

# Israel's East Mediterranean Pipeline Dreams Fading as Egypt, Cyprus Go It Alone



While Israeli leaders have turned their attention to campaigning for the April 9 election, Cyprus and Egypt have been working behind the country's back to advance plans for an undersea gas pipeline.

Cyprus and Egypt in September signed an agreement for a subsea pipeline to carry natural gas from Cyprus' Aphrodite field to Egypt. Two weeks ago, the Cypriot cabinet took another step forward by approving the September deal.

In doing so, Cyprus ignored Israeli claims to a portion of Aphrodite, which lies in Israeli economic waters. The Cyprus-Egypt pipeline also weakens the economic justification for the projected East Mediterranean pipeline, a \$7 billion undertaking that would deliver Israeli and Cypriot natural gas directly to Europe via Greece.

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# Anastasiades, Akinci agree on confidence-building measures



‘Regarding confidence-building measures, the leaders committed to intensifying the work of the Technical Committees with the objective of improving the daily lives of all Cypriots.’

The President of Cyprus, Nikos Anastasiades, and Turkish-Cypriot leader Mustafa Akinci agreed at a meeting today to implement confidence-building measures (CBMs) mainly in the sectors of telephony and electricity grids.

The move comes a year-and-a-half after the collapse of Cyprus settlement talks at Crans Montana, Switzerland with a new push to jump-start the talks underway.

It also comes amidst bellicose moves by Ankara to impede and

undermine the hydrocarbons programme of the Republic of Cyprus and to conduct illegal drilling in Cyprus' Exclusive which for many renders the need for a settlement all the more pressing.

The talks were conducted under the auspices of UN Cyprus envoy Elizabeth Spehar.

A lengthy statement issued by the spokesperson of the United Nations in Cyprus today offered details about the CBMs and left open the prospect of agreeing to more such measures.

*The full text of the statement is as follows:*

“Today, the Turkish Cypriot leader, Mr. Mustafa Akıncı, and the Greek Cypriot leader, Mr. Nicos Anastasiades, met at the Chief of Mission's residence in the United Nations Protected Area under the auspices of Special Representative/Deputy Special Adviser to the Secretary-General on Cyprus, Ms. Elizabeth Spehar.

They had a constructive exchange of views in a cordial atmosphere. Mr. Anastasiades presented his ideas on decentralization and the two leaders discussed in depth the basic principles.

Regarding confidence-building measures, the leaders committed to intensifying the work of the Technical Committees with the objective of improving the daily lives of all Cypriots.

The two leaders decided to implement the confidence-building measure regarding mobile phone interoperability through separate agreements of the operators on both sides with a hub based in Europe, in order to facilitate greater interaction between the two communities.

They announced that the inter-connectivity of the two electricity grids, as agreed in 2015, has now been achieved. In this regard, they decided to make the temporary electricity supply arrangement permanent and without restriction. They

acknowledged that the transfer of electricity will continue on an as-needed basis.

The leaders agreed to the clearance of nine suspected hazardous areas on both sides of the island, with a view to working towards a mine-free Cyprus.

As a gesture of good will, Mr. Akıncı conveyed the decision of the Turkish Cypriot side to return paintings by Greek Cypriot artists that remained under protection on the Turkish Cypriot side since 1974.

Mr. Anastasiades similarly conveyed to Mr. Akıncı the Greek Cypriot side's decision to hand over visual and audio recordings of Turkish Cypriot artists that exist in the archives of the CyBC, belonging to the pre-1963 period.

The two leaders have tasked the Technical Committee on Culture to realize the exchange of these invaluable works of art, belonging to the respective communities.

Mr. Anastasiades and Mr. Akıncı also discussed additional potential confidence-building measures.”

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## **Cyprus: likely gas field find raises prospect of tension with Turkey**



Tensions between Cyprus and Turkey over energy could soon come to a head, with ExxonMobil apparently poised to announce a significant natural gas find off the divided island's southern coast.

After more than three months of deep-water exploration in the eastern Mediterranean, the US firm is expected to unveil findings this week in what is being described as a seminal moment in the race to tap potentially profitable underwater resources.

Charles Ellinas, an industry expert and former head of Cyprus's national hydrocarbons company, said: "All the seismic data suggests that enough has been found to excite ExxonMobil to continue exploration. Potentially there could be great reserves."

