The salt cavern club

Countries in the eastern Med have launched a project that could lock up some of Israel’s natural gas in large underground salt caverns.

Work to assess the technical and economic feasibility of the gas storage project is expected to commence early next year.

Palestinian appeal

Confidential communiqués and new research suggest the Palestinian territories could host not only offshore gas deposits, but onshore oil too.

Norwegian consultants have been examining potential oil and gas field leads in the Palestinian West Bank.

Kurdistan export threat

A month after resuming exports, Kurdish officials are threatening to suspend the flow of oil once again, citing non-payment from Baghdad.

Any move to shut in exports would be no surprise, continuing the long-running saga between Iraq and its semi-autonomous Kurdish region.
The discovery of huge gas fields in the eastern Mediterranean Sea off Israel and Cyprus has caught the imagination of drillers in recent years.

With first production expected from one of these fields, Tamar, early next year, Israeli officials are now hotly debating how much gas should be available for the domestic market and how much freed up for export.

And the discussion is due to heat up even further, if a little-known project to store a part of Israel’s mammoth gas reserves in the large subterranean salt caverns in both Greece and Cyprus starts taking shape.

Israel’s gas reserves are estimated to be some 784 billion cubic metres — a figure that could potentially increase manifold as more drilling gets under way.

“All of Israel’s natural gas reserves are offshore between the east coast of Cyprus and about 50-65 miles (80-105 km) off Israel’s last landfall,” Michiel Diening, a vice president with Hill International and director of its oil and gas division, told MEOG in an interview in Calgary.

“While no efforts are being spared to monetise the vast resources, a gas storage project is also being discussed by a trio of Israel, Cyprus and Greece.”

Although at an initial stage, the next step in the project’s implementation will be the carrying out of a detailed technical and economic feasibility study, Diening said, pointing out that work on the facility could start as early as the first quarter of 2013 – around the time of the Tamar launch – with a completion of date of 2017/18.

“The project will have a life-cycle of 30 years,” he said.

Hill International is a New Jersey-based project and construction management company and is eying opportunities to manage the proposed project.

Israel debate

Diening’s statement comes against the backdrop of an interim report issued earlier this year by the Zemach Committee that proposed Tel Aviv “hold” at least 50% of its natural gas resources in reserve to meet the country’s future energy demand.

Authored by Shaul Zemach, the Director General of Israel’s Ministry of Energy and Water, the committee is due to deliver its final recommendations on the country’s export policy within the coming weeks.

“Traditionally, Israel has remained a net importer of energy, with its current imports standing at about 297,000 barrels per day,” said Diening.

“The historical treaty signed between Israel and Egypt in 1979 gave rights to the former to explore and develop the Sinai Peninsula. However, that has not been pursued vigorously, primarily owing to political and gas pricing reasons, and also a steep increase in the domestic gas demand in Cairo and Alexandria,” he said.

With Israel planning to be energy self-sufficient post-2016/17, a two-pronged policy is being pursued: exporting through pipelines to buyers in Europe, and storage in salt caverns for future monetisation.

Gas triangle

Other countries in the area such as Cyprus and Greece also have a great deal of interest in the offshore gas reserves in the eastern Mediterranean.

Diening said: “With a population of 1.34 million, Cyprus consumes about 61,000 bpd of crude oil which is cyclical with its tourist trade. Cyprus’ first choice will be to support an LNG [liquefied natural gas] terminal to be used as a buffer between its and Israel’s gas finds. This would also potentially ease political tensions with Turkey over the latter’s claims of ownership of Cyprus’ offshore gas finds.”

For Greece, the issue is more economic than political.»
“With a population of over 12 million and an annual gas consumption of 3.83 billion metres per year, both DEPA [the state-owned energy firm] and Hellenic Petroleum have been talking about a privatisation programme for several years, which has been bogged down [because of the] severe Greek financial crisis,” Diening said.

“ATHENS has a very strong interest in the Israel-Cyprus-Greece gas triangle, as it has a debt crisis with large EU loans which need to be collateralised at the earliest opportunity."

A final outcome on the project to store gas in salt caverns in the Mediterranean Sea will be keenly awaited by all the three nations.

Next steps
But in the meantime, Israel will have to put its might behind kick-starting long-term projects to emerge as a stable and secure supplier to Europe.

“LNG and pipelines are two options that are being studied in parallel, but the latter is preferred. Gas pipelines with contracted take-or-pay off-take agreements should be the first priority,” said Diening.

EU states are seeking long-term, fair-priced gas supplies that are not held hostage by Russian pipeline or transportation owners, he reckons.

“The EU wants direct sources of gas, not an in-line ‘check valve’ country [like Ukraine] that is held at bay on contractual transportation issues by supplier countries [like Russia],” said one industry analyst, who did not wish to be identified.

With Israel still deciding on its export policy, a clearer picture will emerge of what role East Mediterranean gas resources will play in the regional market.

Until then, all options are still up in the air, including the project to store gas in large salt caverns for peak shaving purposes.

Separately, a delegation of energy officials from Cyprus is due to visit Israel in the first week of September to begin talks on the possible purchase by Cyprus of Israeli gas.

Cyprus is looking to find an interim solution for its own domestic gas needs until its own offshore gas resources can be brought on stream, and has its eye on Israel’s Tamar field, which is set to come into operation in next April.

“The issue of storage in salt caverns is likely to be discussed at this meeting, as an agreement is needed for the very large capital project funding between the three stakeholders,” Diening added.

New spotlight on Palestinian hydrocarbon deposits

New insight into the oil and gas potential of the Palestinian territories could raise tensions in the Middle East’s biggest hotspot

By Kevin Godier

Norwegian consultants have been exploring hydrocarbon leads in the West Bank
There are reports Israel may already be siphoning oil from the occupied territories
Palestinians have yet to benefit more than a decade after the Gaza offshore gas find

New information about the possibility of hydrocarbons in the West Bank has provided a fresh reminder of the occupied Palestinian territories’ vulnerability to Israel’s economic policy. They have still to benefit from the discovery of natural gas off the shores of Gaza 12 years ago.

A Freedom of Information request with the UK Foreign and Commonwealth Office (FCO) from think-tank al-Shabaka has led to the release of new information suggesting the possibility of oilfields in the West Bank.

Although it is not clear from the disclosed correspondence, the released documents indicate Israel may also be exploiting an oilfield located near Ramallah within the occupied Palestinian territories, and underline that there may be other oilfields inside the Palestinian Authority (PA) territories.

Previous policy briefs from al-Shabaka – a non-partisan, non-profit organisation with a mission to educate and foster public debate on Palestinian human rights and self-determination – have argued the principal stumbling block to the development of the gas fields in Gaza is Israel’s refusal to pay the market price for the gas or to share the proceeds with the PA. ✹
Against a background where Palestinian representatives will make a request for “non-member state” status when the United Nations General Assembly convenes for its 67th annual meeting on September 18, the confirmation of the presence of major oil and natural gas deposits in the occupied Palestinian territories might make an end to Israel’s occupation even more unlikely, and could provide yet another excuse for it to tighten its grip over the territories conquered in 1967.

According to al-Shabaka programme director Victor Kattan, the FCO released seven documents after a lengthy eight-month process of repeated requests citing the UK’s Freedom of Information Act.

In a policy brief first published by al-Shabaka on August, 21 Kattan said four of the emails released were between the FCO in London and the British Consulate General in Jerusalem.

Two e-grams – including one from Matthew Gould, the British Ambassador to Israel – were released from the British Embassy in Tel Aviv to the FCO in London.

A parliamentary letter from Ivan Lewis MP comprised the seventh document, Kattan noted.

Self-sufficiency horizon

Kattan is unequivocal in his view that an independent Palestinian state could be economically self-sufficient and less dependent on aid once freed of Israeli control over Palestinian natural resources.

“Beyond the proceeds from taxation, a free and sovereign Palestine could raise money from a plethora of other economic activities from tourism to exporting natural gas, and if the documents released from the FCO are to be believed, from oilfields located in the West Bank,” he underlined.

Kattan specified that one of the documents released by the FCO was an internal email within the British Consulate General in Jerusalem dated January 13, 2012, which refers to the possibility of a Palestinian petroleum sector.

According to this document, “two Norwegian consultants … are doing a scoping study for a potential [redacted] to build up the capacity of the Palestinians to manage a petroleum sector. This involves looking at the political and commercial context as well as asking whether the Palestinians had a petroleum sector.”

Kattan said the Norwegian consultants went to see a drilling site variously described as being on the Green Line – the line between Israel and the Palestinian territories captured in June 1967 – in the seam zone just northwest of Ramallah near the village of Rantis.

According to the email correspondence, the Norwegian consultants said: “[We cannot] be sure that any oilfield extended below the West Bank. But the strong likelihood is that it [does].”

Kattan highlighted the Norwegians had seen “flaring” at the site.

While they could not get close enough to make a definite judgment, such “flaring” was normally indicative of drilling for exploration at least. He said the Norwegians had been informed by their Palestinian interlocutors that the drilling was actually being carried out by a Jewish religious organisation and that there was allegedly a theological as well as commercial rationale for the current activity.

