interfax
Natural Gas Daily

Natural gas insight, analysis and intelligence
Volume 5 Issue 39
Thursday, 26 February 2015

Interfax Information Services Group
interfaxenergy.com

Iran unlikely to be global gas player before 2030

Iran exports gas to its neighbours, but will face challenges in moving to a global strategy. (Pars Oil & Gas)

Tom Hoskyns in London

TEHRAN and the P5+1 have just over a month left to reach an agreement on Iran's nuclear programme. But even if the parties do make a deal, a number of factors are likely to prevent the country from becoming a serious player on the global gas stage for the next 10-15 years.

Political opposition to exports is high, with domestic demand for gas triggering occasional supply cuts, while insufficiently attractive terms for IOCs remain a serious concern to those looking to invest.

Speaking as a panellist at an event hosted by King's College London's European Centre for Energy and Resource Security (EUCERS), senior Oxford academic Jonathan Stern suggested Iran was unlikely to export significant volumes beyond its immediate neighbours before 2030.

The aversion of many Iranians to gas exports is well founded, said Stern, because economic analysis suggests the largest economic returns generated by gas come not from exports, but from reinjection into oilfields and from petrochemicals.

"Only after those two have been satisfied, do you come to exports as an economically attractive source of revenue," said Stern.

Stern's gloomy near-term outlook for Iranian exports was echoed by fellow academic Frank Umbach, research director at EUCERS. However, Umbach suggested larger Iranian volumes could start to emerge from 2020 – a decade sooner than Stern forecast – but said he thought the process by which sanctions are removed would be more protracted than some have envisaged, thereby muddying the waters further.

"I think from my own perspective, originally coming from a policy field... I would suggest that even in a more optimistic scenario we should not expect all sanctions will be lifted immediately," said Umbach.

Instead, Umbach pointed to more incremental process, where Iran is rewarded each time it takes a step in the right direction.

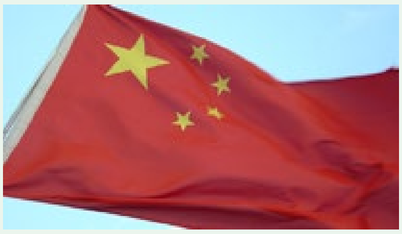
While it is impossible to know exactly how close the parties are to a deal, the panellists sensed progress was being made.

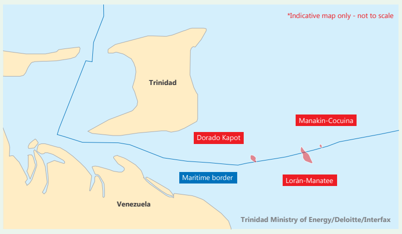
Friedbert Pflüger, director of EUCERS, who has previously spoken out in favour of Iran's return to the global stage, indicated he was hopeful a deal would be reached before the end of March.

"I think we have a great chance in the next few weeks to reach an agreement. Probably we have to do it before the American election comes around, so we have a ▶

Contents

FEATURES





NEWS

NUMBER CRUNCH

window of opportunity now," Pflüger said.

UK MP Alistair Burt, former parliamentary under-secretary of state at the Foreign and Commonwealth Office responsible for policy on the Middle East, shared Pflüger's optimism, but suggested the deal would be far from straightforward.

"My sense is that the powers are edging towards a deal... it won't be a deal at any price, but then it won't be a deal at any price for the Iranians either. But all I can sense at the moment is the atmosphere that we're moving in the right direction," he said.

Iran currently exports small volumes of pipeline gas to Turkey, and modest amounts to Armenia and Azerbaijan in a gas-power swap. The country is scheduled to begin piped exports to Iraq in May and also has plans to deliver volumes to Pakistan via a pipeline that was originally expected to be completed by the end of 2014. A pipeline to Oman is also in the works.

While local deliveries are likely to ramp up over the next decade despite the difficulties they pose, a long-term strategy for exports further afield presents more complex questions.

Should Tehran eventually decide to move forward with a global export strategy, it will have to decide whether to deliver gas by ship or pipeline.

Rapid development of the LNG market over the next decade will make the LNG shipping option more attractive to Tehran, according to Stern.

"My feeling is that by the 2030s the LNG market will be so far developed compared with what it is now that this is something that Iran will want to participate in," said Stern.

