ENERPO NEWSLETTER

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18th March 2016

Week in Review

- Michael Roh, Henrik Vorloeper

Energy News Blog

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The Acceleration of American Energy Exports: Implications for Russia

– Irina Mironova, Michael Roh

(This article was originally written for Russia Direct)

As the U.S. started exporting oil and gas to Europe in late February, 40 years after the oil embargo imposed by the Congress, American oil and gas on the European market may have grave implications for Russia.

IIn late February, the U.S. started exporting oil and gas to Europe, 40 years after the oil embargo imposed by Congress. In this period of cheap oil and high unpredictability on the energy market, renewed oil and gas exports from the U.S. may have serious consequences on the European energy market and could be an additional burden for Russia.

In December 2015, the U.S. Congress ruled to allow exports of oil and natural gas. It was a 65-33 vote in the Senate and a 316-113 vote in the House of Representatives. Republicans and Democrats have actually passed a bipartisan deal, with the export ban lifted, while also providing tax incentives for wind and solar power (it includes a five-year extension on tax breaks to encourage renewable energy development).

This will certainly alter the balance between fossil and non-fossil sources in the U.S. economy, but that's another story. What is more relevant are the changes that led to lifting the crude oil export ban: Whether this would mean actual increase of the U.S. fossil fuel exports (including further developments in exports of natural gas) and what will be the implications of this move on international oil and gas markets.

Background: History of the bans on exports of natural gas and oil

The key documents on the U.S. export limits include the Mineral Leasing Act of 1920, the Natural Gas Act of 1938, the Energy Policy and Conservation Act of 1975 and Export Administration Act of 1979.

The Mineral Leasing Act of 1920 changed the approach to the use of lands and subsoil resources in the U.S. from 'open-access' to the system of leasing with permission of the government. It is an important background document, although its provisions were not actually touched, but they provide a framework for upstream activities in the U.S. in both oil and natural gas.

Meanwhile, the Natural Gas Act of 1938 rules that "No person shall export any natural gas from the United States to aforeign country or import any natural gas from a foreign country without first having secured an order of the Commission authorizing it to do so."

"The Commission shall have the exclusive authority to approve or deny an application for the siting, construction, expansion, or operation of an LNG terminal," the document reads. The ultimate rationale for this document was to prevent monopolistic behavior in the U.S. natural gas industry, as most of its provisions still control company behavior today. Some of the provisions have been amended by later legislation (e.g. overall deregulation of prices inside the U.S.), but the export provision remained in place.

The oil export ban has its roots in the oil shocks of the 1970s. After the U.S. supported Israel during the 1973 Arab-Israeli War, the Arab members of the Organization of the Petroleum Exporting Countries (OPEC) imposed an oil embargo against the U.S., which revealed the vulnerability of the American economy. This vulnerability increased dependence on oil imports from the Middle East, especially obvious in the times of instability in the region and when the region expressed a certain level of hostility toward the U.S.

What followed was an attempt by the U.S. to develop new partnerships with different Middle Eastern suppliers to address the problem by diversifying oil imports, improving energy efficiency and decreasing the dependence on oil. That's why the U.S. was interested in increasing interest toward domestic oil production, paying more attention to creating strategic reserves or inventories and imposing a ban on exports.

This led to the adoption of the Energy Policy and Conservation Act of 1975, which regulated domestic energy supplies in cases of severe interruptions. The act proposed creating "the storage of substantial quantities of petroleum products," which were expected "to diminish the vulnerability of the United States to the effects of a severe energy supply interruption, and provide limited protection from the short-term, consequences of interruptions in supplies of petroleum products."

The need to limit exports was a result of the growth of oil prices, which skyrocketed throughout the 1970s. Firstly, the oil embargo of 1973 and later the Iranian revolution caused the oil price to increase. What did this mean for U.S. oil producers? It was, in fact, profitable for them to supply the international markets, using supplies from fields in the U.S. Such a tactic could lead to the shortage of resources. So in an effort to avoid this situation, Washington introduced the export ban.

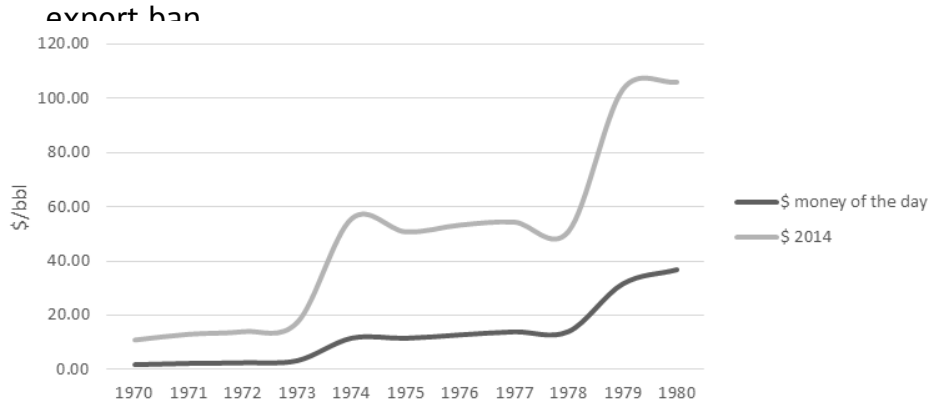


Figure 1. Oil prices in 1970-1980 (Arabian Light posted at Ras Tanura)
Source: BP

The Export Administration Act of 1979 was relevant in this regard. It introduced licenses for export activities.