The Norwegian consultants “had also heard of a further oil discovery in the Southern West Bank, near Hebron”, said Kattan’s policy brief.

These themes were reiterated in a news item that appeared in Ma’an News Agency in April 2012.

It reported: “International and local experts started research months ago in Ramallah and southern Hebron and found an oilfield in the village of Rantis, west of Ramallah.”

The same news report also cited a rumour that in addition to the field in as-Samu, south of Hebron, there exists a third oil and gas field, which was discovered by the Israelis in 2008 between Qalqiliya and Latrun, and “about which Israel is keeping quiet”, Kattan said.

Rising PA interest

Kattan said the PA appeared to be seriously engaged in examining petroleum resources in the occupied territories.

He cited Mahir Ghneim, the PA Minister of State and a senior Fatah official, as acknowledging that the PA was conducting studies to see if they could drill for oil.

When the West Bank was under Jordanian control, drilling took place in Bir Zeit, near Ramallah, and in as-Samu, the minister said.

“The results were not encouraging because of the low price of oil at the time, but extracting oil is easier now,” the minister said.

Whatever oil and gas reserves may have been revealed by the FCO disclosures, the chances of the Palestinian people gaining in the near to medium term would seem extremely remote by any reckoning, given they have yet to benefit in any way from the discovery of natural gas off the shores of Gaza 12 years ago, which remains under the seabed.

While it keeps potential Palestinian oil and gas reserves on the back burner, Israel is preparing to cash in on the discovery of its own substantial offshore gas reserves, which promise not only to satisfy domestic needs but also enable Israel to become a major exporter.➡️
Although extraction has not started yet, Tel Aviv is so confident that a few months ago Finance Minister Yufal Shtaininsh offered to supply India after Iran stopped its sales to Delhi.

However, the revelation that Israel may already be exploiting oil in the occupied Palestinian territories near Ramallah will surely cause oil and gas analysts to look back much harder at the words of Israeli Minister of Energy and Water Resource Uzi Landau, who told an energy conference in Athens on March 28 that the natural gas discovered by BG off the coast of Gaza – the Gaza Marine field – had not been developed because Israel believed the proceeds from the gas would be used to the advantage of the radical Hamas organisation.

“We want to promote economic agreements with Palestine,” Landau said, “but Israel wants to be sure that a gas agreement will benefit Palestinians and their power, desalination and sewage plants.”

If oil and gas does exist in the West Bank, the potential battle over the extraction rights, and revenue usage, might add one more highly flammable issue to the range of other major obstacles that have so far prevented peace, and have prolonged what seems to many to be an intractable conflict.

MARKET COMMENTARY

Move on up

Oil prices back on an upward trend

By David Flanagan

Crude oil prices remained quite upbeat in Week 36, with the impact of Hurricane Isaac adding to underlying market concerns about global oil supply security.

The summer has seen tensions related to Iran rising, another source of anxiety surrounding the stability of oil supply, and this continued to worry traders in Week 36.

These supply-side tensions have been aggravated by demand-side features, such as the fact that Asian crude oil importers have remained relatively active, particularly Japan, despite global economic problems.

Chinese crude oil imports have been volatile, which inhibits any clear trend appearing.

However, the agreement of another economic stimulus package is being seen by traders as likely to generate an upturn in Chinese growth in the second half of the year.

In other markets, with the US election making economic projections there more difficult, market sentiment is largely driven by supply features.

The US hurricane season, for many weeks notably absent from the oil market’s concerns, eventually arrived in late August in the shape of Hurricane Isaac.

This has caused shut-ins of oil and gas production in the US Gulf, and added to upward oil price pressure in Week 36.

But the effect is somewhat fleeting, and the 2012 hurricane season is expected by many market observers to be relatively short and weak.

Other tropical storms are becoming visible, but at the moment, there is not the level of concern that there was about Isaac.

Hence the price impact of the hurricane season has been very modest and will probably pass soon.

Iran concern

Iran remains a great source of concern to oil traders.

After the formalisation of the European Union (EU) sanctions, many non-EU nations have started to limit imports of Iranian crude oil.

This is owing to logistical difficulties, namely problems with shipping, insurance and finance in transporting Iranian crude oil.

A move by Iran to retaliate in some way remains a possibility, and Parliamentary votes to support some kind of action have been passed.

Oil traders most fear a blockade of the Strait of Hormuz, which would hit physical trade in crude oil, oil products and liquefied natural gas (LNG) emanating from the Gulf.

How likely this is now is difficult to gauge, but Iran has not shown many signs of altering its position in relation to its nuclear ambitions, which adds to the mood of concern in the market.

Oil prices are sensitive to this issue, and as long as it remains a possibility, it is unquestionably a bullish force in respect of price formation.

Pipelines

Also of concern is the stability of overland oil supply routes from Middle Eastern sources.

In particular, Iraq’s crude oil exports through the pipeline to Ceyhan in Turkey have been disrupted by sabotage, both on its own side and on the Turkish side of the border.
Iraq’s production growth has been a source of favourable sentiment in the oil trading market in the last two years or so, and any disruption to the methods by which it can deliver crude oil exports to the market are viewed with great anxiety.

As a crude oil supply route to the Mediterranean, the Ceyhan pipeline is assuming greater significance, both in absolute terms related to Iraq’s growing importance to the oil trading market, and relative to the possibility of disruption to trade through the Strait of Hormuz.

Over the weeks ahead, traders will be watching closely to see how the security of the pipeline may be improved, especially if tensions between the EU and Iran escalate.

On the markets

On the markets, the DME benchmark Oman crude oil futures contract for October 2012 delivery started the week at US$112.21 per barrel on August 27.

The contract fell back over the following days, settling at US$110.40 on August 28, US$110.21 on August 29, but then moved higher again.

The contract settled on August 30 at US$111.31, and on August 31 at US$111.08 per barrel, following which the contract expired.

August volumes on DME, which recently celebrated five years of activity, were down from June and July.

The trading market has been relatively quiet this week, with a holiday on September 3 in the US because of Labour Day.

This has meant that many US-based oil traders have been absent from the market in recent days.

However, with seasonality effects coming into the oil market and many traders coming back to work, early September is usually an active period.

So we will most likely see a busier oil trading market building up in the days ahead.

As we move towards the end of the third quarter of 2012, supply-side issues clearly have the upper hand in determining oil price formation.

While hurricane effects can be viewed as transitory, other supply concerns are more deep-seated.

With crude oil prices now approaching the US$115 per barrel point, with and seasonal effects likely to start to impact the oil market, it is possible that some form of action by the International Energy Agency will again be considered.

If concern rises about Iran, and oil prices show an upward effect, it seems likely that the IEA will consider a strategic release.

The reason we have not seen this yet is probably because Iran has not taken any tangible action in response to the formalisation of EU sanctions.

But this may be only a matter of time.

Uncertainties have been evident on the demand side of the oil market all year.

But, on the supply side of the oil market, if traders are still unclear about how Iran may respond to the present situation later in the autumn, the mood of agitation is likely to grow, and that probably means higher oil prices.

### Settlement price - DME Oman Futures, September 03, 2012

<table>
<thead>
<tr>
<th>Product</th>
<th>Price ($)</th>
<th>Change* ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oman crude Nov 2012 (bbl)</td>
<td>112.11</td>
<td>-0.00</td>
</tr>
</tbody>
</table>

Source: Dubai Mercantile Exchange (*Change on previous trading day’s settlement price)

### Market Projections for Week 37

Oil prices remained buoyant in Week 36, with supply-side issues tending to dominate market concerns. These have included the effects of Hurricane Isaac, a transitory issue, but also more deep-seated issues such as the position of Iran and interruption to Iraqi crude oil exports. The price range within which the DME Oman crude oil future is trading has risen slightly, and has now stood consistently above the US$110 level for the past week. Given the impact of seasonality and the fact that no IEA strategic release has taken place, market sentiment will probably push oil prices higher in the days ahead.

Price Projection for DME November 2012 Oman futures for Week 37: US$110.00 - US$115.00
**Egyptian gas shut-off pushes Ampal into bankruptcy**

Ampal-American Israel has filed for bankruptcy protection as it seeks to restructure its debt.

The company fell victim to Egypt’s decision to stop gas flows into Israel. On August 29, the US-listed company said it had filed for Chapter 11 reorganisation in the Southern District of New York.

The statement said its board had decided to file for bankruptcy as the “best and most efficient method for the company to pursue a plan to restructure the company’s Series A, Series B and Series C debentures.”

As a result, it continued, its creditors are prohibited from enforcing any claims against Ampal-American.

The debt is worth around US$300 million and Ampal was unable to meet interest payments on this sum.

Egypt, in April, halted the sale of gas to Israel via East Mediterranean Gas (EMG), in which Ampal has a stake.

Talks with its debenture holders have been under way for eight months, and proposals were set out in July.