However, questions over Russia's reliability as Europe's main gas supplier have led some to suggest a pipeline to Europe could be a good option for Iran. Although with European demand levelling out it is hard to see companies rushing to invest in a very costly and complicated delivery system.

Dangling the carrot

IOCs eagerly await the unveiling of Iran's new oil and gas contract terms. Although Tehran has reportedly already circulated new draft contracts to certain companies in the hope of sanctions being lifted, the exact terms are not yet known.

Stern cautioned against over-optimism regarding the contracts, and said it was highly unlikely Tehran would ape the production-sharing model used to great success by the Qataris.

"I think we could see something more favourable, but we should not expect a traditional production-sharing agreement – I don't think the Iranians would embrace that," said Stern. ■

Contact the editor at: tom.hoskyns@interfax.co.uk

Today on interfaxenergy.com

POLICY & REGULATION

New LNG will not slow India's coal imports

India's LNG imports will not cut into the clear and steady increase in coal supplies – as long as the price is right.

WILDCAT BLOG

Is shale production a one-member club?

China, Argentina and Canada only just scrape into the exclusive club of commercial shale producers. What is holding everyone else back?

MOST READ

1. Tokyo Gas and Pertamina sign agreement
2. Indonesia needs to streamline gas policy – IEA
3. Brazil shares blame for Uruguay's LNG woes
4. Gazprom warns Naftogaz of payment deficit for gas supply
5. Supply deficit looms in Colombia

Europe

France's **GDF Suez** saw its 2014 revenue fall by 6.6% to €74.7 billion ($84.8 billion) as a result of particularly warm weather in France affecting gas sales. The recent drop in oil and gas prices will have a significant impact on GDF's EBITDA, which is expected to be around €900 million lower in 2015. Besides warmer weather in Europe, the group also saw three of its nuclear reactors in Belgium shut, cutting EBITDA for the Energy Europe business by 29.2% to €2.02 billion.

Repsol's adjusted net income rose by 27% to €1.71 billion ($1.94 billion) in 2014. Although lower oil prices reduced net profit for the year by €606 million, the company defied the price drop and production interruptions in Libya by tripling its Q4 net profit to €370 million. The Spanish giant posted a 724% increase in net income to €1.61 billion in 2014, up from €195 million in 2013. The 2014 acquisition of Talisman Energy for $8.3 billion doubled the size of Repsol's exploration and production unit. The gas and power business saw operating income rise by 44% to €269 million in 2014, as a result of greater volumes being commercialised in North America and a reduction in costs. The third phase of the Bolivian Margarita-Huacaya gas project has been launched and will increase production at the project to 18 million cubic metres per day from January 2016, the company said in its outlook.

Africa

Tanzanian state power company **Tanesco** resumed payments to Orca Exploration at the beginning of 2015, with transfers amounting to around $1.7 million, the company said in a statement on Wednesday. Tanesco owes Orca $60.3 million, of which $55.9 million is in arrears. Having instituted regular weekly payments in Q2 and Q3 2014, Tanesco made only one payment in Q4 2014, but has made five or six weekly payments this year, Orca said. Payments from Tanesco form an integral part of plans to finance the expansion of gas production at the Songo Songo field. Output there has declined to 2.58 million cubic metres per day.

Tanzanian authorities have approved **Solo Oil's** $7 million acquisition of up to a 13% stake in the Kiliwani North Development Licence from Aminex. "We are pleased that the administrative formalities continue to be progressed effectively, since the physical sale of gas from Kiliwani North into the Songo Songo plant and then into the pipeline to Dar es Salaam gets ever closer," Solo's Chairman Neil Ritson said in a statement. Solo will buy an initial 6.5% stake for $3.5 million. It has the option to buy an additional 6.5% for $3.5 million within 30 days of the signing a gas sales agreement for the licence.

China

A **Sinopec** spokesman said he was unaware of a reported potential merger between Sinopec and larger domestic peer China National Petroleum Corp. (CNPC). "We have never heard of such a matter through internal channels and would not comment on related hearsays," Lv Dapeng told the official *Xinhua* news agency on Wednesday. *The Wall Street Journal* reported on 17 February that the Chinese government was studying the possibility of combining CNPC and Sinopec to create stronger "national champions" and improve efficiency.