"Excessive dependence of the United States, it allies, or countries sharing common strategic objectives with the United States, on energy and other critical resources from potential adversaries can be harmful to the mutual and individual security of all those countries," the documents reads.

It also points out that the U.S. can impose oil export controls in cases when the restriction of the export of goods is necessary "to protect the domestic economy from the excessive drain of scarce materials and to reduce the serious inflationary impact of foreign demand."

This brief analysis demonstrates that exports ban from the US is product of time and should be understood in the context relevant to the time.

How does the situation differ today?

The first and the most important change is the increase in production of both oil and natural gas by the U.S. over the past seven-eight years.

According to data form BP, the U.S. remains the word's third largest oil producer since 1985, but today it has been catching up with the leaders – Saudi Arabia and Russia – very quickly. However, there is no growing potential of exports in the U.S. due to high consumption levels. The U.S. is still a net-importer of oil.

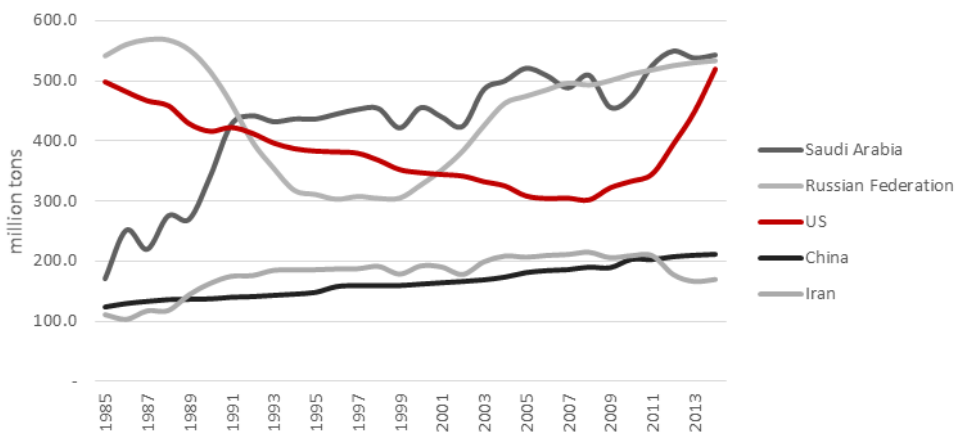


Figure 2. Top-5 world's oil producers
Source: BP

As for natural gas production, the U.S. surpassed Russia in 2009. Other large producers, such as Iran, China, Saudi Arabia, were far behind the U.S. and Russia as of 2014. The consumption level is still bigger, but the gap between production and consumption of natural gas is less than in the case of oil.