However, Ampal said it had decided the “best forum” to continue negotiations was through Chapter 11. The company said it expected “to work closely” with its creditors on the restructuring plan and that it would “emerge as a financially stronger company.”

It has retained Bryan Cave lawyers to act for it in the bankruptcy filing.

Israel’s Globes newspaper reported a statement from Ampal’s debenture holders, Meitav Investment House and Psagot Investment House, as saying the declaration of bankruptcy verged on “extreme bad faith, or worse.”

Meitav and Psagot accused Ampal’s executives of trying to buy time and wasting the company’s cash reserves through the move.

Ampal-American filed results for the second quarter in early August.

The company had revenues of US$140 million, although its net loss was US$3.2 million.

In May, the company filed an arbitration request against Egypt, based on the company’s 12.5% stake in EMG.

The complaint focused on a “series of acts and failures” by the Egyptian government that had undermined the value of EMG.

Ampal-American, and other shareholders in EMG, said Egypt had failed to provide fair and equitable treatment and went on to say investments had been expropriated.

The Egyptian government was critical of the price at which gas was sold to Israel, and there have been rumours of corruption, linking gas sales with members of the previous regime.

In addition to Ampal-American, other shareholders in EMG are Thailand’s PTT Exploration and Production (PTTEP) with a 25% stake, Egyptian businessman Hussein Salem with a 28% stake, businessmen Sam Zell and David Fisher with 12%, Egyptian Natural Gas Holding (EGAS) with 10%, various Israeli institutions with 4.4% and Yossi Mainman’s Merhav Group with an 8.1% stake.

In addition to the Egyptian government’s decision to halt sales via EMG, a number of attacks on pipelines in the Sinai Peninsula have also disrupted gas exports. ■

**INVESTMENT**

**Takreer planning Abu Dhabi refinery flare gas project**

Five companies have submitted both technical and commercial bids to Abu Dhabi Oil Refining Company (Takreer) for the flare gas removal project at its two refineries of Ruwais and Umm al-Nar in the emirate.

The engineering, procurement and construction (EPC) contract is worth some US$200 million.

The bidders are: Switzerland-based ABB; France’s Litwin; India’s Punj Lloyd; Beijing-based China Petroleum and Chemical Corporation (Sinopec); and Athens-based Consolidated Contractors International Company (CCC).

The EPC contract is aimed at reducing the volume of gas flared in the emirate, as well as improving environmental quality by reducing emissions of carbon dioxide and sulphur dioxide.

Tebodin of the Netherlands has prepared the front-end engineering and design (FEED) package. ➤
INVESTMENT

Takreer is expected to award the contract by late October, with the facilities taking 20 months to be installed.

The Ruwais project will be the second flare gas facility planned in Abu Dhabi in recent months.

An award is due from Abu Dhabi Marine Operating Company (Adma-Opco) for a contract to revamp and upgrade the existing main flare gas system on Das Island, offshore Abu Dhabi.

Bidders for the estimated US$100 million EPC contract are Paris-based Technip, Adyard Industries of Abu Dhabi and CCC.

The scope of works includes the construction of an atmospheric flare gas revamp unit to reduce the quantity of hydrocarbon gases released into the atmosphere and demolition and extension of different existing flares.

The contract will take 14 months to complete.

Gulf oil companies are investing heavily in flare gas removal projects in its refineries.

A tender is due to be issued shortly by Saudi Aramco for the 120,000 barrel per day Riyadh refinery for a similar project.

PERFORMANCE

Qatar’s RasGas hit by computer virus

RasGas, the world’s second largest LNG producer, has been hit by an unknown virus that has affected its office systems, taking the company offline.

Just two weeks after the world’s biggest oil producer, in neighbouring Saudi Arabia, was hacked into, RasGas said on August 30 that its “office computers have been affected by an unknown virus” that was first identified on August 27.

“Operational systems both onsite and offshore are secure and this does not affect production at the Ras Laffan Industrial City plant or scheduled cargoes,” said RasGas, the smaller of two Qatari LNG producers, in a statement.

However, RasGas’ website (rasgas.com) and email servers remained offline as of the end of August 31.

A company spokeswoman cited by Reuters was unable to say whether this was owing to Rasgas shielding its electronic systems from more intrusions or the effect of the virus itself.

A spokesman for Rasgas’ parent Qatar Petroleum said the group had not been affected by any virus.

RasGas, a joint venture between QP and ExxonMobil, comprises seven giant LNG process trains in Ras Laffan, Qatar.

The company exports 36.3 million tonnes a year of LNG, most of which is sent under long-term contracts with customers in Korea, India, Italy, Spain, Belgium, Taiwan and the Americas.

The company is also responsible for around 10% of global helium production.

It was not clear whether Rasgas has been a victim of the same malicious software or hacker group that targeted about 30,000 desktop PCs at Saudi Aramco on August 15.

Saudi Aramco also said that oil production and key data were unaffected by the intrusion into its office networks by a virus thought to be designed to wipe files from desktop hard drives.

The Saudi Aramco website www.aramco.com was active again by August 31.

A hacker group calling itself the Arab Youth Group has claimed responsibility for the viral attack on Saudi Aramco.

UAE on track with production capacity boost plans

The United Arab Emirates (UAE), one of the world’s largest oil exporters, is on schedule to lift its crude oil production capacity to 3 million bpd over the next few months.

The country has already raised its production capacity from 2.7 million bpd to around 2.8 million bpd during the course of this year, and is aiming to bolster this figure by another 200,000 bpd by year-end.

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“Oil production capacity in the UAE should reach 3 million bpd by the end of this year, and already the current capacity is around 2.8 million bpd,” an industry source familiar with the projects told Reuters, noting that this level was attained in July.

“The maximum capacity has been tested and everything is going ahead as planned,” the source was reported as saying on August 28.

Abu Dhabi, which produces by far the largest proportion of the UAE’s oil, has plans in place to invest up to US$60 billion over the next five years to boost production capacity to 3.5 million bpd. A second industry source indicated most of this year’s capacity increase would be delivered by the Zakum oilfields, adding that crude production at the Murban-Bab field had also been boosted this year, but they were unable to quantify this rise.

Murban-Bab is operated by the Abu Dhabi Company for Onshore Oil Operations (ADCO) in partnership with BP, Shell, Total, ExxonMobil and the Partex Oil and Gas concession. ADCO is currently in a tender to renew its deals before their expiration in 2014, and is targeting an onshore production hike from 1.4 to 1.8 million bpd.

The concessions system in the UAE allows oil and gas producers to acquire equity shares in hydrocarbon production from the OPEC member in return for investing in projects. The chief executive of the Abu Dhabi Marine Operating Company (Adma-Opco) said recently that the UAE was looking to open its upstream sector to more foreign partners, especially Asian energy companies, to take stakes in more marginal fields.

Iraq’s Kurdistan Regional Government (KRG) has threatened to stop its share of national oil exports again at the start of September, claiming Baghdad has continued to hold off on payments to oil companies in the long-running dispute over control of the region’s oil reserves.

“We are moving ahead to stop oil exports at the start of September, because until this moment we haven’t received any sign Baghdad will approve payments for oil companies working in the region,” a senior Kurdistan government official was quoted as saying by Reuters on August 28.

Whilst Baghdad continues to insist that only it has the right to export the crude oil produced in the entire country; Kurdistan has moved forward to sign a number of exploration deals with companies that include Exxon, Chevron, Total and a unit of Russia’s Gazprom, much to the disquiet of the central government.

From April to August of this year Kurdistan withheld its oil exports, stressing that Baghdad had not made the required payments to companies working there.

Oil shipments have fluctuated between 100,000 to 120,000 bpd since they restarted in August, but this is well below the 175,000 bpd previously agreed between the two governments.

When it restarted shipments on August 7, the KRG warned that these could be halted again in a month if there were no payments.

The Iraqi government has reportedly insisted that the Kurdish authorities need to produce evidence in the form of receipts clearly showing company expenses so that payments can be made, and has said that more auditing is required before any payments are approved.

Iraq has already approved payments of some US$560 million to the oil producers, but their execution is still awaited. Reuters quoted Iraq’s Deputy Finance Minister Fadhil Nabi as saying.

Crude produced in Kurdistan is fed into Iraq’s Kirkuk export stream and sold on to world markets via the Turkish Mediterranean port of Ceyhan.

A government panel has said that energy companies will be allowed to export 53% of all Israel’s gas reserves, an amount equal to 500 billion cubic metres. On August 28, the Tzemach Committee, which has been tasked with overseeing the country’s new gas sector, issued its final report.

This raised the amount of gas available to export to 500 billion bcm, almost double the previous figure.
In addition, the amount of gas to be reserved for domestic consumption was upped to 450 bcm from 400 bcm, the equivalent of around 25 years of demand.

Each discovery will be required to set aside a specific amount of natural gas for the domestic market, depending on its size.

Fields containing in excess of 200 bcm will be required to allocate at least 50% to Israeli consumers, while fields holding between 100 and 200 bcm will have to save 40%, and fields of 25-100 bcm will have to save 25%.

