this project, the first phase is free flow phase with estimated cost of $5 to $6 billion while second phase is installation of compressor stations with the cost of $1.9 to $2 billion. Civil works of the project have already commenced in Afghanistan after the project’s ground breaking (Afghan section) was held last year.

Afghanistan will be having the gas under TAPI 500 mmcfd, Pakistan 1.325 bcfd and India 1.325bcfd too. Turkmen gas company being the consortium leader for the TAPI project is to contribute up to 85 percent of equity, and the rest of TAPI members namely Afghanistan, Pakistan and India would take 5 percent each equity share in the project company.

Japanese LNG buyer seeking price arbitration in possible 'bellwether'

An effort by a Japanese company to get lower prices on a liquefi ed natural gas contract signed a decade ago could be the first in a fl ood as buyers seek relief from legacy contracts amid cheaper spot supplies, according to an analyst at Credit Suisse Group AG. "This will prove the bellwether for more arbitrations and tougher LNG buyer negotiating stances across the market," analyst Saul Kavonic said in an e-mail. "We expect other traditional LNG buyers to quickly follow suit." The market will be awaiting what concessions Osaka Gas Co will be able to wrest from the marketing unit of the Exxon Mobil Corp's PNG LNG project. They entered into arbitration after a dispute during a price review, a spokesman for the Japanese fi rm said Friday, adding that the company is seeking to lower LNG costs. Exxon declined to comment. The dispute underscores the frustrations of buyers locked in contracts linked to oil benchmarks while spot prices drop to the lowest seasonal level in a decade. Most of Japan’s LNG imports are indexed to oil, which has remained a widespread practice since its inception in the 1960s. Sinking prices have put LNG producers under intense pressure to off er better terms. Even Qatar, one of the world’s largest suppliers, made a “dramatic” break from tradition by offering mid-term LNG contracts at about an 11% oil slope, compared to more than 16% on some contracts signed in 2008, Fereidun Fesharaki, chairman of energy consultant FGE, said in May. The Osaka Gas contract with the PNG LNG project was agreed at a 15% slope to the Japan Crude Cocktail and runs through 2035, according to data compiled by Bloomberg NEF. Prices in the utility’s current PNG LNG contract are more than double those on the spot market and about 30% more than recently signed contracts, Kavonic said. A shift to a buyers’ market has emboldened consumers that historically have been concerned about security of supply to seek greater contract fl exibility and lower prices. “It’s unprecedented for a traditional LNG buyer to initiate arbitration in this way, presenting a new paradigm for LNG contract negotiations,” said Kavonic.

Asian LNG prices slip but traders expect demand to pick up for winter

Asian spot prices for liquefied natural gas (LNG) slipped this week tracking a fall in European gas prices though traders anticipate prices to bottom out soon ahead of peak winter demand.

Spot prices for September delivery to Northeast Asia LNG-AS are estimated to be about $4.60 per million British thermal units (mmBtu), down 10 cents from last week, trade sources said.

Prices for cargoes delivered in August are estimated to be $4.20 per mmBtu, down 20 cents from last week, they added.

Traders are likely waiting for the European gas prices to come down before taking a position on LNG, a Singapore-based industry source said.

“The LNG market is quiet but the gas market is not and many LNG buyers are just waiting on the sidelines for the gas market to cool down before they come in to buy,” the source added.

Both the Dutch month-ahead and British month-ahead contracts have fallen 20 percent in the past week after a two-week long period of rises on expected supply flows due to outages in Norway and short-covering.

September contracts, which are not front-month yet, have also fallen over the week to around $4.10 per mmBtu for the British price and $3.85 for the Dutch, widening the spread between spot Asian LNG and the European hubs considerably.

Despite that, many traders say the spread is not wide enough and nor is there the kind of Asian demand to kick-start arbitrage from the Atlantic to the Pacific Basin.

Still, traders expect demand to pick up ahead of winter.