Taiwan's **CPC** is assessing an investment plan for a third LNG terminal and will likely open bids for project management in 2016 after the plan is finalised between June and August this year, company executive Chen Zhongyong told *Interfax*. Chen said CPC is assessing related operations and will soon send its assessment result to the Ministry of Economic Affairs for further amendments and finalisation.

Australia & Oceania

The environmental risks associated with hydraulic fracturing in Australia's Northern Territory (NT) can be effectively managed under a robust regulatory regime, an independent inquiry commissioned by the NT state government has concluded.

Americas

Moody's has downgraded Petrobras's debt to junk status because of concerns about an investigation into corruption at the Brazilian state-run company. The agency said late on Tuesday that "liquidity pressures" could result from delays in the company delivering audited financial statements. It added Petrobras would struggle to reduce its "very high debt burden" in coming years.

Interfax Europe Ltd
19-21 Great Tower Street, London EC3R 5AQ, UK
Tel +44 (0) 20 3004 6200
Email customer.service@interfax.co.uk
Web interfaxenergy.com

Editorial
Chief editor Therese Robinson
therese.robinson@interfax.co.uk

Deputy editor James Batty
james.batty@interfax.co.uk

Western Europe editor Annemarie Botzki
anne.botzki@interfax.co.uk

Africa editor Leigh Elston
leigh.elston@interfax.co.uk

Middle East editor Tom Hoskyns
tom.hoskyns@interfax.co.uk

Latin America editor Christopher Noon
chris.noon@interfax.co.uk

Central & Eastern Europe editor Joshua Posaner
josh.posaner@interfax.co.uk

China editor Colin Shek
colin.shek@interfax.cn

Asia Pacific editor Sara Stefanini
sara.stefanini@interfax.co.uk

Research analyst Andrew Walker
andrew.walker@interfax.co.uk

Policy & regulation editor Andreas Walstad
andreas.walstad@interfax.co.uk

International correspondents
Almaty Elena Preobrazhenskaya ▪ **Baku** Anar Azizov, Nigar Abbasova ▪ **Beijing** Li Xin ▪ **Cairo** Rachel Williamson ▪ **Hong Kong** Robert Sullivan ▪ **Kiev** Alexey Egorov, Roman Ivanchenko ▪ **Moscow** Andrei Biryukov, Alexey Novikov, Svetlana Savateeva, Yulia Yulina ▪ **Shanghai** Tang Tian, Zhang Yiping

Production
Chief sub-editor Rhys Timson
Sub-editors Doug Kitson, Rob Loveday
Web developer Joseph Williams

Sales
Head of sales Sergei Kozarevich
sergei.kozarevich@interfax.co.uk
+44 (0)20 3004 6207

Sales manager Matt Shelton
matt.shelton@interfax.co.uk
+44 (0)20 3004 6203

Sales manager Anderson Santos
anderson.santos@interfax.co.uk
+44 (0)20 3004 6214

Business development manager Alex Bragin
alex.bragin@interfax.co.uk
+44 (0)20 3004 6208

Business development manager Mareta Alieva
mareta.alieva@interfax.co.uk
+44 (0)20 3004 6202

Brussels stays steadfast on single purchasing

The European Commission has not given up on the idea of single gas purchasing, despite fierce opposition from stakeholders in the gas industry. EU Policy & Regulation Editor **Andreas Walstad** reports.

THE European Commission presented its long-awaited vision of an energy union on Wednesday, confirming that centralised gas purchasing between member states on a voluntary basis is still an option under consideration.

"The commission will assess options for voluntary demand aggregation mechanisms for collective purchasing of gas during a crisis and where member states are dependent on a single supplier. This would need to be fully compliant with WTO rules and EU competition rules," the energy union communication paper said.

Speaking at a press conference in Brussels on Wednesday, the EU's Vice President for Energy Union Maroš Šefcovic and Commissioner for Climate and Energy Miguel Arias Cañete stressed common purchasing had to be a "crisis-only solution", and that it had to be voluntary.

However, several stakeholders in the oil and gas industry have voiced concerns that having a single purchaser of gas – whether via pipeline or LNG – could distort market signals and reduce competition.