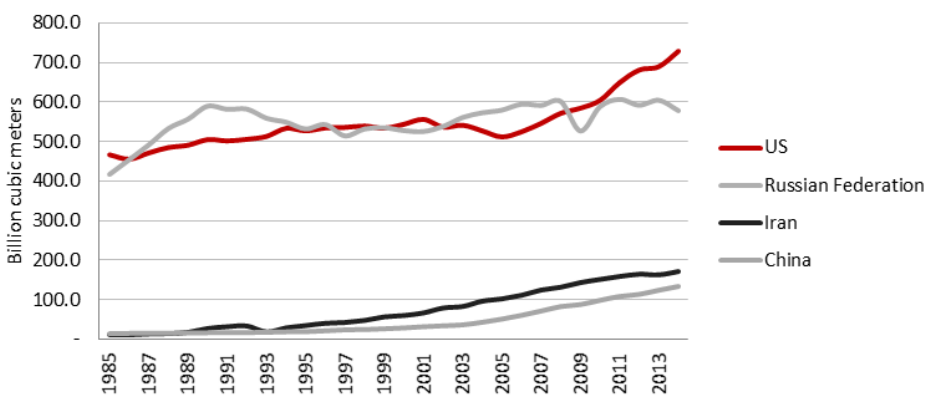


Figure 4. Some of the key world's gas producers
Source: BP

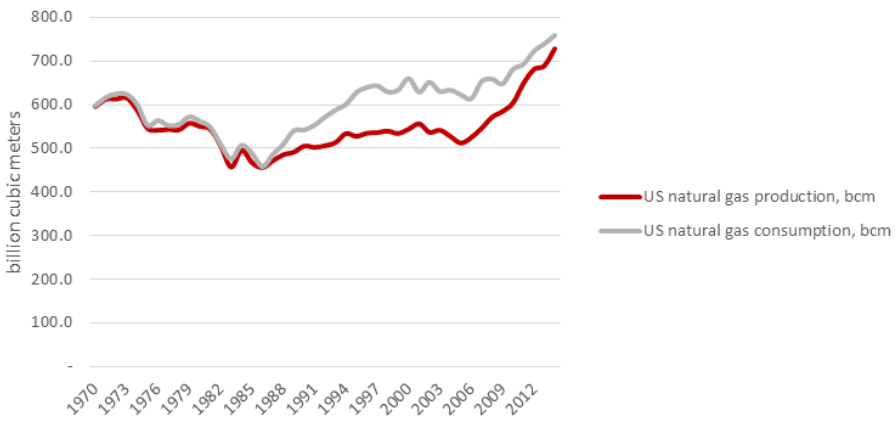


Figure 5. Production and consumption of natural gas in the US
Source: BP

Lifting the ban: Benefits to the U.S.

Removing the barriers for exports could translate to more efficiency for the U.S. oil economy: A large amount of U.S. light crude oil is unfit for U.S. refiners, and the transportation is expensive. The U.S. does not have sufficient domestic buyers, so the producers end up leaving the oil in the ground, or pumping it at low prices. Crude oil exports have rapidly gained steam from nearly nothing in 2007 to 100,000 barrels per day in March 2013 (to Canada).

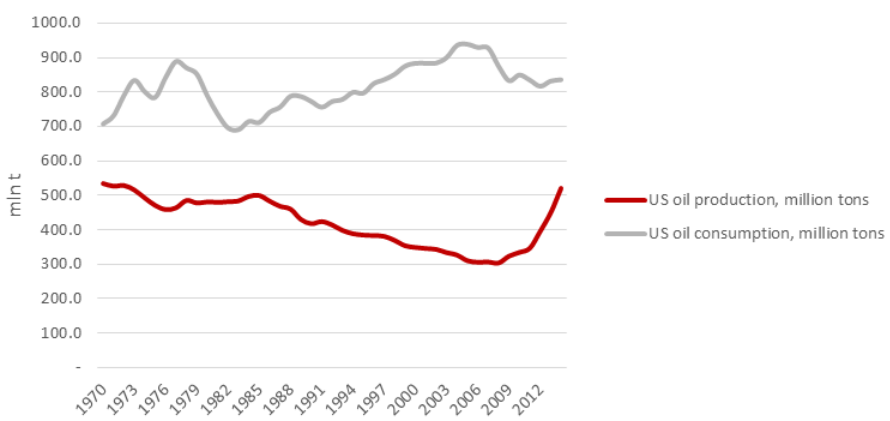


Figure 3. Production and consumption of oil in the US
Source: BP

Although U.S. crude from Texas is similar to oil produced in Norway or Nigeria, those countries are closer to the European and Asian markets, so buyers will likely choose European or Asian crude when considering transportation costs. However, the Panama Canal will be expanded in the next few years, allowing larger ships to pass, and thus, crude from Texas can travel to Asian refiners. Ken Medlock, senior director at Rice University's Center for Energy Studies, says that this will be very attractive if crude bounces back to $40 or 50 per barrel.

Skip York, vice president of integrated energy at Wood Mackenzie, says that U.S. refiners are equipped to handle heavy crude, and that the light, sweet crude is better for other refiners in the world.

"U.S. crude oil producers earn higher realizations selling to US refineries rather than paying to ship that same crude oil to an international market," he argues in Forbes.

Some refiners in the U.S. will likely shut down, as they have enjoyed an advantageous position through the former laws restricting crude exports. But transporting oil from other parts of the country to the Gulf, to then export is not economically sound yet. Therefore, exports will not immediately take off.

Overall, experts believe that lifting the ban is highly beneficial to the U.S. economy, allowing the market to run freely. And free and fair trade is a principle the U.S. should promote.

Though the attention has been focused on crude oil, natural gas was not directly mentioned in the December 2015 document. The bill itself only mentions natural gas once, referring to the Alaska Natural Gas Transportation Act being amended. However, in the summary, it states, "[The] American Crude Oil Export Equality Act amends the Energy Policy and Conservation Act to repeal the authority of the President to restrict exports of: coal, petroleum products, natural gas, or petrochemical feedstocks; and materials or equipment which he determines necessary for either exploration, production, refining, or transportation of energy supplies, or for construction or maintenance of energy facilities within the United States."

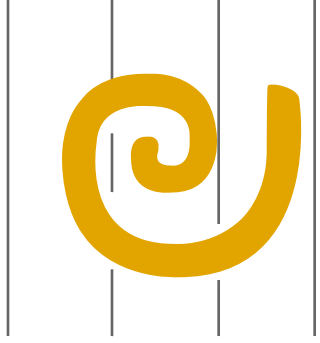
New Europe says, "Defying a White House veto threat, the Republican-controlled House on Thursday approved a sweeping bill to boost U.S. energy production, lift a four-decade ban on crude oil exports and modernize the aging electric grid. The first major energy legislation in nearly a decade, the bill would also speed natural gas exports and hasten approval of natural gas pipelines across public lands."