“There have been transactions above $5 this week, but European (gas) hubs are very volatile, and that is reflected by traders into optimisation,” a Singapore-based LNG trader said.

Angola LNG offered a cargo for August to September delivery to as far as Singapore in a tender that closes next week while Russia’s Novatek has offered a cargo for mid-September loading from Rotterdam’s Gate terminal in the GLX platform, industry sources said.

In term contracts, four companies are vying for a massive LNG tender by Pakistan to buy 240 cargoes for a period of 10 years, sources said.

Indonesia’s Tangguh LNG plant may have offered two cargoes a month for loading or delivery over October to December into Northeast Asia earlier this month though it was not immediately clear if it had sold the cargoes.

Japan’s Nippon Steel may have bought a cargo for delivery in September at about $4.60 per mmBtu, an industry source said.

Royal Dutch Shell’s LNG tanker ‘Barcelona Knutsen’ has loaded a cargo at Peru LNG and is now crossing the Pacific Ocean to deliver a cargo into China in the first half of August, data intelligence firm Kpler said on Thursday.

This will make it the fourth LNG cargo to be delivered from Peru to China so far this year, up from just one cargo last year, Refinitiv Eikon shipping data showed.
Source: Reuters (Reporting by Jessica Jaganathan, additional reporting by Sabina Zawadzki in LONDON; editing by Gopakumar Warrier)

GLOBAL LNG-Asian prices slip but traders expect demand to pick up for winter

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Japan LNG imports hit post-Fukushima low as reactors restart

Japan’s liquefied natural gas imports in the first half of the year dropped to the lowest since the 2011 Fukushima nuclear disaster as reactor restarts and mild weather cut demand for the fuel. The world’s biggest buyer of LNG purchased 38.59mn tonnes in January-June, down 8.2% from the same period last year, the biggest semi-annual drop since 2009, according to preliminary data from the ministry of finance. The slump in imports comes amid an uptick in atomic and renewable output, and as mild summer temperatures limit seasonal demand. After the Fukushima triple meltdown, Japan LNG imports jumped nearly 20% as the nation’s nuclear fleet was forced to shut amid safety reviews. But from there gas demand has stagnated, and as more reactors slowly return and renewable generation grows, stalwart LNG buyers like Kyushu Electric Power Co and Kan- sai Electric Power Co have limited spot purchases. “We are forecasting a general decline in LNG usage as more nuclear plants restart and as more solar and wind capacity comes online,” Zhi Xin Chong, a Singa- pore-based analyst at IHS Markit, said by e-mail. “The main uncertainty is always weather. In Japan, summer thus far has also appeared to be fairly mild.” Utilities have restarted nine of the nation’s 37 operable reactors under post- Fukushima safety rules, producing 19.7 terawatt-hours worth of electricity in the first three months of the year. That is almost 3-fold the atomic output over the same period last year. Despite the drop in LNG imports, Japan is still likely to retain the title as world’s biggest buyer of the fuel. China — the world’s second largest buyer — imported 23.9mn tonnes in the five months through May, putting it on track to import more than 57mn tonnes compared with projected 77mn tonnes for Japan.

Incoming government raises

Papua LNG doubts

Oil minister Kerenga Kua has pledged to re-examine controversial deal following the collapse of scandal-hit government

The newly elected Papua New Guinea (PNG) government wasted no time in announcing it will review the recently signed Papua LNG agreement—as well as the country's wider hydrocarbon regulatory framework—fuelling speculation the project will face extended delays. The announcement was made barely a month after prime minister Peter O'Neill was forced to resign from office following a parliamentary vote of no confidence. Details from a report carried out by the Ombudsman Commission revealed O'Neill had failed to consult his government on a $1.2bn loan, unconnected to LNG projects, issued by Swiss bank UBS five years previously. Former finance minister James Marape, who had earlier defected from O'Neill's administration over the gas expansion project, was also named in the report. Nonetheless, he was unanimously elected by parliament to be the new prime minister. The timing of the political fallout could scarcely be worse for Papua LNG's partners. In April, the government finally signed an agreement to begin front-end engineering design (Feed) development on the $13bn expansion project, which is projected to double LNG exports. A 7.5 magnitude earthquake in February 2018 had already delayed the agreement. Under the arrangement, the project partners would target around 1bn bl oe of gas from the Total-operated Elk-Antelope fields, in the Eastern Highlands, which will then be fed into ExxonMobil's LNG plant at Caution Bay. A further two trains of 2.7mn t/yr are planned to be added to the facility, with a final investment decision (FID) expected to be made in 2020.

