

# 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 Kansai 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 Singapore-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.

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## **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 bbl 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.

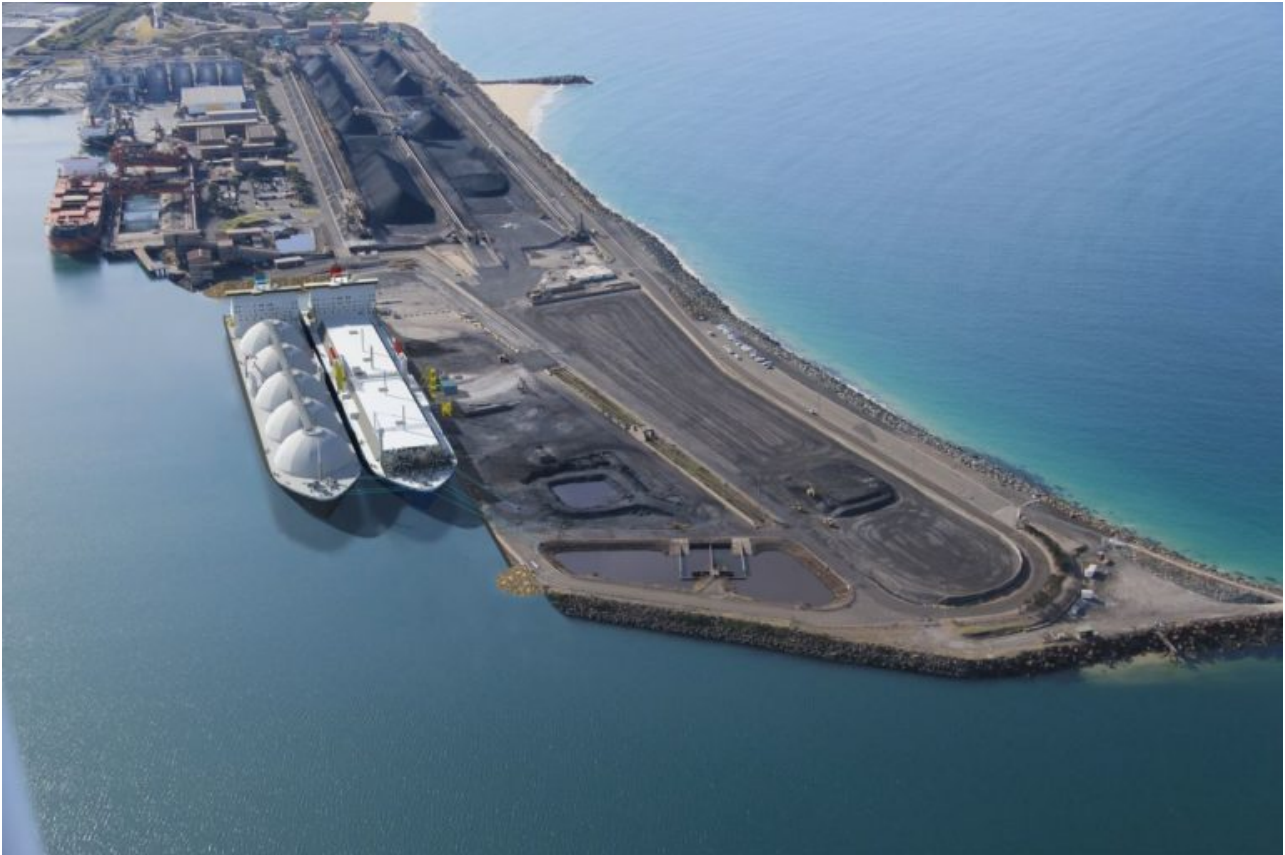
## **Economic importance**

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 ft<sup>3</sup>. 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-economic/asia-pacific/2019/incoming-government-raises-papua-lng-doubts?hootPostID=462dd833b4a042d78c047690cdd1b952>

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## **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 governments 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 Beater Australia is set to become the world's top producer of liquefied natural gas after a decade-long \$200 billion investment spree. Global liquefied natural gas supply .million metric tons a year Australia Rest of world 2011'12'13'14'15'16'17'18 0100200300