"In the context of security of gas supply, common gas purchasing has been described by the vice president for energy union as a potentially important mechanism for consolidating the EU's collective bargaining strength. This concept is of concern... as the proposal could prevent the functioning of the internal energy market by consolidating the dominant positions of buyers and sellers," the International Association of Oil & Gas Producers (IOGP) said in a position paper on the energy union released this week.

As an alternative to single purchasing, the IOGP suggested exploring gas release programmes, which it said had been used effectively in member states in the past to address domestic monopolies and promote gas-on-gas competition.

"We would warn against common gas purchasing mechanisms, and we encourage the EU to instead consider gas release programmes and promote price liberalisation across member countries. In other words, to opt for measures that boost competition rather than undermine it," Torello Alessandro, a Brussels-based IOGP spokesman, told *Interfax*.

Industry association Eurogas also reiterated its concerns about single purchasing on Wednesday.

"Ensuring that the approach to security of supply does not tip over into the use of instruments that counter market-based policies is a high priority," said Beate Raabe, secretary general of Eurogas, in a statement released shortly after the energy union paper was published.

The idea of establishing a single gas buyer on behalf of EU member states was first launched by Donald Tusk – the former Polish prime minister and now president of the European Council.

"Common purchasing would be interesting particularly for Eastern European member states who combined import around 40 billion cubic metres per year of gas from Russia. If firms operating in that region would collaborate by sourcing these imports through a joint agency then it could put them in a better bargaining position and secure lower prices," Arno Behrens, head of energy and a research fellow at the Centre for European Policy Studies, told *Interfax*.

"It seems doable from a legal perspective; it has worked in Japan, for instance. But it is not easy to achieve, some member states have cosy relationships with Gazprom – others do not."

Maroš Šefcovic (left) and Miguel Arias Cañete at the energy union press conference. (European Commission)

LNG strategy

Among the 15 action points presented in the energy union paper on Wednesday was a "comprehensive LNG strategy", albeit with few details so far.

"We will explore the full potential of LNG, including as a back-up in crisis situations when insufficient gas is coming into Europe through the existing pipeline system. Increases in LNG trade will help to bring world natural gas prices closer together," the document said.

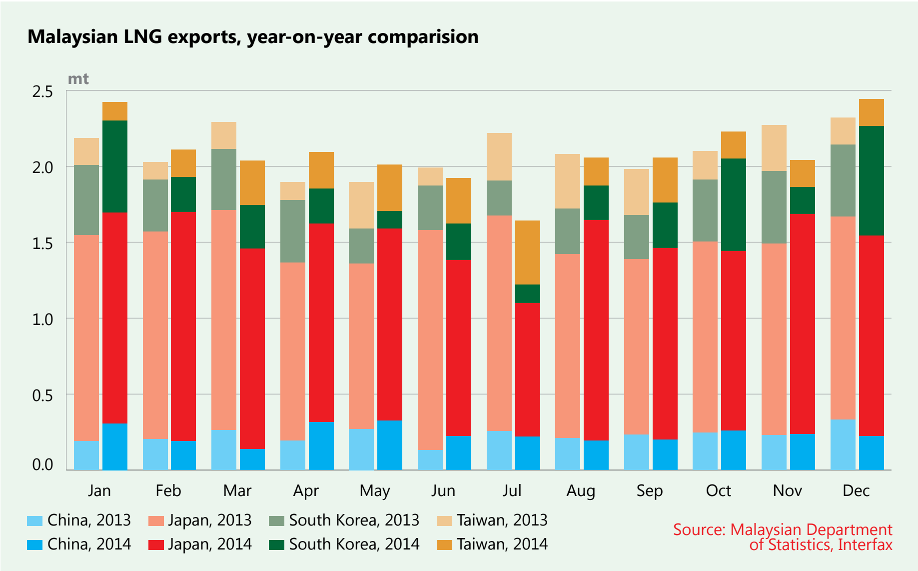
Other priorities include more transparency in intergovernmental agreements, particularly in long-term gas contracts between Russia and Eastern European member states. The paper said the commission will review the Intergovernmental Agreements Decision adopted in 2012. Currently, the commission only has the power to see supply contracts after they have been signed.