But stakes could not be higher in the region. Amid escalating friction over the potential offshore energy find, Turkey has declared it will dispatch its own drilling ships to the area, a year after deploying gunboats to stop the Italian company Eni exploring for offshore wealth at the behest of Greek Cypriots.

Last week Ankara said natural resources in the eastern Mediterranean and the Aegean, where tensions have also risen with Greece, remained “a strategic goal and national issue”.

“In the coming days we will start drilling with two ships around Cyprus,” said the Turkish foreign minister, Mevlüt Çavuşoğlu, ratcheting up the rhetoric. “Let those who come to the region from far away, and their companies, see that nothing can be done in that region without us. Nothing can be done in the Mediterranean without Turkey; we will not allow it.”

Gas fields were first discovered in waters off Cyprus in 2011. ExxonMobil, one of five international oil companies exploring around the island, has focused on Block 10, adjacent to Egypt’s giant Zohr field, which is believed to be the most promising of all the licensed areas.

If unlocked, the deposits beneath the seabed could radically reshape energy geopolitics and – western politicians hope – ultimately lessen Europe’s reliance on Russia for gas.

In ethnically split Cyprus, the prospect of an energy bonanza is also seen as a potential game changer that could help reconcile the island’s rival Greek and Turkish communities.

“If there is a big find, there’ll be big stakes backed up by a huge American company,” said Hubert Faustmann, a professor of history and political science at the University of Nicosia. “It could be a blessing that will help end the seemingly intractable Cyprus problem. Even without a solution, there will be a lot of pressure to allow exploitation of the hydrocarbons.”

But with Ankara disputing Nicosia’s maritime jurisdiction in seas riven with competing claims over boundaries – and increasingly incensed over energy agreements the island has signed with Greece, Israel and Egypt – a major discovery could also trigger other dynamics. In the worst-case scenario,

military conflict could break out, analysts believe.

“The situation is escalating rather than de-escalating because Turkey is determined to stop exploitation of any resources in Cyprus’ exclusive economic zone (EEZ) without its consent and if Turkish Cypriots don’t also benefit from them,” Faustmann said.

Although experts caution that the reserves’ commerciality is still far from assured, an air of optimism has filled Nicosia’s colonial-era presidential palace. Some officials go as far as to speak of the European Union’s easternmost member becoming a “new Kuwait”, enriched by its role as a gas-producing hub.

“If it is a substantial reserve, a lot of things are going to change,” said the government spokesman Prodromos Prodromou, conceding that underwater resources could be decisive in breaking the impasse in talks to reunify the island.

“A find of some magnitude could act as an incentive for Turkey to discuss a solution and compromise, but it is true the reaction could also be negative. [Turkey’s president] Erdoğan is unpredictable.”

Cyprus has been partitioned between Turks in the north and a majority Greek population in the south since a short-lived coup, inspired by Athens and aimed at union with Greece, sparked Ankara to order a full-scale invasion in 1974.

After seizing the island’s northern third, up to 40,000 Turkish troops were stationed in the enclave, and Turkish Cypriots unilaterally proclaimed independence in 1981. Ever since, Turkey has refused to recognise the Republic of Cyprus or its claim to an exclusive economic zone in the seas beyond its coast.

Hydrocarbons are expected to be high on the agenda when President Nicos Anastasiades, who heads the internationally

recognised south, meets the Turkish-Cypriot leader Mustafa Akıncı on Tuesday. The two men have had little contact since the collapse of reunification talks in 2017, when negotiations came closer than at any other time to resolving the west's longest-running dispute.

After years of foot-dragging, and in a clear effort to resolve the brewing crisis, Anastasiades' government edged closer this month to creating a sovereign fund to manage revenues from reserves and ensure they are shared equitably between both communities. "It will send the message that when the time comes the money will be shared," said Prodromou of the fund due to be passed into law within days. "They won't be able to say that Greek Cypriots are taking advantage of Turkish Cypriots' interests."

But Turkey, the only country to recognise the island's breakaway north, argues the offshore wealth should be part of a comprehensive Cyprus settlement.

At a time when markets are flooded by cheap gas, industry experts say there is little prospect of any discovery becoming commercially viable anytime soon, even if demand is also growing.