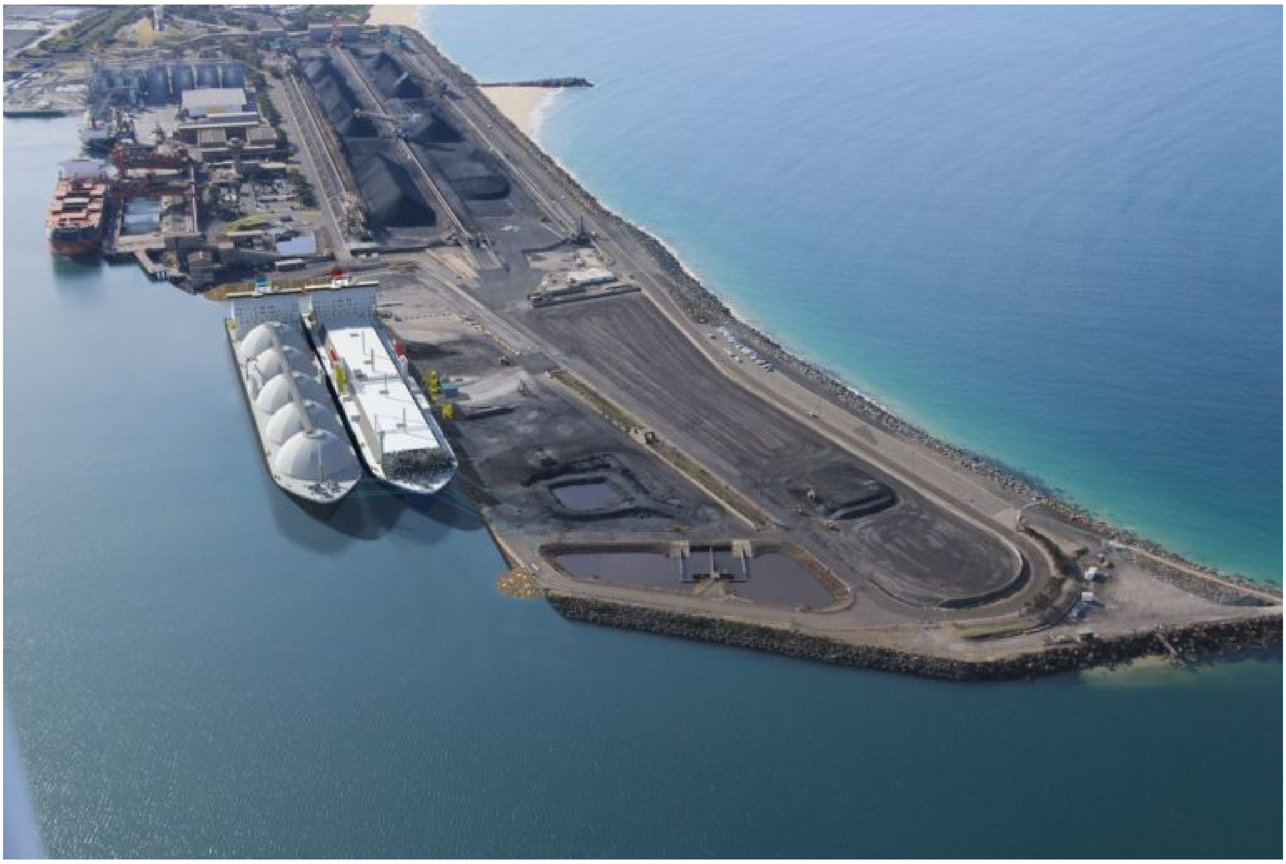
Hostile reception

Domestic opposition to the project remains strong. "The failure of earlier projects to live up to expectations has generated public and political frustration, which is driving the shift in outlook," says Joseph Parkes, Asia analyst at Verisk Maplecroft. A Jubilee Australia Research Centre report in April 2018 found that the economic benefits of the previous project, PNG LNG, have fallen well below expectations. PNG's economy only grew 10pc since the project's completion in 2014, despite predictions it would double. Household income and government expenditure on education, health, law and infrastructure even fell 6pc and 32pc, despite previous expectations they would increase 84pc and 85pc respectively. The report revealed that government spending plans factored in tax revenues that never appeared. The figures were surprising considering the project was completed ahead of schedule and by 2017 was outputting 8.3mn tonnes of LNG—a 20pc increase over the original capacity specification of 6.9mn t/yr. The project was also affected by the 2018 earthquake, which disrupted operations and forced ExxonMobil to close its export terminal. But although 2018 output dropped 15pc year-on-year, according to the World Bank, maintenance at the Hides gas conditioning plant and LNG trains was brought forward and over the second half of the year output swiftly recovered. Oil Search reported an average annualised rate of 8.8mn t/yr, almost 30pc above nameplate capacity.

Economic importance

Conflict over land claims and royalty payments continues to drive pressure on the government to renegotiate the agreement. In June 2018, armed civilians in Angore, Hela Province, damaged equipment at ExxonMobil's pipeline project. Around 97pc of land in Papua New Guinea is classified customary tenure, owned by indigenous communities, which makes royalty payments central to the development of large-scale projects such as Papua LNG. But Shane McLeod, project director at Lowy Institute, an Australian think tank, says the government will be reluctant