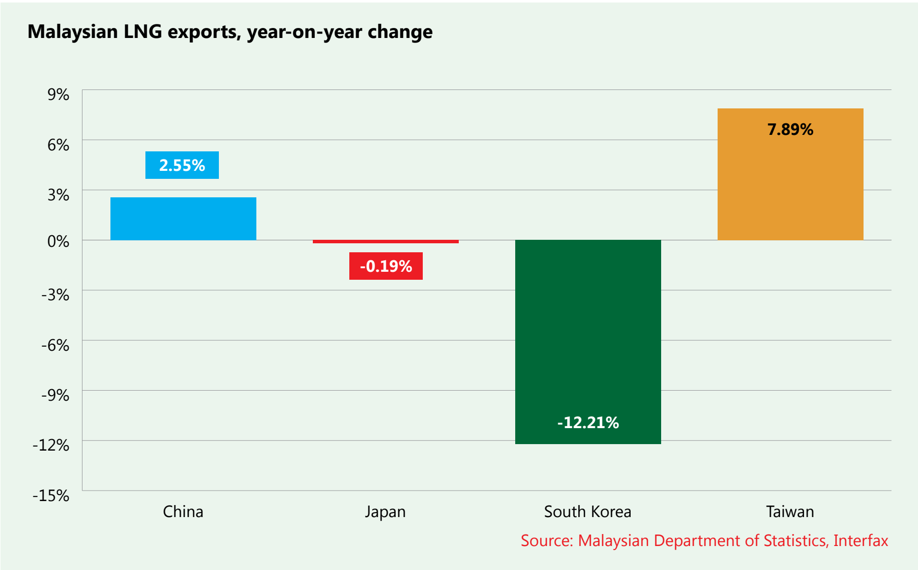
In future, Brussels wants to be informed about the negotiation of IGAs from an early stage to ensure they have standard contract clauses and respect for European competition rules. "Without transparency on the European side, it is very difficult to play the negotiating game with the dominant supplier," Šefcovic told the press conference.

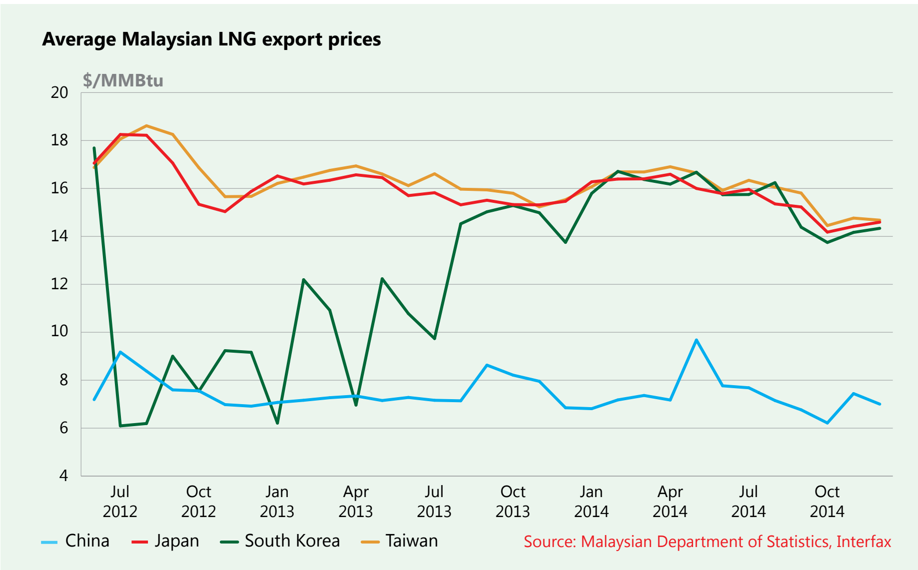
The European Commission is investigating whether Gazprom's long-term supply contracts with some EU member states are compatible with EU law. Concerns include destination clauses and unfair pricing. The commission is expected to announce further details about the case within weeks, Šefcovic said. ■

Contact the editor at: andreas.walstad@interfax.co.uk

Taiwan and spot sales boost Malaysian LNG







Malaysian LNG exports registered a marginal uptick in 2014 to 25.45 mt, with increased deliveries to Taiwan and spot market buyers offsetting a drop in exports to South Korea, according to data sent to *Interfax* by the country's Department of Statistics.

Exports to South Korea were down by 12.2% over the course of 2014 to 3.85 mt.