"ExxonMobil is looking for substantial quantities of gas to support its ultimate plan to build a liquefaction plant in Cyprus," said Ellinas, a senior fellow at the Atlantic Council's global energy centre. "This is only the beginning."

But, in the meantime, there are fears that Ankara's threat to embark on drilling operations off Cyprus – despite strident criticism from the EU over the need "to respect the sovereignty of member states" – could take the battle over hydrocarbons to new and dangerous heights.

"If Turkey does start drilling, as it has threatened, in Cyprus' exclusive economic zone, it will be very, very provocative," said Ellinas. "Suppose they actually find gas:



what are they going to do then? It will turn everything upside down.”

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## Sharm el-Sheikh hosts 1st Arab-European summit



CAIRO – 23 February 2019: Leaders and government heads of 28 European countries and 21 Arab states will be convening a two-day summit in Sharm el-Sheikh, on Sunday, to discuss joint challenges and boost mutual cooperation opportunities.

This is the first ever platform that brings together the Arab and European heads of state and government to tackle the pressing issues, atop of which terrorism, organized crime and illegal immigration.

Chairman of the Egyptian Council for Foreign Affairs (ECFA) Ambassador Munir Zahran told MENA that the upcoming summit

represents a great opportunity for enhancing the Arab-European cooperation and dialogue, where they will discuss problems of mutual concern and exchange views on various regional and international issues.

Several political issues will be also raised during the summit, topped by the Palestinian cause, Zahran said, stressing the importance of maintaining the unity and territorial integrity of Syria and putting an end to the Libyan and Yemeni crises.

Egypt's Sharm el Sheikh International Airport is on high alert in preparation for receiving the high guests and heads of Arab and European countries, who are participating in the upcoming Arab-European summit due on February 24 and 25, said the Egyptian Ministry of Civil Aviation in statement on Thursday.

### **First Arab-European Summit**

The summit will be co-chaired by President Abdel Fatah al-Sisi and President of the European Council Donald Tusk.

On February 18, Sisi said that "Sharm El-Sheikh conference is a key step towards more cooperation that will be followed by other steps," adding that the instability of some Arab countries led to the illegal migration to Europe.

"Not a single illegal migration case has crossed the Mediterranean Sea from Egyptian shores since September 2016," President Sisi announced, adding that his country held a series of bilateral talks with a number of European countries to deal with illegal migration from Africa to Europe.

"Egypt hosts millions of registered and unregistered migrants who are integrating into the Egyptian society," Sisi continued.

According to a statement issued by the EU, leaders from both sides will seek to strengthen Arab-European ties. They will

also address a wide range of issues and common challenges, such as multilateralism, trade and investment, migration, security and the situation in the region.

The meeting is expected to start on Sunday, February 24 and end with a press conference on Monday, February 25. It will take place in the International Congress Centre in Sharm El-Sheikh.

Ambassador of the European Union to Egypt Ivan Surkos told Egypt Today on Wednesday that trade, investment, immigration and security will be among the top priority issues to be discussed during the upcoming Arab-European summit. He added that the cooperation between the European Union, the Arab league, European Council and the European Commission will enhance communication between the European and Arab regions and will boost stability in both regions.

Egypt's strategic location made the North African country the link between Africa, the Arab region and Europe through the Mediterranean Sea, according to Sisi.

The Egyptian president said Egypt's strategic location made it the link between Africa and the Arab region, and between Europe, the Arab and African regions through the Mediterranean.

### **EU-Arab relations**

Ahead of the summit, the Egyptian cabinet's media center has published several infographs detailing cooperation between European Union and the Arab League; the trade exchange volume between Arab states and EU, in addition to investments by the European Bank for Reconstruction and Development (EBRD) in Egypt and Arab countries.

The volume of trade exchange between Egypt and the European Union states rose to €28 billion in 2017, compared to €17.4 billion in 2007, the cabinet media center said on Saturday.

The infographics indicated that trade exchange between the EU and Arab countries increased 7 percent to €315.9 billion in 2017, compared to €295.5 billion in 2016.

Arab exports to the EU states rose 20 percent to register €121.6 billion in 2017, against €101.2 billion in the previous year, they showed.