Geopolitical implications

Overall, easier conditions for oil and gas exports means that the U.S. has an opportunity to strengthen its position worldwide, including in Latin America, Asia and Europe. The United States has already been exporting 500,000 barrels a day since October.

When it comes to oil, the U.S. exports will likely take a few years to start impacting the market. Until then, shipments to Europe and elsewhere will be more like "test shipments."

However, when the exports do take off, they will have major implications for Russia.



Russia is a major player in both the oil and gas markets, both of which have experienced a range of difficulties in the past couple of years. These challenges include a stagnant economy, the introduction of the sanctions regime, as well as falling profits resulting from low energy prices.

The exports of oil and oil products from the U.S. will increase competition in global markets. In Europe, the U.S. has the potential to push out Russia and Saudi Arabia, players who are already competing. Russian and Saudi competition in markets for refined products is not only happening in Europe, but in the Asian market as well.

In natural gas markets, besides increased competition exacerbating the effects of oversupply, there could be serious implications for the organization of trade, particularly in the Asia Pacific. The majority of natural gas in the Asia Pacific region is sold under long-term contracts. Indexation to oil price and regulated pricing are the main price setting mechanisms used in the Asia Pacific gas market.

With the start of LNG exports from North America, it becomes possible to use hub-based pricing in the Asia Pacific. The parties investing in liquefaction terminals want to sign long-term contracts for using liquefaction capacity, the so-called tolling agreements. In this case, gas is purchased in the wholesale market (and not at the wellhead). There are also no limits in relation to the end point of LNG sales: buyers can route tankers according to their priorities in relation to the region and the final sales price. Therefore, the price at the largest American Henry Hub can be translated to the Asia Pacific region by adding liquefaction, transportation and regasification costs.

The main motivation for Asian importers to sign contracts in the North American market is the hope of reducing the end prices, since the given formula provides a price level lower than average gas prices in the Asia Pacific region in 2011-2014; or the possibility of arbitrage profits from the supplies to the premium Asia Pacific market.

There is no guarantee that the price generated in this way will be lower than the price linked to the price of oil. Consequently, in the long term such agreements may not lead to lower LNG import prices or to high earnings hoped for by the Asian parties signing these contracts.

One major consequence for Russia is that realizing its 'pivot to the East', it has to take into consideration alternative supplies as well as possibly much lower price levels than those expected during a period of high oil prices.

Finally, with exports of crude oil and natural gas, we could possibly witness more trading formats (i.e. exchange-based trade, when oil and natural gas are seen as traded commodities). Whilst this is the case in international oil markets, natural gas is still far from becoming a traded commodity. Russia might find itself in a position when redirecting from the European market, where it underwent a long process of dealing with the introduction of hub-based natural gas trade compelling Russia to adjust the conditions of its long-term contracts to the new reality. In the Asia Pacific, it may have to follow the same course.

Sergei Komlev Visit to EUSP

–Henrik Vorloeper

On 2nd March 2016 ENERPO students of the European University at Saint Petersburg listened carefully, when Sergei Komlev, Head of Contract Structuring and Price Formation Directorate, Gazprom Export explained Gazprom's problem in finding the right price for its gas on the markets, especially in Europe. These are the four key-takeaways:

1. Long-term gas contracts with oil-indexation are still dominant in Europe.

Gas markets are unique - how gas prices come into existence is complicated and difficult to compare with any other commodity market. Natural gas as an energy source has long been conceived as a substitute for other hydrocarbons, such as oil or coal, but as gas is not solid or a liquid, the commodity is not easy to trade so that a real global market with global price has not yet emerged. The main way to bring gas to the consumer is via pipeline, but LNG shipping has made trade increasingly flexible. However, both still lack sufficient infrastructure. Pipelines and LNG terminals require vast amounts of investment to be constructed and a hub-price based market does not provide the security of return for the supplier, which he needs for funding. The long-term contract (LTC) pricing system, in which gas prices are linked to oil price developments, remains the dominant pricing structure, as only LTCs guarantee demand and therefore a lower investment risks.

2. Oil-indexation is outdated but there are no better alternatives.

Oil-indexation is essentially an outdated model. It is according to Komlev a comparison between apples with pears, but there are no better alternatives. For example, the next closer commodity to gas is coal, as both commodities are consumed for power generation. However, the demise of coal in the EU policy of climate protection is obviously not supportive to any future gas-to-coal indexation. The use of coal and gas as competing substitutes is diminished, while coal becomes increasingly irrelevant, gas will be increasingly used to support intermittent renewable energy sources.