“The main principle the committee worked with was ensuring energy security for the Israeli public,” the report said.

“If we tell a developer, ‘If you explore and find gas, you can’t export it,’ they won’t explore,” added Shaul Tzemach, the leader of the committee.

“There is no risk here for the government, because no one will export gas that hasn’t been discovered. The name of the game is certainty, not restrictions and barriers.”

In a statement, Prime Minister Benjamin Netanyahu said he had received the report.

“Gas is an energy source that gives Israel a new economic horizon,” he added.

“It could give us both economic strength and economic independence. I think it is important that we develop it wisely and responsibly. I intend to study the report and submit decisions that will give us future prosperity.”

Indian state-owned oil companies are seriously weighing options to import crude oil and natural gas from Canada and the US – and reduce dependence on the Middle East – in line with a recent recommendation by the country’s apex Planning Commission.

The recommendation is from an energy security perspective, given that New Delhi depends on the Middle East – particularly Iran, Saudi Arabia, Iraq, the UAE and Bahrain – for nearly 78% of its total annual crude oil imports.

“With producers in Alberta seeking a market in Asia, we are stepping up efforts to import bitumen from western Canada,” said an official at India’s Petroleum and Natural Gas Ministry.

“We are likely to invest some US$5 billion in an existing oil sands project and will bring in our share of the bitumen for upgrading and processing in domestic [Indian] refineries.”

For the past three decades, New Delhi has been importing Middle Eastern crude primarily because of its sweet and light grade qualities.

“Indian refineries were built to accept Middle East crude as feedstock. But now some of our facilities are being upgraded. The Reliance refinery in Jamnagar is already importing crude from Latin America,” the ministry official said.

He added that along with bitumen, Indian gas firms were also in talks with prospective liquefied natural gas (LNG) producers in British Columbia in Canada and the US to import LNG.

“Qatar has been our most stable and secure customer, but now we will be looking at Canada and the US also. The shale gas revolution in the US is now a reality and has changed the industry. US gas prices [Henry Hub-denominated] are 60-75% lower than the prices we have been paying to import LNG,” the official said.

Both Ras Laffan Liquefied Natural Gas Company and Qatar Liquefied Gas Company have firm sales and purchase agreements with India’s Petronet and other state-owned gas firms for supplies of over 10 million tonnes per year of LNG.

Israel’s Delek Group has seen its quarterly profit slide following a drop in gas production at its Mari B well at the Yam Tethys field.

Issuing its second-quarter results on August 29, the company posted earnings of 51 million shekels (US$13 million), a major fall from the equivalent period in 2011, during which the company earned 101 million shekels.

Delek attributed this to “a significant decline in the ability to produce natural gas from the Mari B reservoir” that has “continued in the past few months.”
Yam Tethys is currently Israel’s only producing gas field and was originally predicted to dry up in 2013, around the same time that the Tamar field – which is estimated to hold 8.4 trillion cubic feet (238 bcm) of natural gas reserves – is hoped to come on line.

Production at Mari B, which used to supply two thirds of Israel’s natural gas, was stepped up last year in order to cover for stuttering exports from the East Mediterranean Gas Company (EMG).

EMG operates the natural gas pipeline running from Egypt to Israel and Jordan that was blown up numerous times during the Arab Spring, with exports now ceasing altogether.

Earlier this year, Delek and its partner, US firm Noble Energy, began gas production from the Noa and Pinnacles satellite fields in order “to reduce the impact of the decline in the natural gas supply capacity of Mari B, and mitigate the consequences for its customers”.

The Pinnacles field’s reserves are placed at 1 bcm, while the Noa field is thought to hold 2.3 bcm, of which the two companies expect to produce 1.2 bcm.

In total, it is estimated that the two fields’ start-up will have saved the Israeli economy US$170 million during this summer alone.

Kuwait’s state-run Petrochemical Industries Co. (PIC) has agreed to pay the first installment of its US$2.16 billion compensation award to Dow Chemical, local media have reported.

Citing sources close to the matter, the Akhbar al-Khaleej newspaper reported on August 28 that PIC president Maha Mulla Hussein had sent a letter to the country’s Oil Minister, Hani Hussein Terkait, requesting approval for the company to send the US firm 260 million dinars (US$921 million).

This would be the first time PIC has indicated that it will pay Dow the compensation, which is the result of the collapse of a joint venture between the two companies in 2008.

Known as K-Dow, the US$17 billion 50-50 project was hoped to become a leading global supplier of petrochemicals and plastics and manufacturer of related products.

However, the deal was cancelled by Kuwait at the last minute after pressure from several MPs, who cited a drastic increase in financing costs owing to the global economic downturn. This led to the International Court of Arbitration (ICA) of the International Chamber of Commerce (ICC) to grant Dow US$2.16 billion in compensation in May, one of the largest ever corporate arbitration awards. Since the collapse of K-Dow, Dow has proceeded with another massive petrochemical joint venture with Saudi Aramco.

A number of high-profile projects have fallen foul of Kuwait’s political system in recent years, leading to longstanding delays or outright cancellations. These include a major redevelopment of the country’s oil industry, the 4 billion dinar al-Zour refinery, which is planned to be largest of its type in the Middle East, and a US$111 billion development plan.

Much of this is the result of a fractious parliament, which has seen four elections in six years.

In the past decade, the government has resigned nine times and the parliament has been dissolved on five occasions.

The European Union has no plans to carry out a formal review of its ban on Iranian crude, an EU diplomatic source said Monday, but Brussels would look again at its measures against Tehran in the event of a continued energy supply disruption. The EU approved in January a ban on Iranian oil imports to put pressure on Tehran over its nuclear program. The embargo came into effect on July 1. In January the EU said it could review the proposed ban and take action should any member states be adversely affected economically by the embargo. However, the source said no report was under preparation to assess the impact of the sanctions post-July.
news in brief

“All sanctions are constantly kept under review, in the sense that we are keeping an eye on them,” the source said. The source said that the EU decided in June to return to the issue of the oil embargo only if there were “developments which could require prompt action at EU level.” This, the source, was said with a view to ensuring the “continuity of energy supply in EU member states.” So far it seems member states have been able to replace their Iranian oil imports with crude from alternative sources. There had been concerns in Brussels that Greece could be the worst affected by the ban as it historically has sourced a high percentage of its crude imports from Iran, and under attractive financial conditions. Before the ban, the EU used to import around 500,000 b/d of oil from Iran.

PLATTS, September 3, 2012

Iran oil sanctions pour money into the Gulf

Gulf countries could be cashing in on higher oil sales as a result of sanctions imposed by the West on Iran. Noor Toorani reports. Millions of dollars have reportedly been pouring into the GCC from increased oil sales since an international embargo was imposed on Iran in July, according to Bahrain-based experts. They reported a clear market shift with Gulf countries taking up the slack to meet global demand for oil after the US and European Union (EU) implemented a raft of economic sanctions targeting Iran’s crude exports.

Asian nations have also significantly reduced oil imports from Iran as part of an international effort to ratchet up pressure on Tehran over its ongoing nuclear programme. It means that millions of barrels of oil that would otherwise have been purchased from Iran is now being supplied by refineries in the GCC, raising the spectre of economic meltdown and growing street protests in the Persian state as commodity prices increase and people lose jobs. “There has been a very marked market shift of trading,” confirmed Bahrain-based Well Flow International chairman and chief executive officer Paul Kesterton, whose company provides an integrated worldwide network of services and products to the oil and gas industry. “You can’t take a million barrels of crude oil out of the market and not replace it somewhere else, otherwise the price of crude oil today would be $150 a barrel instead of $112 a barrel. “So the biggest winning supplier in this adjustment has been Saudi Arabia, but there are others.”

“I am sure Kuwait and the UAE have been pumping up marginally more in order to pick up the slack. “The sanctions have affected the distribution of income in the region, so Iran is getting less and the Arabian Gulf is getting more. “Every dollar that Iran doesn’t get has to go somewhere else and that dollar is coming to this side of the Arabian Gulf. “Also, the demand overall is down as a direct result of the international recession that is affecting every country, including the high oil demand of countries such as India and China.” The EU agreed on an oil embargo against Iran on January 23, but it was delayed until July 1 to give Greece, Spain and Italy enough time to find alternative supplies. The decision was significant and led to others following suit.

In March, the world’s largest secure financial messaging system - the Society for Worldwide Interbank Financial Telecommunication (SWIFT) - cut off all ties with Iranian banks, effectively preventing them from making international transfers. The move, accompanied by sanctions on Iran’s Central Bank, was significant and caused it to look East for alternative buyers for its oil. “If you can’t freely transfer international exchangeable currencies through the banking system, then you will have to find immitigable ways to do it alternatively,” added Mr Kesterton. “Can it be done? Yes. But does it make life much more difficult? Yes. “And will people charge you for doing these different types of exchanges? Yes. So its another cost of capital to Iran.”