The infographics pointed out to cooperation between the EU and the Arab League (AL) in combating arms smuggling via a project that aims to enhance means of monitoring conventional weapons in the Arab League's member states at a total cost of €2.7 billion.

The two sides also work together to support efforts of the anti-Daesh international coalition, while ensuring human rights and the rule of law, they added.

Bilateral cooperation also includes efforts to activate political dialogue that targets stability at the regional level, they said.

### **Media coverage**

More than 750 Arab and foreign correspondents will participate along with local journalists in the Arab-European Summit set to held in Sharm el-Sheikh, Egypt Sunday.

The two-day summit will witness the attendance of country leaders and heads of governments representing 28 European countries and 21 Arab states.

A month ago, the Ministry of Foreign Affairs have started receiving demands from around 550 foreign correspondents to attend the summit, in addition to 250 reporters from different local and foreign media outlets and news agencies. Mohamed Emam, the head of the press center of the State Information Service Authority said that more than 200 journalists will be accompanying the presidential delegations from Arab and

European countries participating in the summit.

According to Emam, all media personnel approved to attend to the summit will receive required press allowances upon their arrival. He further assured that facilitations guaranteed to their and their equipment entrances.

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## **Australia's Oil Search banks on 2020 sign-off for major expansion**



MELBOURNE (Reuters) – Australia's Oil Search is confident its partners ExxonMobil Corp and Total SA will be ready to sign off on two big projects in 2020 that together will double liquefied natural gas (LNG) exports from Papua New Guinea.

Oil Search had first hoped the projects to fuel an expansion of Exxon Mobil's PNG LNG plant would be approved in 2019, but talks with the government took longer than expected after an earthquake hit the country a year ago.

“It was a very tough year in Papua New Guinea for a range of reasons and it started with the earthquake,” Oil Search Chief Executive Peter Botten said.

The quake killed more than 100 people in the rugged highlands region of one of the world’s poorest countries, destroyed homes, roads and runways and knocked out gas and oil facilities.

It also stoked long-running antagonism against the PNG LNG project, as the country’s take from the development has been much lower than anticipated and the government has been slow to pay out royalties to local communities.

Some people even blamed oil and gas operations for triggering the quake.

“In that context, we were doing a lot of negotiations on major projects and those sensitivities, I think, have been really well addressed,” Botten told Reuters after the company reported its annual results.

Total is set to sign an agreement with the government by early April on its Papua LNG project, and Exxon Mobil is expected to follow soon after on terms for an expansion of its PNG LNG plant and development of a new gas field, P’nyang, Botten said.

Total’s Elk and Antelope fields, new gas from PNG LNG fields and P’nyang are set to feed gas into three new processing units at PNG LNG, roughly doubling its output to 16 million tonnes a year, at a cost of around \$13 billion, according to analysts.

“I’m very confident that a 2020 final investment decision is very achievable,” Botten said.

Oil Search, which has a 29 percent stake in the PNG LNG project, posted a 13 percent rise in annual profit, boosted by higher prices for its LNG and oil, which offset a loss of output after the earthquake.

Net profit for the year ended Dec. 31 rose to \$341.2 million from \$302.1 million a year earlier, but fell short of analysts' forecasts around \$360.83 million, according to Refinitiv data.

Oil Search raised its full year dividend to 10.5 cents from 9.5 cents in 2017.

Oil Search's shares fell 1.5 percent in a slightly firmer broader market.

Production is expected to return to pre-quake levels in 2019 and unit production costs are forecast to fall 15-20 percent on the back of higher production, it said.

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**QP signs 3 deals worth QR9bn  
with major international  
firms**



Qatar Petroleum (QP) signed three agreements worth QR9bn (\$2.47bn) with leading international companies on Monday as part of QP's 'Tawteen' initiative that aims to localise the energy sector's supply chain and expand the country's small and medium-sized enterprise (SME) base.

QP signed the agreements on the sidelines of Tawteen's launch ceremony, which was led by HE the Prime Minister and Interior Minister, Sheikh Abdullah bin Nasser bin Khalifa al-Thani at the Sheraton Grand Doha Resort & Convention Hotel.

Speaking at a press conference after the signing ceremony, HE the Minister of State for Energy Affairs, Saad Sherida al-Kaabi, who is also CEO of QP, said the agreements "will give an important momentum" to the programme's objectives, which aims to add QR15bn worth of in-country economic investment value to the local economy, "which reflects investor confidence in the Qatari economy."