to delay or reverse any deal. "The new leadership is pro-development and has said it just wants to ensure there are good returns for landowners and local interests." The government has prioritised improving access to electricity across the country and the development of natural gas is its chosen route. "10pc of [new] output will be going to domestic use. For Port Moresby, that will be transformational," says Anton Safronov, former head of operations at Total's Papua LNG project development. The government plans to increase access to electricity to 70pc of the country by 2030. Around 20pc of power capacity from PNG LNG currently supplies Port Moresby. Expansion of the project into the P'nyang field will also depend on interruptions to the current deal. In December, an assessment raised gas reserves there 84pc to 4.36tn ft3. Likewise, the government is aware of the growing number of competing LNG projects. "Total and ExxonMobil have so many LNG development opportunities globally at the moment," says David Hewitt, head of European oil and gas research at Australian bank Macquarie. "We expect the PNG government to be aware of [oil companies'] other opportunities when it considers how to deal with gas agreement discussions." https://www.petroleum-economist.com/articles/politics-economics/asia-pacific/2019/incoming-government-raises-papua-lng-doubts?hootPostID=462dd833b4a042d78c047690cdd1b952

Australia, a Top Natural-Gas Exporter, Considers Imports to Stop Blackouts



By
Rhiannon Hoyle in Sydney and
Robb M. Stewart in Melbourne
June 6, 2019 10:07 am ET

Australia is experiencing an energy crisis so severe that the country, one of the world's biggest exporters of liquefied natural gas, is considering imports to shore up supplies for manufacturers and avoid possible blackouts. The country's commitments to sell LNG overseas as well as the shuttering of aging coal-fired plants have made it a struggle for electricity producers at times of peak demand. Some of Australia’s manufacturers have threatened to move production overseas to escape a costly and unreliable energy supply.