Mr. Kesterton said the EU’s decision to remove insurance cover for all Iranian crude oil transfers had significantly hindered Tehran’s efforts to find buyers for its oil. “The EU’s oil embargo was twofold,” he explained. “It was extremely significant because first of all southern Europe is a buyer of Iranian crude oil, which has been cut or is being cut because sometimes these contracts get phased over time. “But the other significant embargo was the removal of insurance on any Iranian crude oil cargo. Ninety-five per cent plus of all crude oil cargo worldwide is insured in Europe and that’s just been removed, so that has a huge impact because your ordinary trader is not going to take a risk on a 30 to 100 million tonne crude oil cargo without insurance. “So now the Iranians have to go and find that alternative insurance. “Can they find it? Absolutely they will find it, there is always a place in the market for somebody to come up. “But what is the consequence of that? It is going to be much more expensive.”

The largest importers of Iranian crude oil pre-July were China (20pc), Japan (17pc), India (16pc), Italy (10pc) and South Korea (9pc). However, China’s crude oil imports from Iran fell nearly a third in July from an 11-month high in June as the world’s second largest oil consumer met the terms of a waiver from the US on financial sanctions. China bought 1.93m tonnes of Iranian crude in July, equivalent to about 454,500 barrels per day (bpd), against 632,618 bpd in June, according to China’s General Administration of Customs.
“China is significant, but let us not forget about South Korea, which has just cancelled all imports of Iranian crude oil and that’s about a quarter of a million barrels a day, which is about half of the Chinese total,” said Mr Kesterton. “Japan is also cutting back radically and has not announced it will cut out all, but it is certainly cutting back and they are at a similar size to South Korea in terms of volumes. “And other countries are cutting back or taking advantage of the Iranian problem. “India is another significant buyer. Although Asia isn’t following the embargo to the extent that North America and Europe are doing, some have followed it and some are certainly taking economic advantage. “So again, the critical impact is on Iran.” Mr Kesterton predicted it was only a matter of time before the economic sanctions resulted in mass protests on the streets of Tehran. “If you start cutting out a million barrels of crude oil a day of sales out of Iran, that’s on average terms $32 billion a year and that’s a huge amount of lost income,” he explained. “But it doesn’t stop there because what they have left then they have to sell at a discount. “There is a lot of bartering going on between Iran and India and Iran and China, so they are getting paid in goods rather than cash. “It certainly doesn’t give you sugar and rice and what’s more important is that the third party buyers of Iranian crude oil know well that Iran is having trouble selling its crude, so they are striking very deep bargains with Iran - so Iran is not getting the full international price even on its remaining sales. “And as the sanctions bite, the amount of money they will receive on a barrel is going to go down because if you are an independent refinery in Asia you are going to negotiate like crazy with the Iranians to get the best possible deal you can. “The Iranians are going to suffer and over the next six months, by around Christmas, there is going to be a significant impact on the Iranian budget and you can’t sustain the level of spending unless you have the income to do it. “We will see inflation as prices rise rapidly, we will see a scarcity of commodities as a reflection of that and that’s when we will start seeing protests on the streets because when food prices rise significantly, wages are cut, money is scarce and jobs start to go - that’s when people will start to go out on the streets - not as a political protest, but as an economic protest.”

The US Congress in July overwhelmingly passed a new package of sanctions against Iran that aim to punish banks, insurance companies and shippers that help Tehran sell its oil. The legislation builds on oil trade sanctions signed into law by President Barack Obama in December that prompted Japan, South Korea, India and others to slash their purchases of Iranian oil.

International Institute for Strategic Studies (IISS) research analyst and project co-ordinator Dina Esfandiary said it was in Asia where Iran would really feel the pinch.

“The problem is that Iran’s biggest buyers are not in Europe but in Asia. This is where US efforts have paid off,” she explained. “Although the US has issued waivers to certain countries, including India, South Korea and now China, they have been issued following significant reductions in purchases. “Add to these the ban on European insurance to tankers carrying Iranian oil and the impact is actually quite significant. “In June, the International Energy Agency estimated that countries importing Iranian oil had bought nearly BD1m less crude from Iran in April and May than in late 2011. “So sanctions are biting by crimping oil exports leading to the devaluation of Iranian currency and making it harder for companies and Iranian elites to move money.”

The sanctions are designed to put pressure on Iran to curb its nuclear programme, although Tehran denies that it is seeking to develop nuclear weapons as Western nations claim. “Sanctions have succeeded in slowing the Iranian programme down,” added Ms Esfandiary. “Iran was largely dependent on foreign suppliers in the past and stringent export control regimes have been useful in curbing the programme’s advance to a certain extent. “But Iran has become increasingly self-sufficient and today their nuclear programme has advanced significantly - the most obvious example being Iran’s ability to enrich (uranium) to 20pc, a step closer to the 90pc needed for a weapon. “The problem is that sanctions will not affect Iran’s calculation to pursue its nuclear programme. “Instead, the current trend will continue: stronger sanctions will come into effect, they will further destabilise the country and might even make it more aggressive, but they are unlikely to change its current stance.”

Al-BAWABA, September 2, 2012

Iran to raise Nargesi oilfield output by 120 million barrels

Iran is to enhance recoverable oil from the onshore Nargesi Oil Field in the south of the country by 120 million barrels, National Iranian South Oil Company (NISOC) says. NISOC announced in a report released on Sunday that the oil field would see its output rise after gas injection and associated gas gathering operations. The $33 million recovery enhancement project has been commissioned to an Iranian contractor within the framework of an Engineering, Procurement and Construction (EPC) contract. The field, discovered in 1974, is located 30 kilometers north of the city of Borazjan in the southern Iranian Bushehr province. ➤
NISOC is currently operating nearly 750 oil output preservation projects, 12 of which are scheduled to come on-stream by the end of the current Iranian calendar year in March 2013. NISOC, a subsidiary of the state-run National Iranian Oil Company (NIOC), accounts for three million barrels per day of crude oil.

**PRESS TV, September 3, 2012**

**Expro wins Iraq oil testing contract**

Leading international well flow management company Expro said it has clinched a Sonar production testing contract from Eni for its oil wells in southern Iraq.

As per the contract, Expro will provide completely non-intrusive multiphase production testing to Eni utilising its clamp-on Sonar meters for oil wells in the Zubair field, which Eni Iraq, BV operates in co-operation with Iraq’s state-owned South Oil Company. Expro will be utilising its Sonar metering technology to measure production from the wells for Eni, the lead contractor of the consortium formed for the redevelopment of the Zubair field near Basra. The clamp-on technology enables well production surveillance with small crews and minimal equipment footprint. It also eliminates any potential environmental risks and increases the safety of the production testing operation, the company said in a statement.

Selim Djanji, the region director for Mena, said the contract award highlights a new element of the broad product and service portfolio Expro offers across the lifecycle of the well.

“From our operating bases in the region we are well placed to offer conventional well testing, Sonar metering services and many more products and services to meet our customers’ diverse well flow management needs,” he stated.

Expro, he said, was committed to the local community in Iraq and “this is translated in recruiting young Iraqi and providing them with training and support to be in the heart of our operation - delivering new technology to the oil and gas industry in Iraq.” Expro Meters product line director Patrick Curry said this major contract win with a leading international oil company validates the value proposition the company offers to its customers. “Sonar is a game-changing technology for production testing and this deal is an excellent example of the value we can deliver to our customers. Our small footprint, portable production surveillance offering is ideally suited to these types of fields,” he added.

**TRADE ARABIA, September 3, 2012**

**Kurds to continue Iraq oil exports until Sep 15**

Iraqi Kurdistan will export oil via federal pipelines until September 15, an official said on Saturday, extending a one-month confidence-building measure amid a row with the central government in Baghdad. The northern autonomous three-province region had halted exports for several months on April 1 over $1.5 billion it said was owed to foreign oil companies working in the region that Baghdad had allegedly withheld.

“Kurdistan will continue exporting oil until September 15,” an official in the Kurdish natural resources ministry said, speaking on condition of anonymity.

Oil exports were originally resumed on August 7, after a four-month suspension. The central government and the Kurdish authorities in Arbil are at odds over issues including Kurdistan’s refusal to seek approval from Baghdad for oil contracts it has awarded to foreign firms, and over a swath of disputed territory in northern Iraq. Baghdad says all oil deals must go through the federal oil ministry, and it regards any that do not as illegal.

**AFP, September 1, 2012**

**Iraq says has US support in Kurdish oil deals row**

A US official has said firms should cooperate with Iraq’s central government before striking oil and gas deals with the autonomous Kurdistan region, according to a statement from the Iraqi prime minister’s office.

Baghdad maintains it alone has the right to export Iraqi crude. But Kurdistan has moved ahead with signing exploration deals with oil majors such as Exxon and Chevron, which the central government rejects as illegal.

“The United States has called on all the companies to (remember) the necessity to co-ordinate with the central government before concluding any deal or contract, especially in the fields of oil and gas,” a statement from Prime Minister Nuri al-Maliki’s office said on Monday.

The statement contained details of a meeting between the prime minister and Elizabeth Jones, U.S. Assistant Secretary of State for Near Eastern Affairs, on Sunday.