3. The maturing European market causes implications for the hybrid-system for gas pricing.

The so-called hybrid-pricing system for natural gas describes the two dominant models for gas price mechanisms, which is gas-to-substitute competition (e.g. gas prices indexed to oil prices) and gas-to-gas substitution (e.g. gas hub prices). Oil indexation, remains the dominant pricing mechanism globally and in specific on the Northern Asian market, where the vast majority of LNG supply contracts are oil-indexed. Hub pricing is increasingly becoming relevant in other regional markets, but a fully established model can only be found in the United States. The European market applies the hybrid-system, which is a combination of both oil indexation and hub prices, but they are interconnected from each other and do not exist parallel and independent from each other. In this model, there are two opportunities to purchase gas in Europe, one is via oil indexed LTCs and the other is buying gas on the hub. The hub price however, comes in addition to LTC gas supply. In other words, the hub price appears to be a derivate of contracted prices. The implication for the supplier, which is in specific and issue for Gazprom, is the idea of European consumers to replace the existing hybrid-system gradually and in an "evolutionary way" to a market based on hub-prices, which means that LTCs remain in place, but consumers insist on more flexibility of LTCs. In this situation the supplier becomes the sole player to bear the risks and costs involved in softened contract conditions, which harm investment security. In the view of Gazprom, increasing the share of hub pricing in the European model would require just the opposite, the reduction of LTC flexibility.

4. The European gas market is currently over-contracted and oversupplied.

The problem that Gazprom experiences at the moment is the fact that more flexible LTCs have already been implied in the European market, which is unfavourable for Gazprom for several reasons. First, the Take-or-Pay (ToP) obligations have been softened unilaterally, which means that the consumer has achieved the right to take less gas than contracted if demand is low and hence the consumer only pays the for what he consumes. With this, the guaranteed sales made by the supplier are consequently lower and thus the ability to fund investment becomes harder. Second, if demand is higher, the consumer is likely buy gas at the hub first, before they make use of contracted gas supplies. With this, there is no guaranteed income for the supplier even if demand increases. Third, non-EU suppliers have only restricted access to European hub markets, as the capacity to deliver gas via pipeline remains restricted. Fourth, the European market appears to be oversupplied with gas which drives prices down. This is on the one side related to the fact that the contracted volumes already exceed the total demand ("over-contracted market"), on the other hand, this allows an emerging group of market participants to offer gas on the European hub market without obligation and the responsibility to deliver and thus creates a market advantage over suppliers with contract obligation. Both of these circumstances have the effect to reduce gas prices in Europe, in which hub-prices continue to remain below contracted prices and as a result, creates a loop of gas price erosion.

In conclusion, the softening of the hybrid-system in Europe, with the means of more flexibility in LTCs will inevitably lead to the abolition of the hybrid-system itself. The emergence of a fully fledged hub market like the United States is not a recommended option as the market is still import dependent on only a few suppliers.

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ENERPO Workshop Series: Maxim Titov on Russia's Position at COP21

–Michael Roh

ENERPO welcomed back Maxim Titov, of the Energy Efficiency Finance Program of the International Finance Corporation of the World Bank Group, for a three-day workshop on Russia's position in COP21, or the 21st yearly session of the Conference of the Parties to the 1992 United Nations Framework Convention on Climate Change (UNFCCC), to negotiate the Paris Agreement, a global agreement to set goals of limiting global warming.

Day 1 addressed the key developments and players at COP21, Russia's position and Putin's speech at COP21, and who is driving climate policy in Russia. Day 2 was a presentation on business in Russia and how the Paris Agreement will shape the Russian economy, including energy efficiency efforts. Day 3 rounded out the discussion with an analysis of the media and NGO's, and Western interpretations of Russia's stated efforts and goals.

COP21, which led to the Paris Agreement, agreeing to a goal of "below 2 degrees Celsius," a sustainable development mechanism to finance green projects, and an update on commitments to nationally determined contributions, was largely celebrated as a success for coordinating developing and developed countries to come to an agreement. Unsurprisingly, some countries like Saudi Arabia expressed opposition to binding emissions reductions. A strong speech from Vladimir Putin however, surprised many in the international community.

Russia is currently the world's fifth largest greenhouse gas emitter, after China, the United States, the European Union and India. In fact, fossil fuels account for 70% of Russia's total export revenues. This is why Putin surprised many, when he expressed that climate change is a serious global threat, and that the devastating effects of climate change will increase government costs, which is why Russia will commit to reducing emissions. Putin insisted the need for a carbon tax, binding emissions targets for all parties, and a strong focus on the ability of forests to act as "carbon sinks." He further boasted Russia's success during the 2000's in limiting emissions while still doubling its GDP, arguing that economic development and mitigating climate change are not mutually exclusive.

Perhaps it was an attempt to re-engage with the West, and it could be argued that Russia's achievements are unsubstantial given that the base year to which emissions standards are applied is irrelevant since Russia adopted the Soviet Union's energy intensive infrastructure. Nevertheless, Putin, for once, is in agreement with Western leaders.

Who were the players leading the Russia's climate agenda? Aside from Putin, several domestic actors are involved in shaping this agenda, including the Ministry of Energy, Ministry of Economic Development, Ministry of Environment and Natural Resources, the Federal Forestry Agency, and the Federal Meteorological Agency.