Average natural gas price for industrial and commercial users in Australia\*

.Australian dollars a gigajoule 2016'17'18 6789\$10

LNG netback price in Australia † Sources: Wood Mackenzie (supply), Australian Competition and Consumer Commission (industrial price and netback price)\* Under long-term contracts in Australia's eastern-coast market. † Netback is a benchmark export-parity price. Note: A\$1 = US\$0.70

.Australian dollars a gigajoule 2016'17'18'19 0.02.55.07.510.012.5\$15.0

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](mailto:rhiannon.hoyle@wsj.com) and Robb M. Stewart at [robb.stewart@wsj.com](mailto: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/KuDmR4F8>

# 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>

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## **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\\_impession=true](https://cyprus-mail.com/2019/07/15/eu-adopts-measures-against-turkeys-illegal-drilling-in-cyprus-eez/amp/?__twitter_impession=true)

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## **Gushing European energy IPO pipeline faces muted investor appetite**



Norway's Okea, Britain's Neptune, Chrysaor, Siccar Point and Spirit Energy are all either actively preparing or expected to plan an initial public offering (IPO) in the short term, as are recently merged German-Russian Wintershall Dea and Israeli-owned Ithaca Energy.

Oil and gas companies with a combined value of around \$41 billion are seen as candidates for listing in the coming years, according to estimates by energy consultancy Wood Mackenzie.

Shares of oil and gas companies historically rise after a crash in oil prices as investors bet on a recovery in prices.

But the recovery following the 2014 downturn, the worst in decades, has been slow and bumpy amid surging U.S. shale production and wider uncertainty over long-term oil demand as the world transitions to cleaner energy.

"IPOs tend to come when markets are sizzling hot and valuations are high – that is not the case for the energy sector currently," said Bertrand Born, portfolio manager for

global equities at German asset manager DWS.

Listed oil and gas companies have struggled in recent years, underperforming in many cases oil prices and other sectors, and offering a tough backdrop for any company contemplating a public listing.

In a sign of the challenging conditions, Okea on Thursday lowered its offered price per share and delayed its listing on the Oslo stock exchange.

Sam Laidlaw, executive chairman of Neptune, backed by private equity firms Carlyle Group and CVC Capital Partners, said he saw no time pressure for his company's IPO.

"Lower returns at \$100 a barrel than at \$60 raised concerns among capital markets. There is less appetite from generalist investors. We don't see anything that's IPO ready yet," he told Reuters this month.

"Some will consolidate, some will never make it to market, some will take longer. If we wanted to be first, there's plenty of time still."

Many of the IPO candidates, including Neptune, were set up in the wake of the 2014 crash by private-equity funds seeking to buy cheap and sell high when the oil price recovers.

But nearly five years on, the going is still tough for the sector.

In the first quarter of 2019, European IPOs slumped to their lowest since the aftermath of the 2008 financial crisis, as uncertainty over Brexit and the U.S.-China trade dispute left companies not wanting to take their chances.

## **UNIQUE STORY**

To succeed, companies will have to offer investors something unique, says Jon Clark, regional transaction leader at EY.

“The European oil and gas IPO landscape looks like it will shift from famine to feast and the potential IPO candidates need to think how they will best position themselves,” Clark said.

Wintershall-Dea is the largest producer of the group, aiming to boost its output by around 30% to at least 750,000 barrels of oil equivalent per day by 2023, in a portfolio stretching from Brazil to Europe and Russia and the Middle East.

Chrysaor, backed by Harbour and EIG, is the largest oil and gas producer in the North Sea after acquiring large portfolios from Royal Dutch Shell and ConocoPhillips.

Neptune has assets in a number of regions and is focused on gas, seen as the least-polluting fossil fuel.

In addition to returns, environmental, social and governance (ESG) issues are an ever-growing concern for fund managers and their clients.

Unlike any other time, investors are likely to question a company seeking to list on its role in the transition to a lower carbon economy following the 2015 Paris climate agreement to limit global warming.

“Sentiment in the market is not necessarily as strong as it used to be for oil and gas assets... we’re moving towards a lower carbon economy,” said Les Thomas, chief executive of Ithaca, owned by Israel’s Delek Group, which last month acquired most of Chevron’s North Sea assets for \$2 billion.

Greek group Energean was one of a handful of energy companies to list in London in recent years, betting on Israeli gas production and long-term offtake agreements. Its shares have risen over 90% since listing last year.

“Oil price upside is not enough anymore. You have to offer investors at least partial, if not complete, security of a

return on their investment regardless of commodity prices,” Energean Chief Executive Mathios Rigas said.