QP and Baker Hughes, a GE company, signed a memorandum of understanding (MoU) designed to help create new opportunities to expand its presence Qatar, and to enhance its operations through continued investment in future technologies and services. The MoU would also help strengthen Qatar's oil and gas supply chain and boost the skills of Qatari talent in the industry.



QP also signed an MoU with Schlumberger, which recently celebrated 70 years of presence in Qatar. The agreement will help increase Schlumberger's footprint, which plans to expand its current operations in Zikreet, to open a new integrated base facility in Ras Laffan by the end of 2019, and to establish a Centre of Efficiency in the Free Zone to be used as a regional maintenance centre.

On the sidelines of the launch ceremony, Nakilat and McDermott signed an agreement to form a joint-venture company, providing offshore and onshore fabrication services in Qatar.

The new company will help increase productivity levels at Nakilat's Erhama Bin Jaber Al Jalahma Shipyard and developing local construction capabilities to meet the increasing demand for the construction of offshore and onshore structures.

The project will provide a range of new services that will support the construction, maintenance, repair and refurbishment of offshore and onshore structures, and all types of vessels.

The launch of Tawteen was part of a dedicated two-day conference and exhibition held with a large participation of official bodies and entities, energy sector companies, and a wide spectrum of service providers and supporting industries.

The activities during the event, which concludes Tuesday, are designed to present a unique opportunity for private sector companies to know more about the initiative, and about the incentives it offers to guarantee effective participation in the energy sector's supply chain and to generate high-quality job opportunities.

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## **German firms in talks with QP**

# for sourcing future LNG supply



Germany is looking to source some of its liquefied natural gas (LNG) needs from Qatar as part of the Western European country's energy supply diversification plans, German ambassador Hans-Udo Muzel said.

"Germany is also actively looking at diversifying its energy supply and considering options to set up an LNG terminal. In this context, German companies are, of course, talking to Qatar Petroleum concerning the supply of LNG to Germany in the near future," Muzel said in a statement yesterday.

Germany's plans to diversify its energy supply sources was among the major topics discussed during the sixth session of the two-day 'Qatari-German Joint Economic Commission on Trade, Economic and Technical Cooperation', which concludes in Berlin today.

Muzel said HE the Minister of Commerce and Industry Ali bin Ahmed al-Kuwari led the Qatari delegation comprising high-ranking government and business representatives. He also co-chaired the session of the commission with Thomas Bareiss, Deputy Minister at the Federal Ministry for Economic Affairs

and Energy.

Al-Kuwari also met his German counterpart, Peter Altmaier, the Minister for Economic Affairs and Energy, for a bilateral meeting and a dinner together with business representatives.

With both Qatar and Germany aspiring to further expand the strong economic ties linking the two countries, the talks focused on identifying investment opportunities and strengthening co-operation in the fields of energy and renewables, digital technologies, infrastructure, tourism, healthcare, sports and food-security, reflecting Qatari and German priority areas and fields of expertise, the statement pointed out.

The German Embassy in Qatar said the commission meeting attracted more than 120 German and Qatari companies. Also held was the second meeting of the Joint Task Force on Trade and Investment, which was established by the Qatari Businessmen Association and the Association of German Chambers for Commerce and Industry on the sidelines of the 'Qatar-Germany Business and Investment Forum' held last year in Berlin. The meeting provided strategic input for government consultations by a group of selected business representatives gathered in this format.

"Well-known German companies are involved in many strategic priority projects in Qatar like power generation and distribution, infrastructure and food security. Germany's hidden champions, usually SMEs, are also actively contributing to the implementation of Qatar's National Vision 2030 and the preparations for the FIFA World Cup hosted by Qatar in 2022.

"Qatar is also high on the agenda of German travellers: German tourism companies take visitors to Doha with their fleet of cruise ships to enjoy the unique cultural heritage of the country, MIA's outstanding art collections and the many other attractions Qatar has to offer to its visitors," Muzel stressed.

The ambassador added: "Germany is partnering with Qatar in health and research. The University of Heidelberg, for example, is a strategic partner for Hamad Medical Corporation

in cancer research and will support the establishment of a specialised clinic to provide treatment of rare diseases in Doha.”