Despite this, South Korea took its largest volume of Malaysian LNG for 2014 in December, importing 720,000 tons during the month. The increase was largely a result of colder temperatures. Exports to South Korea amounted to 1.51 mt over the final three months of the year, an 11.9% year-on-year increase compared with the same period in 2013.

The rise in exports to South Korea during the final three months of the year meant Malaysia did not sell any spot cargoes, after shipping six between June and September.

Deliveries to Japan – Malaysia's largest customer for LNG – slipped to 1.32 mt in December, although this was effectively level with export volumes in 2013. Japan imported 88.51 mt of LNG in 2014 – a record high – with Malaysia again accounting for 15.5 mt of these deliveries.

Exports to China edged downwards to 220,000 tons in December, while exports to Taiwan were steady at 180,000 tons for the final three months of the year. The pair took 2.82 mt and 2.87 mt, respectively, over the course of 2014, with deliveries to Taiwan up by 7.9% year on year.

Average landed prices rose in Japan and South Korea during December, but fell in China and Taiwan. China paid the least for Malaysian deliveries, with imports costing $7/MMBtu, while Taiwan's imports were the most expensive at $14.67/MMBtu.

Prices for Malaysian long-term oil-indexed LNG exports typically lag oil prices by four to six months, and are expected to soon reflect the slide in crude oil benchmarks.

Robert Sullivan in Hong Kong

China to stay the course on gas price convergence

It looks increasingly likely that the Chinese government will keep its pledge to unite two gas price tiers this year – which will mean the price of all the country's gas will be oil indexed. **Li Xin** reports from Beijing.

SPECULATION is mounting that China will stick to its schedule to deregulate gas prices this year – a major step in energy price reform that Beijing could use as proof of its pledge to let the market play a more decisive role in allocating resources.

Most of China's gas supply is still subject to regulated prices, but a growing share is determined by an oil-indexed formula. The National Development and Reform Commission (NDRC) had planned to align the two prices by this year, so the cost of all gas supply would be linked to oil.

Most observers had expected regulated prices to be increased until they reached parity with the higher oil-linked price. But there were concerns the NDRC was dithering over its next move after gas demand growth slowed sharply in 2014 while the global slump in crude oil prices rocked the energy industry.

Those concerns appear to be easing. Converging the two prices still appears to be on the agenda because in December the NDRC sought opinions about the move from companies along the gas value chain, Hu Weiping, former deputy director general of the National Energy Administration, told *Interfax*.

Huang Wei, an expert on distributed generation with the China Gas Association, said the speculation is that a decision has been made to merge the prices. "The pricing system will quickly turn market-based after the merger," Huang said.

There is also growing confidence that gas prices will decline after they have been converged, reflecting the fall in oil prices and reversing previous expectations of a tariff hike.

The NDRC is expected to announce a 15% decrease in gas prices when it unveils the next stage of price reforms for the fuel during the first half of this year, Guo Jiaofeng, deputy director of the Research Institute of Resources and Environment Policies at the Development Research Centre of the State Council, told *Interfax*.

Change inevitable

Facts Global Energy Chairman Fereidun Fesharaki wrote in a briefing last month that "our view is that lowering the overall gas prices in China is inevitable". He added that China should take advantage of low oil prices to completely liberalise gas pricing.

"In our view a cut in gas prices of at least 10% is justified based on current oil prices with a 20% cut more desirable. Failure to do so will slow gas growth and result in misallocation of capital," Bernstein Research analysts led by Neil Beveridge wrote in a report on 6 February.

The plunge in the price of crude oil has now buried any expectations of a price increase. Most parties would not welcome a hike – particularly city-gas distributors, as they feel it would be too soon after September's increase, according to Hu. Some distributors encountered difficulties in gas sales last year and believe the market cannot absorb more increases.

There is still scope for an increase as gas prices are RMB 1-1.5 ($0.16-0.24) per cubic metre below their optimum level, Hu said. High gas prices may create a supply surplus, but it would only be temporary as China lifts gas consumption as part of a turn towards greener fuels. Low gas prices might boost demand but would also deter investment in new production.

A tariff increase would be better left until next year as more time is needed for the gas market to accommodate the new prices, said Hu.