No one from the U.S. State Department was immediately available to comment. Kurdish oil exports make up a fraction of Iraq’s shipments, but the payment dispute feeds into a wider conflict between Iraqi Arabs and Kurds over autonomy, oil and land that risks upsetting Iraq’s uneasy federal union.

Maliki said in July that U.S. President Barack Obama had backed Baghdad’s concerns over Exxon Mobil’s oil deal with Kurdistan in a letter. The White House declined to comment on its content.

Autonomous since 1991, Kurdistan runs its own government and armed forces but relies on the central government for a percentage of the country’s oil revenues from the national budget.

**REUTERS, September 3, 2012**
Iraq unity at risk because of Maliki leadership, Allawi says

Iraq’s former Prime Minister Ayad Allawi, a main opposition leader, said the country’s unity is at risk because of Prime Minister Nouri al-Maliki’s “individualistic” leadership. The self-governing Kurdish region, which is locked in a dispute over oil revenue with the Maliki government, and other provinces are in “an almost dysfunctional state” with high unemployment and inflation, security problems, sectarian policies and “a frightening degree of corruption,” Allawi said in an e-mailed response to questions. “I expect the problems and the crisis will further escalate in the coming weeks.”

Violence and political clashes in Iraq have increased since December when the U.S. pulled out the last of the troops it had deployed since the 2003 invasion that ousted Saddam Hussein. Allawi’s Sunni Muslim-backed al-Iraqiya coalition boycotted parliament and Cabinet sessions for several weeks earlier this year, demanding that the Shiite premier share more powers. Investors have been discouraged by Iraq’s failure to vote on an energy law, a setback to the government’s efforts to attract money and expertise to develop the world’s fifth-largest crude oil reserves after years of conflict and sanctions. Iraq is one of 12 members of the Organization of Petroleum Exporting Countries. Allawi, who is also a Shiite, accused the government of blocking legislation that the country needs to regulate the oil and gas industry and determine how revenue should be shared.

No Bids

The Oil Ministry in Baghdad didn’t get any bids for most of the blocks in its latest energy auction, amid criticism of some of the contract terms. Iraq’s Kurds, who historically have resisted control by Arab-dominated central governments, are charting a course to independently develop and export oil reserves that the Kurdistan Regional Government estimates at 45 billion barrels -- larger than BP’s estimate for the U.S. or Nigeria, Africa’s biggest producer. Exxon Mobil Corp, Chevron Corp. and Total SA are flouting warnings by the government against seeking separate deals with the Kurds, who have frequently clashed with Maliki’s government over who controls the northern oil and gas reserves. Iraq ranked among the 10 least attractive out of 147 destinations for oil and gas investment, trailing Cambodia, Chad and Yemen, according to an annual survey by the Vancouver, Canada-based Fraser Institute released in June. The nation’s public sector also ranked among the world’s 10 most corrupt, behind Haiti and Venezuela, a Transparency International survey showed last year. Maliki, who has been prime minister since 2006, is currently in his second term and has also held the ministries of the interior, defense and national security. The premier denies allegations that he is accumulating powers and says he is acting in line with Iraq’s constitution. Allawi said the prime minister’s term should be limited to two mandates. “We did fight dictatorship for 30 years, myself and others, and we are not going to let go of Iraq or allow it to go down the drain and to be dismembered,” Allawi said.

BLOOMBERG, September 3, 2012

Iraq Kurds ready for talks over crisis, oil: deputy PM

Iraq’s Kurdistan is ready to restart negotiations with Baghdad to end their crisis, focusing on a long-delayed oil law to hand regions more say in managing energy resources, Iraq’s Deputy Prime Minister Rosh Nuri al-Shawish, a Kurd, said.

The positive tone from Shawish signalled the Shi’ite-led central government and self-governed Kurdistan may be edging towards resolving their dispute over oil, territory and power-sharing that is straining Iraq’s uneasy federal union. Shawish told Reuters Kurdistan believes part of the dispute can be ended by passing an amended 2007 draft of an oil and gas law, which all parties had agreed to as part of broader power-sharing among Shi’ite, Sunni and Kurdish blocks. “Approving this draft and adding some amendments which are agreed on by all parties ... is the proper way to resolve this,” the deputy prime minister, one of the go-betweens for talks between Baghdad and Kurdistan, said in an interview.

Shawish said Kurdish officials had met with the head of the Prime Minister Nuri al-Maliki’s Shi’ite National Alliance, Ibrahim al-Jaafari, for preliminary talks, and the atmosphere had improved enough for them to see room for progress. Kurdistan has tested Baghdad’s resolve for months by signing deals with foreign oil majors, such as Exxon and Chevron, contracts the central government rejects as illegal and part of a Kurdish push for more autonomy.

Their dispute is complicating a crisis in Iraq’s fragile power-sharing central government, which was hobbled by infighting among Sunni, Shi’ite and Kurdish parties even before the last U.S. troops left in December. Kurdish leaders and the Sunni-backed Iraqiya party often accuse Maliki of sidelining them and say the Shi’ite leader is amassing power at their expense. His backers say the premier’s partners in power-sharing are trying to unseat him. Baghdad and the Kurdish capital Arbil are currently fighting over exports. Kurdistan has threatened to stop its share of national oil exports at the start of September, claiming Baghdad is not fulfilling payments to companies working there.
**NEWS IN BRIEF**

Iraq says Kurdish authorities have not supplied the correct paperwork and receipts for an audit of payments. Adoption of a new oil and gas law has long been considered critical to the success of Iraq’s rapidly developing oil sector, although Baghdad has signed multibillion-dollar contracts with global oil majors despite antiquated legal safeguards.

Last year, Maliki and Kurdistan agreed by December 2011 they would either amend the 2007 hydrocarbons law as agreed by all political factions or adopt the 2007 law as is. But that deadline past without agreement.

The 2007 draft gives regional powers partial authority over their reserves, and Maliki advisors have said in the past they would prefer that version because time was running short.

Autonomous since 1991, Iraq’s Kurdistan runs its own government and armed forces, but relies on the central government for a percentage of the country’s oil revenues from the national budget.

Shawish said Kurdish officials believe signing exploration contracts with oil majors without Baghdad’s permission is a constitutional right. Disputes flared because Baghdad relied on old oil laws from Saddam Hussein’s era centralizing control, he said.

“The controversy comes from this point, relying on old laws while looking for a new law in line with the constitution,” the Kurdish politician said.

**REUTERS, August 30, 2012**

**Fitch affirms IPIC at ‘AA’; outlook stable**

Fitch Ratings has affirmed Abu Dhabi-based International Petroleum Investment Company PJSC’s (IPIC) Long-term local and foreign currency Issuer Default Ratings (IDR) at ‘AA’ and Short-term IDR at ‘F1+’. IPIC’s and IPIC GMTN Limited’s foreign currency senior unsecured debt ratings have also been affirmed at ‘AA’. The Outlook for the Long-term IDRs is Stable, in line with the Outlook for the Emirate of Abu Dhabi (‘AA’/Stable/’F1+’).

IPIC’s ratings are aligned with Abu Dhabi’s sovereign ratings under Fitch’s parent and subsidiary rating linkage methodology. Fitch considers IPIC to be a strategic asset to the government in its role as an investment vehicle for the state in the domestic and foreign hydrocarbon and petrochemical sectors. Any change to Abu Dhabi’s sovereign ratings is highly likely to result in a similar change to IPIC’s ratings.

Negative rating action could occur if IPIC fails to maintain a ratio of total portfolio value to total net borrowings of more than 1.5x at the IPIC parent company level. The ratio was 1.9x as of December 2011. Fitch currently views this coverage ratio as being satisfactory for an investment-grade (IG) rating given IPIC’s profile, but low versus IG investment holding companies in general.

The ratings could change if IPIC embarks on a fundamental deviation from its core energy investment mandate with or without the support or involvement of the government. A material deviation away from core investments in energy-related sectors that is greater than 20% of the total group portfolio value would lead Fitch to re-evaluate the ratings.

IPIC’s standalone credit profile, based on its relatively weak credit ratios compared with other investment holding companies, is assessed in the ‘BB’ rating category.

In 2011, IPIC’s parent level debt almost doubled to USD19.2bn mainly due to the Compania Espanola De Petroleos, S.A. (CEPSA) acquisition. This resulted in a weakening of the company’s total portfolio value to total net borrowings ratio to 1.9x in 2011 from 2.7x in 2010. IPIC’s parent company dividend and interest income to interest expense ratio was a low 1.3x in 2011.

IPIC’s debt accounted for 9% of Abu Dhabi’s GDP in 2011. IPIC’s 95%-owned subsidiary, Aabar Investments PJSC, investing in the non-hydrocarbon sectors, had debt of USD9.7bn at YE11 or 4% of Abu Dhabi’s GDP. Aabar’s debt is non-recourse to IPIC.