“It’s not enough to say I have this amazing geologist or knowledge of a basin or promise to find oil in frontier areas. To continue investing as an energy company only in oil, from an ESG perspective, is suicidal.”

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## **Higher gas prices, North Field production boost Qatar account surplus: World Bank**



Qatar’s current account surplus increased to 8.7% in third quarter of 2018, from less than 4% in 2017 due to higher gas prices and production from the North Field, the country’s biggest gas repository, according to the World Bank.

Qatar, the largest LNG exporter globally, had seen its goods

export earnings rose by 25% in 2018, World Bank has said in its recent "Economic Update."

The country's public finances have improved, supported by the recovery in energy prices, and Qatar is expected to post a small fiscal surplus in 2018, the first since 2014. A large public investment programme for 2014-2024 has been pared back, with FIFA 2022 projects given priority.

Qatar's withdrawal from the Organisation of the Petroleum Exporting Countries (Opec) in January 2019, after six decades of membership, has not had a major impact since Qatar was one of the smallest members of the group, making up less than 2% of Opec's total oil production, World Bank noted.

The World Bank said Qatar's "outlook remains positive" with growth expected to rise to 3.4% by 2021 driven by higher service sector growth as the FIFA World Cup draws nearer. In addition, higher infrastructure spending on the Qatar National Vision 2030 projects aimed at diversifying the economy should help offset falling investment spending on FIFA projects.

The hydrocarbon sector growth is also expected to pick up as the Barzan natural gas facility comes online in 2020, and as the expansion of the North Field gas projects is completed by 2024. Monetary policy is expected to gradually tighten as the Qatar Central Bank resumes raising interest rates to restore the spread versus US policy rates, and to attract FX inflows into the banking system. Public finances are expected to remain in small surplus, supported by recent tax reforms and the introduction of a VAT over the medium term, the World Bank said.

A recovery in imports, driven by capital goods related to infrastructure spending, should keep the current account surplus in single-digits (in contrast to surpluses of over 30% prior to 2014).