Sydney, Melbourne and other cities on the country’s eastern coast have experienced occasional blackouts, hitting everything from health clinics to schools. Analysts predict a widening shortfall of LNG, raising concern manufacturers won’t have enough power to run food-processing factories or chemical plants. While Australia is rich in natural gas, it lacks a nationwide network of pipelines to supply users at affordable rates. The fuel is super-chilled into LNG for shipment around the country and abroad. Australia is projected to export 80.73 million metric tons of LNG this year, compared with 70.23 million metric tons in 2018, according to the research firm Wood Mackenzie. The electricity blackouts occurred as Australians endured a scorching Southern Hemisphere summer, with heat waves across the country that were unprecedented in scale and duration. On a couple of days in January, the temperature in Sydney reached 108 degrees Fahrenheit. This year, the country recorded its warmest January-through-May period ever, according to the Bureau of Meteorology. Electricity use for cooling spikes with such temperatures, but it isn’t only in summer that demand for LNG can outpace supply. In the southern city of Melbourne, gas supplies are at their tightest in the winter when demand for heating kicks in.

The Australian Industrial Energy consortium plans to lease this floating storage and re-gasification vessel to process natural gas imports. PHOTO: SQUADRON ENERGY

Climate change became a central issue in Australia's latest election campaign following a summer of wildfires, drought, floods and extreme temperatures. Voter support for policies targeting climate change was at its highest level since 2007, though it wasn't enough to save Australia's center-left party, which put the issue at the heart of its campaign. It was defeated by the incumbent conservative government in the May election on fears ambitious environmental targets would boost the cost of living and hurt the country's coal industry. Several state government have restricted gas developments due to environmental concerns. Proposals to prevent energy shortages involve supplying regions in need with LNG from elsewhere in the country and even from overseas. Those looking to import LNG include a billionaire entrepreneur who made his fortune shipping iron ore to China, U.S. energy giant Exxon Mobil Corp. and Australia's biggest power retailer, AGL Energy Ltd. They are planning to use vessels to store LNG, before heating it to supply customers directly or through local gas-transmission networks. Their goal is to offer a stable supply of fuel that can help prevent blackouts. Andrew Forrest, the billionaire who in a decade built Fortescue Metals Group Ltd. from a tiny natural-resources explorer into the world’s No. 4 iron-ore exporter, has said that a floating import terminal costs a fraction of what would be required to connect eastern Australia with offshore gas fields in the western part of the country via a pipeline.

World BeaterAustralia is set to become the world’s topproducer of liquefied natural gas after adecadelong $200 billion investment spree.Global liquefied natural gas supply
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LNG netback price in Australia†Sources: Wood Mackenzie (supply), AustralianCompetition and Consumer Commission (industrialprice and netback price)*Under longterm contracts in Australia’s eastern-coast market.†Netback is a benchmark export-parity price.Note: A$1 = US$0.70
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Australian Industrial Energy, a consortium of domestic and foreign companies that counts Mr. Forrest’s Squadron Energy as its biggest investor, recently received government approval for an import terminal in Port Kembla, an industrial hub south of Sydney. The consortium, which includes several Japanese investors, has arranged to lease a storage vessel almost 1,000 feet in length. It plans to spend as much as 250 million Australian dollars ($174 million) on infrastructure to berth the unit and connect it with a gas-transmission network on the eastern coast. The plan is one of five proposals for storage and re-gasification vessels across southeastern Australia.

Some local commentators mock the push for imports, given that Australia is on track to overtake Qatar as the world’s top exporter of LNG by volume this year following a decadelong investment boom. One Sydney radio station “described me as bonkers” when outlining Squadron Energy’s vision, said Stuart Johnston, Its CEO and a former Royal Dutch Shell senior manager.