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## **Brent may average \$50-\$70 until 2024: Bank of America Merrill Lynch**



Brent prices may average between \$50 and \$70 a barrel until 2024, Bank of America Merrill Lynch has said in a report.

“As prices become more anchored around \$60, we believe volatility implied in oil options could trend lower in the medium term. But in contrast to last year, we see growing downside risks to our price outlook on rising US shale supply

and slowing consumption growth,” Bank of America Merrill Lynch noted.

Its projections assume Opec+ is prepared to lose share in the global oil market. More broadly, it expects oil as a share of the global energy pie will drop too as the petroleum consumption mix rotates away from gasoline and ends into distillates and natural gas liquids (NGLs).

While medium-term trends pose some challenges, Bank of America Merrill Lynch still sees a balanced oil supply/ demand outlook this year. Brent should average \$70 in 2019, helped by “voluntary and involuntary declines” in Opec supply. It projects a 2.5mn bpd drop in Opec supply from fourth quarter (Q4, 2018) into Q4, 2019 and then assumes stable output for the group through 2024.

As global oil demand growth slows from 1.2mn bpd in 2019 to 600,000 bpd in 2024, Bank of America Merrill Lynch sees non-US, non-Opec contributions averaging 190,000 bpd per year.

Shale should fill the balancing gap as US producers rush to deliver the marginal barrel. Total average US crude oil and liquids supply is projected to grow from 15.5mn bpd in 2018 to 21.9mn bpd in 2024.

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## **Wall Street calls for better returns; shale gets thrifty**



Bloomberg/New York

Investors urged shale drillers to spend less and boost returns. They seem to be listening.

Producers from Anadarko Petroleum Corp to Occidental Petroleum Corp are trimming capital budgets after a slip in oil prices in the fourth quarter. Marathon Oil Corp is pledging more than \$750mn of cash flow over the next two years – even if crude stays at \$50 a barrel. And Chevron Corp is ramping up its share buyback programme to \$4bn this year.

“Every other company is now actively resisting increased spending, and actively promoting their cash return metrics,” Paul Sankey, an analyst at Mizuho Securities USA LLC, said in a note to clients on Thursday.

That effort may already be showing early signs of success. Fourth-quarter earnings from energy companies in the S&P 500 reported in the past couple of weeks have so far come in at 18% higher than analysts’ estimates on average, according to data compiled by Bloomberg. That’s more than double the average seen in any other sector.

Much of the US oil and gas sector has yet to report, but the companies that have – including Exxon Mobil Corp and Chevron – suggest an industry focused perhaps more than ever on cash

flow over production growth after several years of poor performance.

"We're seeing the early signs of capital discipline returning to the industry," Evercore ISI analyst James West said.

Despite the collapse of oil prices in the fourth quarter, Big Oil was a standout success. All five of the world's largest publicly traded oil companies beat analyst expectations, with Royal Dutch Shell Plc leading the pack with a cash flow figure triple what it was a year earlier. Though production slipped, the focus is now growing cash flow, Shell chief financial officer Jessica Uhl said.

Maybe, oil majors have the shale revolution to thank for that shift, according to Chevron chief executive officer Mike Wirth. Cheap oil from US shale basins meant producers needed to streamline – or they'd fall behind. Shale "has forced us to get smarter about how we do everything else," Wirth said in an interview.

Among the independent drillers, almost everyone is cutting projected capital spending, bowing to Wall Street pressure as companies seek to show investors they can live within their means. Fail to do so, and their stock price will feel the pain. Pioneer Natural Resources Co saw its shares dip more than 5% on concerns its spending cut wasn't big enough to guarantee it wouldn't outspend cash flow.

Still, it may take more than a handful of spending cuts to assuage years of investor frustration with the industry. The S&P 500 Energy Index is up 13% this year, less than the 20% rise in oil prices. It's doing better than the broader S&P 500, though, which is up 9.5% for the year.