Qatar's economy has largely overcome the constraints posed by

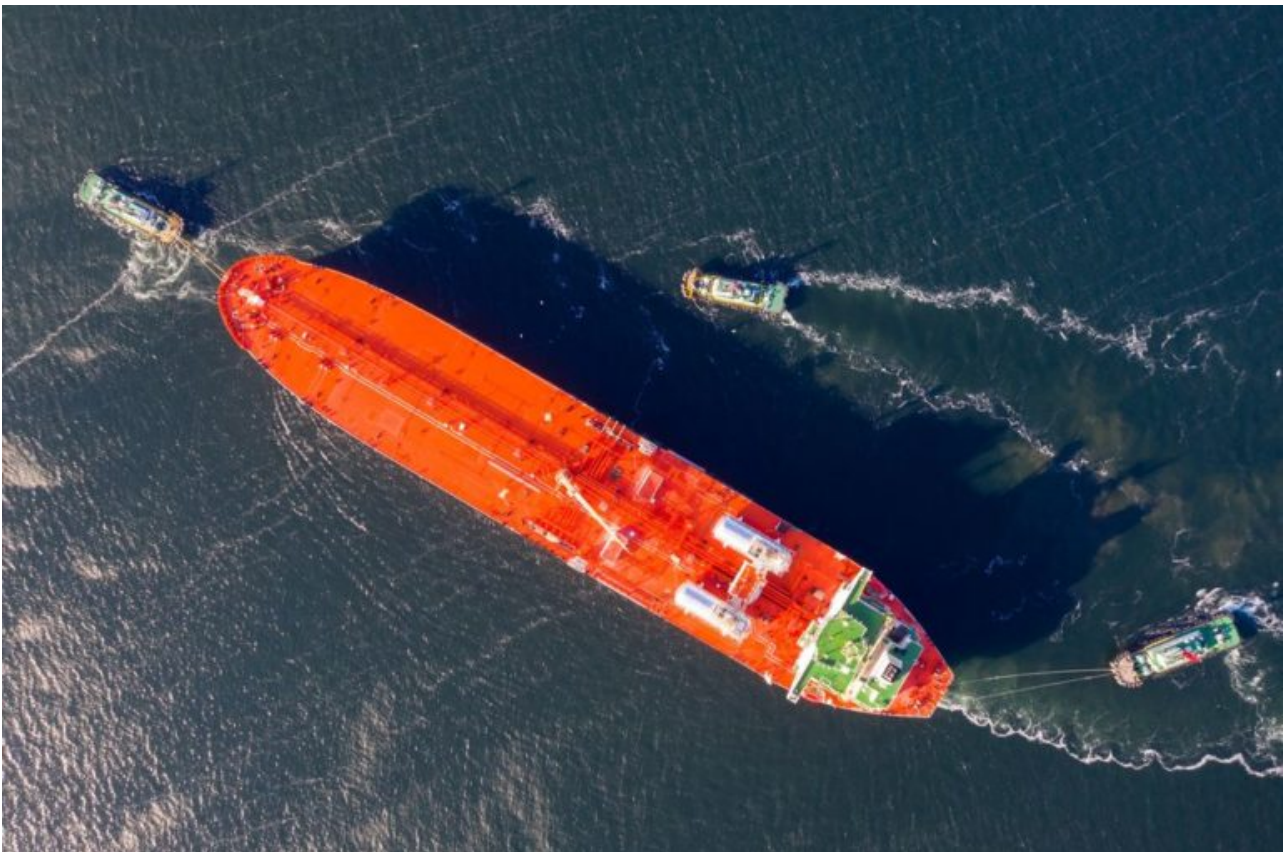


the “continuing diplomatic rift” with GCC (Gulf Co-operation Council) neighbours, the report noted.

“Nevertheless, a resolution of this situation would help boost investor confidence. Key external risks include risks of volatility in global energy prices, regional instability risks, and global financial volatility that affects capital flows and costs of funding although these are mitigated by the return to fiscal and current account surpluses,” the World Bank said.

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## **LNG Ships Are Turning Away From Europe’s Gloomy Gas Market**



A tanker traveling from the Arctic region to Belgium with a cargo of Russian liquefied natural gas was instead sent to Israel at the last moment.

The British Diamond changed destination just before arriving, indicating how quickly natural gas traders need to act in a market where healthy inventories and supply have sapped prices to near their lowest in almost a decade. It may well be a sign of things to come for the rest of the summer, as the Asian benchmark Japan-Korea marker widens its premium to its European Title Transfer Facility counterpart and Middle East demand for cooling increases.

“You can see room for more diversions. It’s hard to believe JKM will strengthen any time soon, but TTF could weaken further as European stocks are full,” said Jean-Christian Heintz, head of LNG broking at SCB Brokers SA in Nyon, Switzerland. “It might rapidly become more attractive for cargoes to go to India and southeast Asia – they could be good opportunistic buyers in coming weeks.”

Two other tankers with gas from Russia’s Yamal LNG project have gone on month-long journeys to China rather than stop in Europe in recent weeks. That’s not surprising as even a heatwave last week was unable to prevent the rapid refilling of storage sites, which are 74% full, about 17 percentage points above their five-year average.

“If the demand-side response is not enough, prices will then need to fall to the point where either more power demand appears, or supply starts to be choked off,” Energy Aspects said in a note. “Either way, that would mean prices moving downwards from current levels.”

As European inventories are filling rapidly, traders may start looking at filling underground storage in the U.S. or choose to float cargoes on the water, according to Energy Aspects. The latter is looking attractive as prices for months later in

the year are higher than for next month, known as a contango.

And the demand for power generation may also be limited. Even with natural gas becoming cheaper in the region than lignite for the first time ever, increased generation from renewables will probably curb the extra European demand, according to BloombergNE.

U.S. LNG cargoes may also prefer to go to Asia, supported by a wider inter-basin freight differential. With increasing volumes from new plants in the U.S. and Russia and a premium required to return empty ships after unloading in Asia, west of Suez shipping rates are higher.

One Yamal cargo is taking this season's first voyage from Siberia via the Northern Sea Route to Asia, while transshipments of the project's cargoes in northwestern European ports are also on the rise.

The question remains whether a few cargoes being sent to Asia rather than unloaded in the oversupplied European market will relieve the glut. Record LNG deliveries flooded liquid northwestern European markets in March and April, and while the wave has since subsided, shipments remain strong.

"At a certain point the market should regulate itself, if you see some supply going to Asia, it should help rebalance," Heintz said. "Storages are so full that just a few cargoes less may not be enough to change the picture."