Executives at Squadron Energy envisage using gas shipped from Australia’s northwestern coast, about 3,000 miles from Sydney and Melbourne, reflecting the lack of cross-country pipelines and the huge cost to build them. Yet Mr. Forrest and AGL Energy also see an opportunity to source gas from farther afield, including the U.S. U.S. exports of LNG rose 68% in the first four months of 2019, compared with the same period a year earlier. Trade tensions between China and the U.S. may actually play in Australia’s favor. Beijing has levied tariffs on U.S. LNG in response to Washington’s raising tariffs on Chinese imports. U.S. LNG could be diverted to new markets such as Australia if the added cost puts off Chinese buyers. The trade conflict “probably makes people trying to sell gas to Australia even more attractive,” Mr. Forrest said. Australia’s eastern coast is abundant in gas, primarily at coal fields, but policy makers nearly a decade ago didn’t ensure enough supply would remain at home as they approved plans for a combined $50 billion worth of processing plants to export fuel to such countries as China and Japan. Natural-gas costs have roughly tripled in eastern Australia in recent years, leading to warnings of factory closures and job losses. The Australian Energy Market Operator, the nation’s electricity overseer, forecast in March a potential gas shortfall in eastern states beginning in 2024. Others see the shortfall happening sooner. LNG imports are urgently needed in Sydney and Melbourne to reduce risks of a shortage, said Graeme Bethune, chief executive at Australian energy advisory firm EnergyQuest.

The five import terminals under study are proposed to start up between 2020 and 2022 near major cities. The Australian

Industrial Energy consortium said its terminal would supply the equivalent of more than 70% of annual gas demand in New South Wales, the country's most populous state. Exxon said it is considering an import terminal near Melbourne, although it prefers to supplement gas supply for the domestic market by finding new deposits or squeezing more from existing fields.
Australia could learn from the U.S. and focus on several supply-and-demand hubs in a national network, according to Nigel Hearne, Chevron Corp. 's president of Asia-Pacific exploration and production. "I would see one, two or three terminals on the east coast as just being other nodes in that network," he said.

But some worry that the cost of importing gas is too high, and investors could be overestimating what consumers are prepared to pay. "After overbuilding LNG export capacity, eastern Australia is now at risk of overbuilding LNG import capacity," said Saul Kavonic, a Credit Suisse analyst. "There isn't sufficient domestic demand to justify all five LNG import terminals being built." **Write to** Rhiannon Hoyle at rhiannon.hoyle@wsj.com and Robb M. Stewart at robb.stewart@wsj.com https://www.wsj.com/articles/australia-a-top-natural-gas-exporter-considers-imports-to-stop-blackouts-11559830044?redirect=amp#click=https://t.co/KuDmR4F8hR

Leviathan natural gas platform starts voyage to

Israel

JERUSALEM, July 14 (Reuters) – The gas platform for the Leviathan natural gas field is on its way to Israel from the Gulf of Mexico, the partners in the project said on Sunday.

The first of four barges transporting the production structure units has left Texas and the other three will set sail in the coming weeks. In September, all the units will be installed on the jacket of the platform already in place 10 kilometres from Israel's shore.

https://www.reuters.com/article/israel-natgas-leviathan/leviathan-natural-gas-platform-starts-voyage-to-israel-idUSL8N24F058

Nicosia to reject Turkish natural gas proposal

A proposal by Turkish Cypriot leader Mustafa Akinci for a committee that would jointly administer natural gas affairs is expected to be rejected by the government and party leaders when they meet on Tuesday. President Anastasiades received the proposal through the UN and shortly after Turkish Foreign Minister Mevlut Cavusoglu expressed the view that until Greek Cypriots adopt the proposals set out by Akinci, Turkey would continue its drilling “with determination and without change”. According to an official statement President Anastasiades received over the weekend in Limassol the head of the office of the Special Representative of the UN in Cyprus Sergiy Illarionov who presented to the President Akinci’s proposal. The President called a meeting of the National Council for July 16th to inform political leaders on the details of the proposal. Sources say the plan involves the establishment of a committee under the coordination of the UN with an equal number of representatives from both sides and an independent observer. The proposal also includes details on the composition, establishment and operation of the hydrocarbons fund. News reports citing diplomatic sources said that the plan is similar to an earlier proposal submitted by former Turkish Cypriot leader Eroglu. The move comes as the EU is set to adopt a number of punitive measures against Turkey for its illegal activities off Cyprus. Cyprus had hoped for targeted EU sanctions against the Turkish Petroleum Company in order to dissuade Turkey from drilling in its EEZ. Analysts argue that the geography of the Eastern Mediterranean leaves Turkey with limited marine area while the status quo of divided Cyprus is seen as a leverage to gain a foothold in the potentially resource rich East Med basin. https://knews.kathimerini.com.cy/en/news/nicosia-to-reject-turkish-natural-gas-proposal#.XSw4gLzv9HE.twitter