In light of the turbulence in crude prices, for the first time some experts have started to question the wisdom of indexing gas prices to oil. The current netback pricing has shortcomings and should be revised, said Guo.

Gas is arguably competing against coal in China, so it makes little sense to benchmark gas prices to LPG and fuel oil, said Guo. The idea of linking gas prices to coal was discussed before the NDRC reformed gas prices in July 2013.

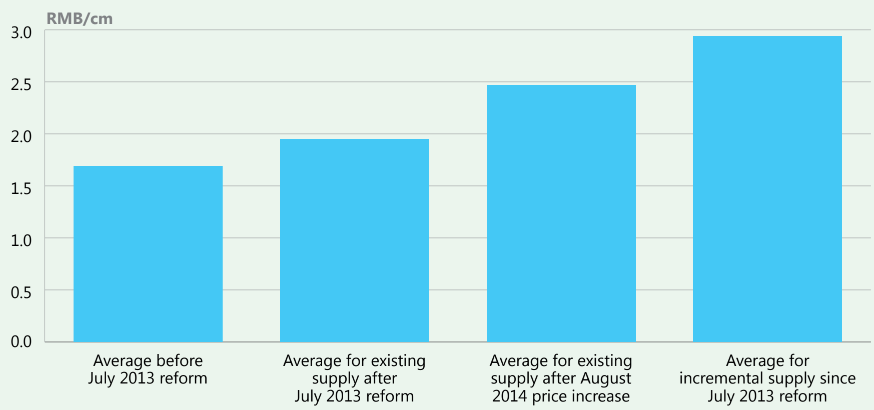
But changing the indexation element to coal from oil products would not be ideal because domestic coal prices are not completely market-based either, said Guo, adding that it would be better to base tariffs on a combination of domestic production costs and global gas prices.

Guo, who is researching future gas pricing reform, said the current 85% linkage between the prices for gas and the prices for a basket of LPG and fuel oil products should be lowered to 70% for the next three years.

From 2018 to 2020, gas prices should be gradually reformed until they are completely market-based and set by supply and demand, Guo added. ■

Contact the author at: juliet.lee@interfax.cn

China's city-gate prices



Source: National Development and Reform Commission

Further reading

- China should not write off more LNG supply deals – FGE
- China mulls fragmented gas pricing system
- China gas price cuts loom amid ongoing reforms

Cross-border Caribbean giants may go untapped

It would take a decade for Venezuela to build the infrastructure required to exploit its share of the giant Lorán-Manatee field, one of the Caribbean's best gas prospects, sources tell *Interfax*. Latin America Editor **Chris Noon** reports.

VENEZUELA'S desperate economic situation will delay the exploitation of three giant offshore gas fields it shares with Trinidad and Tobago, Port of Spain-based sources told *Interfax* on Tuesday. This includes the Lorán-Manatee field, which holds 10.25 trillion cubic feet (290 billion cubic metres) of resources and straddles the maritime border between the two countries in the Caribbean Sea.

"Trinidad is keen to get Lorán-Manatee up and running," said a source close to Trinidad's Energy Ministry, who wanted to remain anonymous because of political sensitivities. "But Venezuela's economic situation is dire, and it doesn't have the cash for offshore exploration. It would also take 7-10 years for Caracas to build the pipelines and required infrastructure to monetise their share of the gas," the source added.

Trinidad has a 26.94% share in Lorán-Manatee, while Venezuela owns the rest. "The Trinidadians could drill wells and produce their portion of Lorán-Manatee gas within a year. Both the infrastructure and political will is there," the source said.

Lorán-Manatee was not on the agenda during bilateral talks between Venezuela and Trinidad in Port of Spain on Tuesday. Venezuelan President Nicolas Maduro signed a unitisation agreement for the smaller Manakin-Cocuina field with his counterpart Kamla Persad-Bissessar.