Fitch believes IPIC’s liquidity is presently limited, and estimates there is around USD1.3bn of available cash at the parent company level versus 2012 debt maturities of USD1.5bn (excluding about USD1.4bn of “on demand” borrowings that can be called by lenders at any time). IPIC’s debt maturities of USD3.1bn in 2013 remain challenging despite early repayment in May 2012 of AED1.89bn (USD0.5bn) of two outstanding facilities which were each maturing in 2013. IPIC also refinanced certain parent-level bank syndicate credit facilities in March 2012. An onerous repayment schedule could put negative pressure on the company’s liquidity.

Fitch understands that most of IPIC’s short-term debt is related to the Abu Dhabi Crude Oil Pipeline (ADCOP) project (related debt of USD2.9bn). IPIC intends to repay a material portion of this debt maturing over 2012 and 2013 by realising value of the ADCOP project, either through government or commercial channels. IPIC has invested approximately USD4bn in the project, which became operational in July 2012. IPIC’s state-owned enterprise status means it enjoys ready market access. Fitch expects it to be able to refinance its obligations on international capital markets. International and domestic bank relationships also appear strong.

**FITCH, August 29, 2012**

**Abu Dhabi oil worker on the run after being accused of taking bribes**

An oil company worker is on the run after being accused of accepting Dh10.5 million in bribes from an insurance company.

The Canadian was reported to prosecutors by an Abu Dhabi business, which alleged he was caught accepting money from the insurer in return for accepting bids for business.
The company said the money was being paid into an account outside the country. Prosecutors have also charged two Jordanians from the insurance company - the chief executive officer and general manager - with presenting bribes.

**THE NATIONAL, September 3, 2012**

**GAS**

**Iraq to make gas exploration deals more lucrative**

Iraq will make future energy exploration contracts more lucrative in a bid to lure a greater number of foreign firms to auctions for exploration blocks, a spokesman said on Sunday. The concessions come after the country held a disappointing auction for oil and gas exploration blocks in May in which a dozen plots of unexplored territory were offered up, but only four contracts awarded.

“We will give more concessions to foreign companies,” oil ministry spokesman Assem Jihad told AFP. “We want to encourage the companies to develop our gas fields.

“Economic and financial aspects will be reviewed in light of our experiences. The final details of the contracts will be worked out between the foreign companies and the oil ministry.”

Last month, deputy prime minister responsible for energy affairs Hussein al-Shahritani said officials were carrying out “a study in the ministry of oil to improve the model of contract to make it more attractive for oil companies.”

He admitted that the May auction was “not successful” because the contracts were “very tough.”

Iraq has proven reserves of 143.1 billion barrels of oil and 3.2 trillion cubic metres (111.9 trillion cubic feet) of gas, both of which are among the highest such deposits in the world. Along with ramping up oil production, the country is keen to increase gas extraction to help boost its low levels of electricity output.

**AFP, September 2, 2012**

**Myra gas well’s moment of truth arrives**

The Israeli capital market is tensely waiting for the announcement by the partners of the results of the Myra 1 exploratory well, due within days, which should clarify whether the reports that the well is a failure are true or not. “Globes” reported in August that no substantial signs of natural gas were found in the well’s original target strata. Nonetheless, the share prices of the well’s main Israeli partners - Israel Land Development Company Energy Ltd. and Modin Energy LP - have risen sharply ahead of the announcement. The companies are currently trying to rebuff pessimistic assessments about the well’s results and that the rig will not carry out production tests. The companies call these assessments “speculation”, and have said that no decision on production tests have been made yet.

A source close to the Myra well’s partners told “Globes”, “There is nothing yet to report. We still don’t know whether there will be production tests at the Myra well or not.”

The companies have stated that if the Homer Ferrington rig, which is drilling the Myra 1 well, carries out production tests at a cost of $21 million, they will only be conducted if enough gas is found to justify commercial development of the field. If the companies decide against conducting production tests, this will be an admission of failure for the well, and the rig will move on to drill a new exploratory well at the Sarah license, held by the same licensees, which is estimated to be smaller than the Myra field.

The combined costs of the wells is $160 million, most of which is being financed by capital raised from the public by the licensees: ILDC Energy, controlled by Ofer Nimrodi; Modin Energy, controlled by Tzahi Sultan and Nochi Dankner through IDB Development Corp. Ltd.; and IPC Oil and Gas Holdings Ltd. (IPC).

TASE investors today expressed optimism about the Myra well’s results, reflected by the jump in the share prices of ILDC Energy and Modin Energy. The Myra 1 well has been the focus of unusual attention by the capital market since the drilling began in June by the Homer Ferrington rig, owned by Noble Corporation. The well operator, Canada’s GeoGlobal Resources Inc. is a small company, which owns 5% of the Myra and Sarah licenses. In early August, the companies announced that a breakdown in the drilling would delay the project by a week and add at least $4 million to its cost. A week later, “Globes” reported that the well had reached the target strata, but that no substantial signs of gas were found. The well’s partners said in response that they had decided to pursue the drilling on the basis of data which indicated that the gas was in deeper strata than originally thought, and because the chances of finding gas had not diminished. They decided to carry out sidetrack drilling to reach the deeper strata, avoiding the well’s original path. Geologists familiar with the well have a somewhat different take on the companies’ conduct, saying that since the main reservoir turned out to be empty, the companies were seeking nearby pockets, using the pinch-out method. This week’s announcement will hopefully resolve the contradictory explanations.

Investors believe Nimrodi works miracles

TASE investors like Ofer Nimrodi, which seems to be the only logical reason why the share price of ILDC Energy rose 34.3% today, given that there was no announcement about the Myra 1 well to justify such a jump. On the contrary, professional assessments about the well are pessimistic.
The only reason that can explain the rise in the share price is emotions - investor sentiment about a man who offers them color, excitement, and dreams of easy riches. It’s impossible to take away Nimrodi’s marketing skills. He is the man who said when hiring the rig to drill the Myra and Sarah wells, “You don’t call a mohel at a cost of $160 million if you don’t have a son.” He is the man who handled initial talks with Israel Electric Corporation (IEC) for a gas purchasing contract, even before any gas has been found, and he is the man who rushed to sign a memorandum of understanding with a South Korean company immediately after the Tamar partners signed such an agreement. More than any other Israeli businessman, Nimrodi is depicted as the man who can compete against Yitzhak Tshuva’s formidable gas monopoly through Tamar and Leviathan partner Delek Group Ltd.

Appreciate the energy and chutzpah Investors appreciate Nimrodi’s energy and chutzpah and have compensated accordingly. They have priced ILDC Energy’s rights to Myra and Sarah at several times the value of gas exploration companies with similar characteristics, such as Shemen Oil and Gas Resources Ltd. ILDC Energy, which owns 40% of the rights to Myra and Sarah, has a strong, modern fleet and the largely diversified provided by a 25-vessel strong fleet, demonstrating satisfactory vessel availability and operating performance, although Fitch notes that no technical or operating reports providing third-party confirmation are due and available. Based on the financial statements for 2011, Fitch calculates the total debt service cover ratio (DSCR) at 1.23x. A calculation of separate DSCRs for the senior and the junior debt is not possible given information availability.

The ratings are supported by Nakilat’s integration within the Qatari liquefied natural gas (LNG) industry, the pass-through of the key operating costs, the diversification provided by a 25-vessel strong, modern fleet and the largely fixed-rate nature of the project debt matching the revenue stream derived from availability-based charter payments. Nakilat’s vessels provide an essential service for the charterers, four upstream LNG producers (Qatargas 2, 3 and 4, and Rasgas), through the shipment of LNG from Qatar to the consuming markets, making the project strategically important within the Qatari vertically integrated LNG industry. Fitch views Qatar as a long-term, reliable and low-cost producer of LNG globally, which has invested heavily in LNG production and transportation in recent years. All four LNG upstream projects have been established by the Qatari government through state-owned Qatar Petroleum (which also controls Nakilat) and have been granted long-term extraction and production rights to source natural gas in the abundant North Field. The four projects are regarded as highly profitable and stable enterprises with very low cost bases. Fitch also notes that charter payments to Nakilat rank senior to debt service in the charterers’ priorities of payment resulting in an extremely stable and secure revenue source for Nakilat.

In addition, the charter payments include a capital and an operational cost component and hence a pass-through of the main operational costs. Voyage costs such as fuel and port charges are directly borne by the charterers. Nakilat also benefits from the management support by Shell International Trading and Shipping Company, a very experienced shipping contractor in the hydrocarbon sector.

The bonds are part of a debt programme to finance 90% of the USD7.459m delivered costs of 25 large LNG tankers to be chartered to upstream LNG projects in Qatar. The bond proceeds have been on-lent to separate vessel owners, wholly owned by Nakilat Inc. Each vessel owner in turn guarantees Nakilat’s obligations. The ratings could be downgraded if Nakilat was to experience a significant increase in non-pass-through operating costs or if there was a protracted and material downturn in the LNG market affecting the charterers and ultimately Nakilat. The Stable Outlook indicates that Fitch currently does not consider such risks to be a concern.