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Lukoil makes inroads offshore

Russian-Kazakh waters in the

Caspian Sea are central to the company’s plans

Russian oil major Lukoil is pushing ahead with a raft of new projects in the Caspian Sea, as it looks to grow its offshore business and counter decline at its older fields in Western Siberia. The private operator revealed in early June that it had struck a preliminary deal to explore an area off the shore of Kazakhstan. The I-P-2 block lies in waters 300-400 metres deep and 130km from the port of Aktau. Lukoil will now engage in talks with KazMunayGas (KMG), Kazakhstan’s national oil company, to draw up an E&P contract and form a joint venture to develop the site. The Caspian Sea is integral to Lukoil’s growth plans. The company aims to ramp up production in the area by more than a quarter next year to 180,000boe/d—equivalent to almost 10pc of its overall oil and gas output. Lukoil has come a long way since entering the region in the mid-1990s, when it embarked on a drilling campaign that led to the discovery of six major oil and gas deposits in Russia’s offshore zone. The first of the fields, Korchagin, entered production in 2010 and was joined by the larger Filanovsky project six years later. Additional development is underway at both sites, and Lukoil plans to commission a third field known as Rakushechnoye in 2023. Lukoil’s current Caspian production is confined to Russian waters, although the company is looking to build up its Kazakh operations as well. In addition to I-P-2, it has committed to spending $270mn on exploring Kazakhstan’s Zhenis block under an E&P contract it finalised with KMG earlier this year. Zhenis, situated 80km from the shore in water 75-100 metres deep, has been assessed by Kazakh authorities to contain 4.5bn boe in potential resources. Lukoil also operates the Tsentralnoye and Khvalynskoye fields that straddle the Russian-Kazakh maritime border, although development is in limbo because of their remoteness from land and an outstanding legal dispute. The Kazakh government has handed out dozens of contracts for offshore development over the past two decades, although many of these projects have disappointed. Lukoil's previous exploration venture at the Atash and Tyub-Karagan blocks ended in failure in 2011, when the company withdrew after drilling several dry wells.

Kazakh incentives

Lukoil's CEO Vagit Alekperov explained the company's renewed interest in offshore Kazakhstan early last year, citing a recent overhaul in the country's taxation system. Offshore operators can now opt to pay an income-based tax in lieu of mineral extraction tax (MET), oil export duty and other levies. Critically, this tax does not apply when oil prices dip below $50/bl, offering operators some protection from market volatility. The Caspian's operational challenges, such as logistical issues, difficult climate conditions and reservoir complexity, can make tax relief essential for a project's success. Lukoil notably pays no export duty and a reduced rate of MET on its Russian fields in the area. Moscow-based ratings agency ACRA estimates the current breakeven cost of these projects, taking the tax incentives into account, at $35/bl. "Tax breaks are necessary due to the high initial capital costs and the relatively high cost of production," an ACRA analyst told Petroleum Economist. "The IRR [internal rate of return] of Caspian projects is significantly higher than that of the mainland [Russian] projects, but this can be considered compensation for the higher risk." According to Ashley Sherman, a Caspian research analyst at Wood Mackenzie, changes to Kazakhstan's tax and subsoil legislation have "certainly revitalised international interest" in its offshore zone. Earlier this year Italy's Eni—a shareholder in Kazakhstan's flagship Karachaganak and Kashagan projects— also signed up to explore the offshore Abay block. While established players like Eni and Lukoil are keen to search new areas, Kazakhstan has struggled to bring new investors into the region. "These companies can look to other offshore exploration hot spots, elsewhere in the world, that offer lower costs, greater rig availability and a clearer path to quick development of any discovery," says Sherman. https://www.petroleum-economist.com/articles/politics-economics/europe-eurasia/2019/lukoil-makes-inroads-offshore