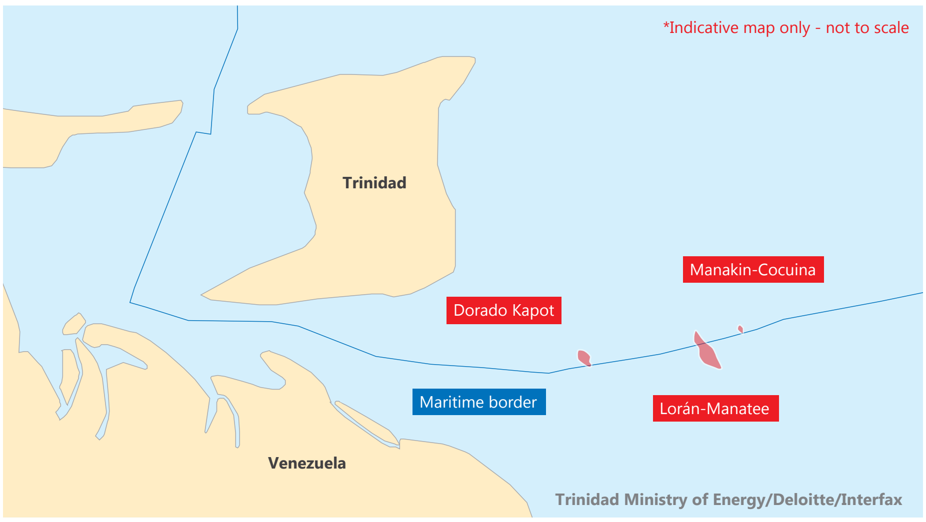
Trinidad owns 66% of Manakin-Cocuina, which holds an estimated 21 bcm of reserves, and Venezuela owns the remaining 34%. Port of Spain sources told *Interfax* there were around 100 officials and seven ministers in the Venezuelan delegation to Trinidad, including Energy Minister Asdrúbal Chávez, a cousin of late Venezuelan President Hugo Chávez, who was appointed in September 2014.

Political push

Production from the fields would be politically, as well as economically, useful for the Trinidadian government. Energy has become a key battleground on the campaign trail for Trinidad's general election, which will be called before mid-September. "There are ongoing gas shortages of up to 20% per day in Trinidad, which has hit production of ammonia and urea, so plants are operating at a yield revenue loss," said the source.

"Gas from Lorán-Manatee could get those plants up and running within the year, which would be a massive boost for these companies, and boost government revenues by a couple of billion dollars at a critical time."

The issue of falling oil prices has also caused consternation in Trinidad, where the petroleum industry is forecast to account for 35.2% of the country's revenue in 2015, according to the Finance Ministry.



Venezuela and Trinidad have signed a unitisation agreement for Manakin-Cocuina.

Trinidadian politicians clashed over the Lorán-Manatee prospect in September 2013. Energy Minister Kevin Ramnarine denied the agreement was made to Venezuela's benefit, as was argued by opposition politicians including members of the People's National Movement (PNM), Trinidad's main opposition party.

The PNM won an outright majority in the 2002 and 2007 elections, before losing power in 2010. Ramnarine is a member of the United Congress Party, the majority party in the People's Partnership – the country's ruling coalition.

At the time of publication, Trinidad's Energy Ministry had not returned calls seeking comment. It said in late 2013 that no decision had been made over the monetisation of Lorán-Manatee gas.

Bureaucracy is another sticking point for Lorán-Manatee, most notably the byzantine structure of the field's unit operator. Trinidad's Energy Ministry said on 18 September 2013 that the unit operator would consist of three parts: a directing committee made up of Trinidadian and Venezuelan government officials and the four companies with a stake in the field (BG Group, Chevron, Venezuelan state-run PDVSA and Trinidad's National Gas Co.); an investment committee consisting of only the four companies; and a body of 'executing' officials, to be chosen from the companies.

Trinidad has decided how its 26.94% cut of production will be split on its side, with the government taking 16.97%, and BG and Chevron receiving 4.98% each. However, the source said there was "no resolution" over the structure of the unit operator.

Caracas has said it will seek to connect new supply from Lorán-Manatee to another flagship project in the country, raising the prospect of future piped and LNG exports. However, the country, which relies on crude exports to bolster its foreign currency reserves, is struggling to mitigate the effects of tumbling oil prices. Caracas needs an oil price of $117.5 per barrel to balance the budget, and crude has traded at $50-75/bbl over the past three months.

"The bottom line is that Trinidad could feasibly monetise their share of gas. Venezuela may claim that it will do the same for patriotic reasons, but it may not happen in reality," the source said. ■

Contact the editor at: chris.noon@interfax.co.uk