There is a realization within Russia that huge savings could be achieved through greater energy efficiency. Russia's current energy inefficiency is equal to the annual primary energy consumption of France. Achieving full energy efficiency potential would cost roughly US$ 320 billion, but result in annual savings of roughly $80 billion, to pay back the investment in four years. Accessing the financial investment to achieve these efforts, however, is complicated by the sanctions regime.

What's next for Russia? There is no clear, strategic plan, and the sanctions regime is hindering efforts to become energy efficient. There is at least optimism from Putin about new technologies to reduce emissions and for global cooperation, but still, many see Putin's behavior as an attempt to restore relations with the West through a common environmental agenda. Furthermore, Russia's transition from a country receiving aid to a donor country could be an element to Russia's newfound environmental position.

View of Hall exterior at COP21 Negotiations By Surfnico - Own work, CC BY-SA 4.0,

Mozambique: The New African Player in International Gas Market

– Pierre Jouvellier

The changing structure of national energy mixes in several countries is currently giving new opportunities for natural gas exporters. For instance, with the declining oil price and the rise of environmental concerns, governments and nations are more attracted by natural gas instead of coal for power generation. Although coal and petroleum coke remain the less expensive commodities available on the energy market regarding electricity generation, natural gas is considerably more environmentally friendly with less CO2 and sulphur emissions generated in the atmosphere.

South Africa's energy mix in 2013 was quite the same as China's. With 72% of coal, 22% of oil and only 3% of natural gas for the moment, considering that the remaining percentages are for nuclear power and renewables, the country is unsurprisingly still highly dependent on coal. Indeed, South Africa owns more than 3.4% of the global coal reserves with more than 30billion tons, which makes the country the 7th coal global producer and the most important of Africa with 147.7 million tons of coal produced in 2014.

However, even if South Africa generates a large amount of electricity thanks to coal-fired plants, more than 8 out 54 million people are currently living without any access to electricity. In 2012, electricity demand was 212TWh and is expected to reach 248TWh in 2020 and up to 364TWh in 2040. Therefore, South Africa will need to add new commodities in its energy mix in order to fill the gap between demand and supply, natural gas seems to be the most serious alternative in terms of environmental issues and proximity with Mozambique.

Destroyed by more than 15 years of civil war between 1976 and 1992 which killed nearly 1 million people, Mozambique is also one of the poorest countries in the world. The recent discovery in 2010 of giant gas fields off the coast has given more perspective regarding Mozambique's future. Mozambique's proved natural gas reserves are estimated to 100 trillion cubic feet (Tcf), equivalent to 2,831,684,659,200 cm placing the country as the third-largest proved natural gas reserve of Africa, just after Algeria and Nigeria.

In 2012 Mozambique produced nearly 154 billion cubic feet of natural gas from the two onshore gas fields, Pande and Temane. About 82% of this natural gas (127 Bcf) was exported to South Africa via the 865km Sasol Petroleum International Gas Pipeline while the remaining 27 Bcf were domestically consumed. More recently, the Mozambican state owned company ENH signed a cooperation agreement with the giant South African SacOil and the China Petroleum Pipeline Bureau for the construction of a new 2,600 kilometers large diameter gas pipeline. Other African companies are also involved in this project, such as Profin Consulting, The Public Investment Corporation (PIC) and the agency of the Government of Mozambique (IGEPE).

This 6 billion dollar project also called "the African renaissance gas pipeline" will allow Mozambique to provide South Africa with natural gas produced in the prolific Rovuma basin of Southern Tanzania and Northern Mozambique (Offshore). Besides, other countries of the Southern African Development Community (SADC) that would benefit from such project include Malawi, Zambia, Zimbabwe, Botswana, Lesotho and Swaziland. Mozambique could therefore dynamise the South East African economies by providing jobs and increasing access to electricity promoting cleaner energy.

Moreover, Mozambique is also preparing the next step of internationalization for its natural gasexports. By choosing to transport methane by sea under liquefied form LNG, the country will become the first LNG liquefaction plant in East Africa. The geography will allow it to send LNG carriers to important natural gas buyers such as India, China, Japan and South Korea. While Algeria has to pass through the Suez Canal and Nigeria has to navigate along the African west coasts, Mozambique could send vessels directly to Asia, saving fuel and time. Based on Dataloy VMS, the distance from Bonny LNG (Nigeria) to Dahej (India) is 7,246nm which means that at the speed of 17.5knts it takes about 17.25 days to deliver natural gas to India. From Pemba (Mozambique) to Dahej the distance is only 2,817nm, which means that at 17.5knts it would take less than 7 days to deliver this gas for the same destination. Thus, in addition to the fact that Mozambique would drive the South East African economies, the former Portuguese colony could also profit from geography in order to provide Asia with LNG.