Fitch Ratings has affirmed Nakilat Inc’s ratings as follows:
USD850m Series A senior secured bonds due 2033: affirmed at ‘A+’;
USD291m Series A subordinated second priority secured bonds due 2033: affirmed at ‘A-’;

Fitch affirms Nakilat bonds at ‘A+’/‘A-’; outlook stable

GLOBES, September 3, 2012

FITCH, August 29, 2012
Abu Dhabi launches new port, may compete with Dubai

Abu Dhabi launched operations at a multi-billion dollar port facility on Saturday, seeking to diversify its oil-based economy with a project that could intensify competition for the region’s shipping traffic with neighbouring emirate Dubai.

Abu Dhabi Ports Co (ADPC) said Khalifa Port, built on a man-made island in the Taweelah area, and its adjacent Khalifa Industrial Zone would together be two-thirds the size of Singapore when fully built. The port facility and the industrial area have so far cost $7.1 billion to build, ADPC chief executive Tony Douglas told reporters. He said government support meant the firm would not need to raise money in public markets.

“We are government-owned so we have government facilities and we also have bilaterals with some of the leading banks.”

Khalifa Port’s container terminal currently has an annual capacity of 2.5 million twenty-foot equivalent units (TEU). This can be raised to 5 million TEU according to demand over the next few years. Abu Dhabi has said its long-term goal is to increase it to 15 million by 2030, depending on demand. The port can also handle 12 million tons of general cargo annually in the first phase, including 4 million tons from an Emirates Aluminium berth that opened in 2010.

Khalifa Port will gradually take over all container traffic from Abu Dhabi’s existing Mina Zayed port, which has reached its capacity of 1 million TEUs. “Over four to six months we hope to complete the migration of all traffic that goes into Mina Zayed to the new port,” said Douglas. Mina Zayed will continue handling some commercial cargo and concentrate on developing a cruise liner business.

Abu Dhabi, capital of the United Arab Emirates, is investing billions of dollars in infrastructure, real estate and tourism to diversify its economy. In shipping, the obvious challenge to its growth comes from Dubai, whose much larger Jebel Ali port is only about 40 km (25 miles) north along the coast.

Last December DP World, the world’s third-largest port operator and owner of Jebel Ali, said it would invest $850 million over three years to boost the port’s capacity by 4 million TEU to 19 million.

Both companies have dismissed suggestions that they could end up competing for market share. ADPC maintains that Khalifa is a destination port, unlike Jebel Ali which focuses on transhipments to other ports.

“We are still growing to the extent of 7 or 9 percent this year. Also, what we foresee in terms of productivity being expanded in basic industries like aluminium and others will bring more capacity on line, and that will drive our growth,” said Martijn Van De Linde, chief executive of Abu Dhabi Terminals. Noting that the export-import ratio at Mina Zayed was about 80 to 20, he said Khalifa’s growth would be driven by exports.

“Industries based here are now starting to produce and export to China, Europe, Mediterranean and other regions. So our growth is being driven by exports and we have healthy imports as well.”

However, the unstable global economic climate could pose challenges for both Abu Dhabi and Dubai. DP World posted flat half-year profits on Wednesday and said uncertainty in the world economy was slowing growth of the industry.

Within the UAE, Dubai has taken the lead in areas including aviation, tourism and trade but Abu Dhabi is gaining momentum in those industries on the back of its oil-based wealth. Abu Dhabi’s Etihad Airways, launched in 2003, is competing aggressively with well-established Emirates in aviation.

REUTERS, September 1, 2012

PETROCHEMICALS

European, Asian firms bid to expand Saudi refinery

European and Korean companies have bid for a project to double the capacity of an oil lubricants refinery in Yanbu controlled by state oil giant Saudi Aramco, industry sources said on Monday.

South Korea’s Samsung Engineering and Hyundai Engineering and Construction, Italy’s Saipem and Spain’s Tecnicas Reunidas bid on Sept. 1 for the project, which is being developed by the Saudi Aramco Lubricating Oil Refining Co (Luberef).

The firm, 70 percent-owned by Saudi Aramco and 30 percent by Saudi Jadwa Industrial Investment, produces around 550,000 tonnes per year (tpy) of oil lubricants at its two refineries on the kingdom’s Red Sea coast at Jeddah and Yanbu.

The capacity of the Yanbu refinery will double once the project is completed in 2015. It now has a capacity of 280,000 tpy of oil lubricants, and the expansion will produce other types of base oil, new to the Gulf region, Luberef has said.

An executive at the firm said in 2010 the cost of the project was expected to be around $1 billion.

REUTERS, September 3, 2012

Enoc to enter Saudi market with Dh400m investment

Emirates National Oil Company (Enoc), the Dubai government-owned oil and gas company, is planning to take its petroleum-retailing business to Kingdom of Saudi Arabia with a total investment of Dh400 million, the company announced on Tuesday.
Enoc has signed a joint venture agreement with Aldrees Petroleum & Transport Services Company (Aldrees), one of Saudi Arabia’s largest petroleum retailers and commodity hauling companies, to set up over 40 service stations in different locations across the kingdom.

With a 50:50 joint venture, the project will start with initial investment capital of Dh45 million to cover four service stations, according to the first phase of the strategic plan.

Pointing to the importance of the Saudi market, Burhan Al Hashemi, Managing Director of Retail at Enoc, said: “Saudi Arabia is a strategic market that offers perfect market synergies for our growth.”

He also said that Enoc’s entrance into the Saudi market will make good revenue from returns on fuel and retail. “Since Saudi Oil is subsidised by Aramco and with joint venture terms of an equal 50 per cent, revenues to both parties for both fuel and non-fuel return will produce significant profits,” Al Hashemi said.

He said Enoc sites will be similar to the Enoc stations in the UAE. “It will be significant to share our expertise by reaching out to a wider audience in the GCC and targeting two more destinations - and one internationally - in the near future. The investment is in accordance with our expansion plan,” he said, adding that the addition of several lifestyle brands as well as specialised automobile-related retail services has further underlined the company’s credentials in value-added offerings.

“This joint venture will also create new jobs for young Saudis and we will focus on strengthening their job competencies through our training programmes, thus serving as an effective partner in the Kingdom’s Vision.”

Abdulalah Sa’ad Al Drees, CEO of Aldrees said: “With a network of more than 450 service stations in the Kingdom, Aldrees is an industry leader in petroleum retailing in Saudi Arabia. In line with our commitment to add value to our stakeholders, we are continuously exploring expansion opportunities that bring clear differentials to the market. “Enoc has a tremendous breadth of retailing experience that is a perfect fit for our core strengths. We are confident that the joint venture will create a new history in petroleum retailing in the GCC region and offer enhanced services for the convenience of our customers. The stations will also be of immense value to travellers, especially during the Hajj season.”

Al Hashemi added: “The success of our retailing operations is led by a commitment to offer our customers value added and superior lifestyle experiences. In addition to operating convenience stores that meet the varied needs of our customers, we will continue to expand our portfolio of world-class cafes and dining concepts across the region.”

“Our partnership with Aldrees marks a milestone in the operations of Enoc Retail. This is a perfect example of two organisations drawing on their strengths to offer value to customers,” he said.

With more than 70 million customer transactions annually, Enoc Retail has over 4,000 employees who spearhead the retailing of fuel, petroleum products and an array of products and services, most of them targeted at the everyday requirements of motorists. The retail business also has many brands in the food & beverage sector, providing management services and franchising the brands across the Middle East and North Africa region.

GULF NEWS, August 28, 2012
STATISTICS

Middle East onshore rig count

Source: Baker Hughes

Middle East offshore rig count

Source: Baker Hughes
### Middle East Oil Rig Count

- **Abu Dhabi**
- **Iraq**
- **Kuwait**
- **Oman**
- **Saudi**
- **Syria**
- **Yemen**
- **Other**

Source: Baker Hughes

### Middle East Gas Rig Count

- **Kuwait**
- **Oman**
- **Pakistan**
- **Saudi**
- **Other**

Source: Baker Hughes
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**HEADLINES FROM A SELECTION OF NEWSBASE MONITORS THIS WEEK**

**Oil and Gas Sector**

**AfrOil**  
Production of South Sudan’s Nile Blend could take almost a year to restart.

**AsianOil**  
India’s state auditor CAG has slammed ONGC for being inefficient and slow to develop new discoveries.

**ChinaOil**  
Sinopec’s first-half profit fell by 40% year-on-year to US$3.86 billion.

**NorthAmOil**  
Shell has asked for more time to drill in the Arctic after a series of delays to its summer exploration programme.

**LatAmOil**  
Petrobras posted a 1.12% fall in monthly production in July.

**GLNG**  
Qatar is confident that it can continue to meet Japan’s LNG needs in the aftermath of the Fukushima disaster.

**Unconventional OGM**  
ExxonMobil and Apache will discuss joint development projects in the Vaca Muerta shale with Argentina’s YPF.

**Downstream MEA**  
Zimbabwe is planning to build a second oil pipeline to boost fuel transport capacity from Mozambique.