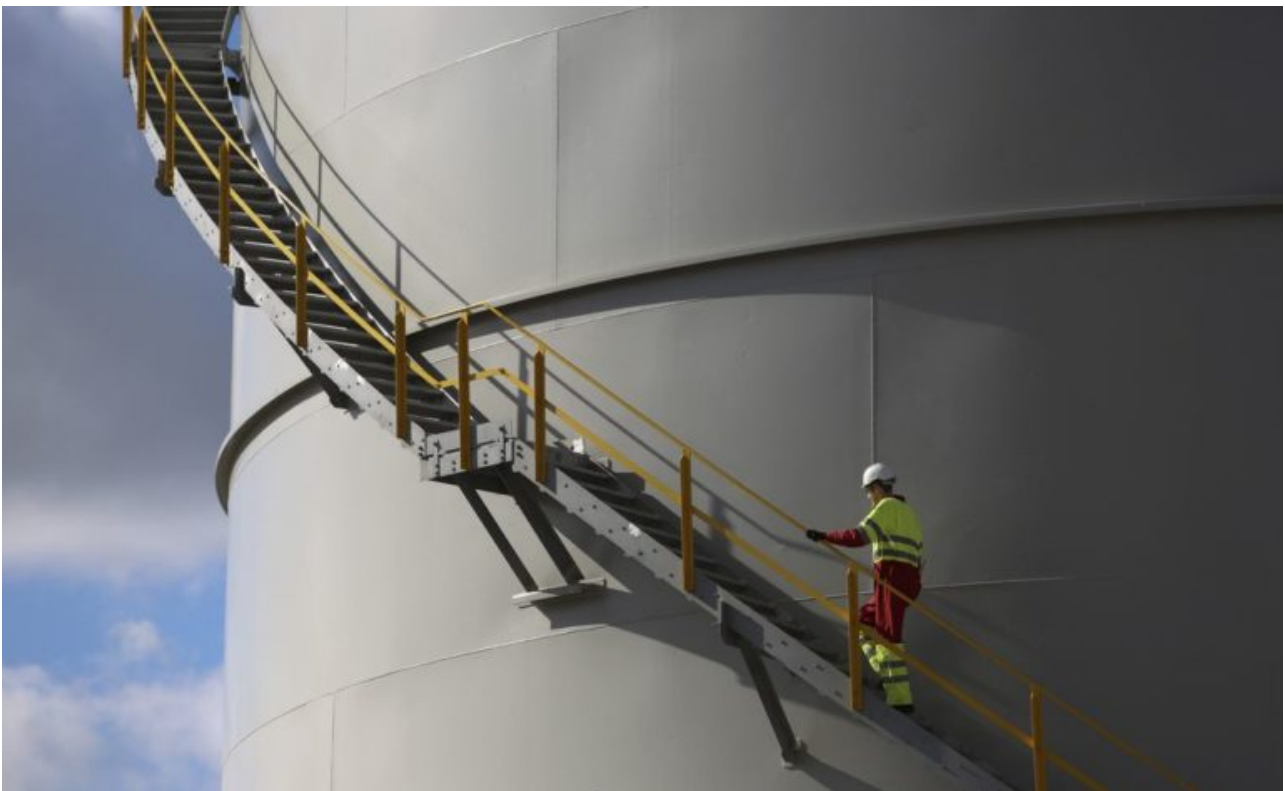
The companies that actually drill and pump for those producers haven't been left behind in the broader energy rally. Halliburton Co and Schlumberger Ltd, the world's biggest oilfield service companies, are riding strong international growth that's softening the impact of a weakening US market.

Schlumberger, which was one of the worst performing stocks in the entire S&P 500 last year, won plaudits for its capital austerity while keeping its dividend intact.

The rig count has also exceeded expectations in the first quarter so far, with overall activity looking like it's on pace to surprise on the upside in the first half, according to Wells Fargo analysts Jud Bailey and Coleman Sullivan. But with drilling budgets down in 2019, question marks remain over the second half of the year.

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## **EU Starts Natural Gas Price War Trump and Putin Will Love**



The stage has been set for a European natural gas price war that will help boost demand and enable both Russia and the U.S. to increase sales to the region.

The battle won't brutalize earnings too much because gas supply is just so profitable in Europe, where prices are more than double the prevailing level in the U.S. And those costs



probably won't drop too far because higher carbon allowances and other climate measures are finally making the fuel's traditional competitor, coal, less attractive.