The Week in Review

Ships Take Course for Cheaper Route than Suez Canal

Cargo ships from the Atlantic to the Indian Ocean increasingly prefer to take longer routes and expend more fuel instead of going through the Suez Canal, according to a report by Danish SeaIntel Maritime Analysis. The preferred way has become the southern route, around the African cape, which can take up to a week longer, depending on the speed shippers are willing to go. The reason for this is simply the fact that fuel for ships has become cheaper and transit fees for Suez became higher. Vessels sailing from Asia to the United States' East Coast via the Suez Canal have to pay on average US$ 465,000 for passage, according to SeaIntel, which calculated that the South Africa route would save an average of $235,000 per voyage. The logical consequence is for Suez to cut its fees in half. However, for Egypt this comes at a time when it was going to invest $8 billion in order to expand the canal. Suez is one of Egypt's major income sources for foreign currency and thus immensely important for political stability.

Charles Kennedy, 2016. Oil Tankers Shun Suez Canal In Search of Cheaper Route. OilPrice.com, 2 March 2016.

The European Union Commission Holds Talks with Gazprom on Anti-trust Case

The meeting on March 9th between Gazprom's deputy chief Medvedev and the European Competition Commissioner Verstegen allegedly turned out to be "mutually acceptable" for both parties in the antitrust case imposed by the European Union against Gazprom. The Russian gas company fights allegations of unfair pricing and misuse of its market power in several Central European countries. The EU has increased its regulative power substantially over the last decade, which has already become a burden for Gazprom's business model in Europe. The antitrust case is a signal for Moscow that the EU Commission is an executive power in Europe and its goal is to reduce Gazprom's monopolistic influence in Europe. A potential settlement in this case between both parties, however, is also a sign that both parties have interest in the continuation of positive business relations. Gazprom according to the sources seeks to avoid a potential fine of US$ 7.6bln fine and is likely to make concessions elsewhere to the EU. The antitrust case is running since 2011 and has not been bound on any closing date, which has given both parties opportunities for an extrajudicial solution.

Katya Golubkova and Foo Yun Chee, 2016. Gazprom aims for amicable solution in EU antitrust case. Reuters, 9 March 2016.

Norway Wealth Fund Continues to be an "Ethics Watchdog"

The US$ 830 billion Norwegian Sovereign Wealth Fund has pulled out 27 firms with links to coal from its investment list. The Fund follows a policy of climate protection and wants to be a role model for other investors. The fund also dropped other companies that are involved in gloomy businesses mostly related to environmental issues. In the past years the fund's management has on several occasions banned businesses in which it does not desire to invest, such as the arms industry. Other ways to become a member of Norway's blacklist is alleged corruption and human rights abuses such as in some unethical Indian textile industries or construction in Qatar. One prominent example is Brazil's oil major Petrobras, which was blacklisted. As the "Ethics Watchdog", the Norwegian Wealth Fund might follow a democratic supported mission, but it might one day run out of investment options. Far more concern for foreign companies, however, might have its growing political influence backed by a lot of fiscal power.

Joachim Dagenborg and Gwladys Fouche, 2016. Exclusive: Ethics watchdog for Norway's $830 billion wealth fund sees increase in bans on firms. Reuters, 11 March 2016.
Reuters, 2016. Norway's mega-fund sells coal-linked firms in climate drive. 9 March 2016.

Nigeria Lowers Oil Production After Offshore Pipeline Attack

Nigeria will stop oil flows to Forcados, one of the country's biggest export terminals at least until May, after an attack against the underwater pipeline leading to the terminal. The attack was one of the most sophisticated, but also one of the worst in years, which could seriously damage Nigeria's oil industry. In the past, Africa's top oil producer has been a victim to frequent attacks against its oil infrastructure, in which the national output in peak periods of violence could be cut in half, but under water is rather unusual. The suspects are militants who deployed divers, according to western security experts and diplomats. The attacks could be related to the expiring government program to support former rebels, but also increased corruption. Almost 250,000 barrels a day of oil were scheduled to be exported from the Forcados Stream in both February and March. However, analysts believe that the decline in Nigeria's output has helped the oil price to rise, though it is not yet clear in what significance.

Maggie Fick in Lagos and Anjli Raval in London, 2016. Bombed pipeline to hit Nigeria oil output. Financial Times, 8 March 2016.

E.on is the Biggest Loser

The German utility reported its biggest annual loss after writing down the value of its coal and gas-fired power plants by EUR 8.8 billion. Its counterpart on the domestic market, RWE, also faces losses this year. Yet another major energy company crippled from low oil prices, but perhaps this is not the only reason, although significant. As Financial Times reports, first and foremost, the structural reforms of the German energy mix towards renewables and the phase-out of nuclear power has created the loss, even though E.on switched its attention to renewables and even outsourced its conventional power generation. The low oil price, followed by low gas and electricity prices, is making things even worse. By April the company expects to present new numbers to reveal the company's situation.

Guy Chazan in Berlin, 2016. Eon reports largest loss after coal and gas writedowns. Financial Times, 9 March 2016.
Vera Eckert, 2016. E.ON faces further losses on expiry of forward power deals. Reuters, 9 March 2016.