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EU adopts measures against Turkey's illegal drilling in Cyprus' EEZ

The European Union decided on Monday to symbolically punish Turkey over illegal drilling for oil and gas off Cyprus and threatened harsher sanctions in the future unless Ankara changes tack. Foreign affairs ministers of the 28-nation bloc met in Brussels to endorse a decision to curb diplomatic contacts and funding for Ankara, retaliation for what it sees as interference with Cyprus’ exclusive economic zone. Cyprus has pressed for a tough line threatening harsher sanctions in the future but others warned against antagonising a key ally on security and migration affairs. “The provocations of Turkey are unacceptable to all of us,” German Minister of State for Europe Michel Roth said on arriving at the talks. “We have now found a balanced language that keeps all our options open, including of course sanctions.” “I can only hope that we do not now add another crisis to the many conflicts and crises. Turkey knows what’s at stake and the European Union is united on the side of Cyprus.” An EU diplomat told Reuters Ankara could lose some €150m of €400m the bloc had earmarked for 2020 for everything from political reforms to agriculture projects to help Turkey prepare for eventual EU membership. A decision endorsed by the EU ministers invited the bloc’s executive and foreign policy arm to “continue work on options for targeted measures in the light of Turkey’s continued drilling activities”, according to the text seen by Reuters. That means any future sanctions would most likely focus narrowly on freezing assets and banning from the EU firms or people involved in the drilling, diplomats in Brussels said. “It is very clear that we stand behind Cyprus, this makes sense since we never recognised the Turkish occupation of northern Cyprus. It is normal for Cyprus to want to define their own natural resources,” Austrian Foreign Minister Alexander Schallenberg said on Monday. According to the final text seen by CNA the 28 recall “the Council conclusions of 18 June 2019 and previous European Council conclusions, notably those of 20 June 2019”, and “deplores that, despite the European Union`s repeated calls to cease its illegal activities in the Eastern Mediterranean, Turkey continued its drilling operations west of Cyprus and launched a second drilling operation northeast of Cyprus within Cypriot territorial waters”. The Council reiterates “the serious immediate negative impact that such illegal actions have across the range of EU-Turkey relations. The

Council calls again on Turkey to refrain from such actions, act in a spirit of good neighbourliness and respect the sovereignty and sovereign rights of Cyprus in accordance with international law”. Furthermore, “the Council, welcoming the invitation by the Government of Cyprus to negotiate with Turkey, notes that delimitation of exclusive economic zones and continental shelf should be addressed through dialogue and negotiation in good faith, in full respect of international law and in accordance with the principle of good neighbourly relations”. “The EU remains fully committed to supporting the UN-led efforts to work with the parties with a view to creating the conditions conducive to resuming negotiations on a comprehensive settlement of the Cyprus problem”, the text reads. “In this regard, the Council recalls that it remains crucial that Turkey commits and contributes to such a settlement, including its external aspects, within the UN framework in accordance with relevant UNSC Resolutions and in line with the principles on which the EU is founded and the acquis”, the EU 28 state in the same text. According to EU sources, the Council will publish the text around 11pm Cyprus time. High Representative Federica Mogherini, refrained from commenting on the decisions during the Council’s press conference. (Reports from Reuters and CNA in Brussels) https://cyprus-mail.com/2019/07/15/eu-adopts-measures-against-turkeys-illegal-drilling-in-cyprus-eez/amp/?__twitter_impression=true