After last week successfully diluting planned European Union gas-market legislation to include loopholes for a controversial pipeline from Russia, Germany this week promised to build at least two terminals that open its market to seaborne imports, including from the U.S. The direct competition between the world's biggest gas producers should help stymie prices to some extent, even as Europe needs to boost imports to meet ambitious climate goals.

"If you factor in the need for Russia to utilize the pipeline and how it will compete with U.S. LNG and other pipeline exporters such as Norway, then it could set the stage for a price war in Europe in the not-so-distant future," said Nick Campbell, a director at industry consultant Inspired Energy Plc in England.

Gas prices in Europe are still prevailing at high levels even after falling since September. The cost is usually even higher in Asia, although oversupply there has crimped the premium that region usually offers to draw in cargoes of the fuel in its liquid form.

Representatives of EU governments and the European Parliament on Tuesday approved a revision to gas-market legislation to spur competition. While it included loopholes for the Nord Stream 2 pipeline to bring the fuel directly from Russia, bypassing Ukraine's transport network, it was designed to play suppliers against each other.

The plan will "remove some of the risk" contained in prices because of the prospect of interruptions of supplies via Ukraine, with which Russia is in a territorial dispute, Campbell said.

Russia and the U.S. are vying to supply Europe with cleaner-

burning fuel as governments from Berlin to Madrid grapple with coal phaseouts. Vladimir Putin is seeking to buttress one of his nation's biggest sources of foreign cash while Donald Trump wants to win the U.S. a bigger share of a consumption boom.

Nord Stream 2, a planned 1,200-kilometer (746-mile) undersea pipeline, has sparked controversy. Eastern European countries wary of Russia gained U.S. support in opposing the project, whose chief political champion in Europe has been German Chancellor Angela Merkel. The region's biggest economy is simultaneously seeking to phase out nuclear power, leaving a further gap for gas to fill.

The critics of Nord Stream 2 also picked up backing from the European Commission, the EU's executive arm, which said the bloc needs to become less dependent on Russian gas and which proposed the revised pipeline legislation in late 2017.

## **Ending Ambiguity**

The measures are meant to end ambiguity over gas-import infrastructure by making them explicitly cover all pipelines to and from the EU. While the draft law builds on EU rules that prevent gas providers from controlling the transmission business and that require third-party access to pipelines, the French-German compromise being included in the final version of the new legislation creates loopholes for Nord Stream 2.

The French-German plan denies the regulatory authority in Denmark a decisive say over the project and puts that power primarily in the hands of German regulators, who could then seek and gain an exemption from the EU market-opening requirements as long as it didn't hurt competition or supply.

Dutch gas prices for next winter are 24 percent above forward levels of a year ago, despite losing a fifth of their value

since September on mainly benign temperatures and below-capacity demand. That suggests there's room for a further move down.

There's a glut of LNG after multibillion-dollar investments in global production and Europe has already been receiving record amounts of super-chilled fuel. That should help damp prices and make it easier for Germany and the rest of Europe to source gas to meet environmental pledges.

Still, the drop might be limited by that rally in EU carbon allowance prices, which increases demand for gas. A trade deal between China and the U.S. could further stoke interest in gas as China seeks to deal with coal pollution, Inspired's Campbell said.

## **Stiffer Competition**

"With Nord Stream 2 and two LNG import terminals, Germany can easily exit from coal and nuclear power while pleasing both Trump and Putin," said Laurent Segalen, a partner at Megawatt-X in London, who advises on financing wind and solar projects. "Putin will have to price its gas to stay competitive below U.S. LNG."

Europe's gas suppliers should brace for stiffer competition between LNG and pipeline shippers, as domestic production wanes, BP Plc said Thursday in its 2019 outlook report.

"Europe's existing infrastructure means it has the capacity to increase substantially its imports of either LNG or pipeline gas," the oil company said. A more globally integrated gas market may "ease" concerns about Russia, it said.

Indeed, any pain for Russia might be fleeting, according to analysis published Thursday by Macquarie Group Ltd. analyst David Hewitt.

The biggest supplier's market share in Europe will drop to about 30 percent this year from 33 percent in 2018. That

reflects extra LNG supplies being produced around the world, he said. But its share will rebound to 32 percent by 2021 as the LNG market tightens.

Europe will act as the global gas market's "balancing point" to some extent, Hewitt said.