Russian Supplier Produce More Despite Oil Glut

Russian oil producer Gazpromneft reports a 21.3% increase in oil production in 2015 and plans to increase oil production by 2025. In spite of the struggle of global producers caused by low oil prices, Gazpromneft demonstrates its resiliency also over other Russian producers, which reported output increases for 2015 as well, but far lower than 20%. However, the company admitted lower net profits, down by 10% since 2014, which it related to an unfavorable situation to manage its debt as it became more difficult to borrow foreign money. One of the major reasons of the robust performance is the high net revenue per barrel for Gazpromneft in relation to the global oil price development. While Brent decreased from US$ 120 to $40 in twelve months, Gazpromneft's netback revenue fell by only $20 per barrel from $40 per barrel. Whether Gazpromneft can continue this trend depends largely on two factors: First, if Russia curbs its production, which it has previously agreed with OPEC members, Gazpromneft would have to reduce its expansion plans. Second, if the Russian state sticks to its plans to put a higher burden via taxation on the oil industry, Gazpromneft would have to change its strategy as well.

Irina Slav, 2016. Gazprom Weathers Price Rout, Sets Ambitious Plans for Future. OilPrice.com, 9 March 2016.

Georgians Protest Against Gazprom Negotiations

Protesting the Georgian government's negotiations with Gazprom, thousands of Georgians gathered in Tbilisi to form a human chain stretching 7km. Georgia's Energy Minister Kakha Kaladze initially justified the talks with Gazprom, emphasizing the need to diversify imports. The opposition party was skeptical, believing that increased dependence on Russian energy would make Georgia politically vulnerable to Moscow's demands. Interestingly, the former prime minister of Georgia, Bidzina Ivaniskvilli holds 1% of Gazprom's stock, whose influence in the government's decision making is still great. The protesters, in support of the opposition party were successful, as the government announced it had signed a deal on Friday with Azerbaijan to increase gas supplies. Under this deal, Georgia will receive 500 million cubic meters annually from Azerbaijan's SoCar.

Armine Sahakyan, 2016. How Georgia's Pubic Foiled Gazprom and Russia. The Huffington Post, 11 March 2016.
Misha Dzhindzhikhashvili, 2016. Georgians Form Human Chain to Protest Talks With Gazprom. Associated Press via ABC News, 6 March 2016.

The US Democratic Candidates' Positions on Fracking

The statements from Senator Bernie Sanders and Secretary of State Hillary Clinton at the latest US Democratic Presidential Debate revealed a piece of how the energy industry will be affected by either candidate taking the presidency. After being asked the candidates' positions on fracking, Clinton stated the many conditions when fracking should not occur, but generally did not outright condemn fracking. Sanders, on the other hand, stated, "My answer is a lot shorter. No, I do not support fracking" and went on to say that those who believe fracking can be done safely are wrong. Despite the environmental benefits that natural gas recovered through fracking provides, such as switching from coal, and lowering emissions, the candidates are likely pandering to voters in the party, who are largely misinformed by unsubstantiated propaganda from the environmental left.

Katie Fehrenbacher, 2016. Clinton, Sanders Slam Fracking in Flint. Fortune 7 March 2016.
Robert Rapier, 2016. Clinton and Sanders Are Pandering To Voters on Fracking. Forbes, 8 March 2016.

Chevron's Gorgon LNG in Australia, What it Means for Asian Market

Chevron's US$ 54 billion Gorgon LNG project in Australia has started production, and will soon ship LNG to the already oversupplied market. Producers' revenues will shrink as prices fall even lower, but some believe the supply glut will trigger a liquid spot market in Asia where 70% of global LNG is consumed. Moving away from oil-linked pricing, long-term contracts, and destination clauses, the market is already anticipating an evolution in contracts. Singapore Exchange and CME Group are two investment firms negotiating contracts, hoping to create regional gas hubs. The LNG market will undergo major changes when the first Gorgon LNG cargo is exported, less than a month after the first LNG cargo was exported from US Cheniere Energy.

Jacob Gronholt-Pedersen and Henning Gloystein, 2016. Chevron's Gorgon start-up to hurry along Asian LNG spot trade. Reuters, 8 March 2016.

It's a Buyers' LNG Market in Asia: China and India Pressure Qatar

The global glut is strengthening buyers' positions, and spot prices are the lowest in five years. After India's Petronet successfully renegotiated with Qatar's RasGas to cut prices by almost half, agreeing to a pricing formula based on a three-month oil price average instead of the previous five-year average, CNPC Chariman Wang Yilin in Beijing said the company is looking to renegotiate its long-term LNG supply contracts with Qatar. Asian buyers are fully aware of their favorable position, as Chinese, South Korean, and Japanese companies were in talks last month to discuss a possible alliance. Current long-term LNG supply contracts are linked to crude prices, usually with price reviews.

James Paton, 2016. China Joins India Seeking Better LNG Contracts for Buyers. Bloomberg Business, 11 March 2016.

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