

# EurOil

## EUROPE OIL & GAS MONITOR

23 January 2014

Week 03

**Issue 236**

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- ❖ Intelligence

Published by

**NewsBase**

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## New order

After a mixed 2013, there is confidence that merger and acquisition activity in 2014 will maintain the momentum seen in the fourth quarter.

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- **The valuation of E&P assets is still low, as many companies are cash-constrained. Greater access to capital is necessary for this to change.** *(Page 2)*
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- **The company is to sell off some of its North Sea oilfields as well as parts of its refining portfolio and some early-stage projects.** *(Page 7)*

## Brakes on

Major gas developments in the East Mediterranean are advancing more slowly than expected as economic and political problems take their toll.

- **US firm Noble does not plan to drill more wells in the East Med until late 2014 at the earliest.** *(Page 4)*
- **Cyprus' fragile economy makes investment in key energy infrastructure difficult.** *(Page 4)*

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## COMMENTARY

# The new order of the M&A market

After a fluctuating 12 months, there is confidence that deal-making in 2014 will maintain the momentum that began to build in the final quarter of 2013

By Sam Wright

- M&A activity in Europe in 2013 started slowly but had picked up by the end of the year
- There is optimism that the uptick in activity will continue into 2014
- Divestment by the majors is opening the market to mid-level independents

It is fair to say that 2013 was a mixed bag for Europe's oil and gas sector. While investment soared, rising costs, a general lack of exploration success and a bleak economic climate dented confidence across the industry, meaning that few firms were willing to spend capital or take the risks associated with mergers and acquisitions.

According to a recent report by Wood Mackenzie, total M&A expenditure across the UK's oil and gas industry fell to GBP1.1 billion (US\$1.8 billion) in 2013 from GBP6.1 billion (US\$10 billion) the previous year. Throughout Europe, overall deal figures closed at a 20-year low.

During 2012, the M&A landscape was dominated by Rosneft's US\$60 billion buyout of TNK-BP. Yet in 2013, the largest deal worldwide was just a tenth of this sum, with Devon Energy making a US\$6 billion acquisition of GeoSouthern Energy's assets in the Eagle Ford shale oil play in the US.

## Slim pickings

In Europe over the past twelve months BP and Rosneft again took centre stage, with the UK-headquartered firm agreeing a US\$4.9 billion deal in March for 5.66% of the Russian firm's shares from OFSC Rosneftegaz. In the first half of the year, there was very little further M&A activity of any note.

However, after the nadir of the second quarter, where deal volumes fell to just US\$500 million, Q3 saw Austrian firm OMV make a high-profile US\$2.65 billion purchase of a number of Statoil's assets in the North Sea and Atlantic margin. Statoil, the biggest discoverer of

new fields in 2013, said that it was seeking more revenue to develop its giant Johan Sverdrup field in the Norwegian North Sea along with its further-flung interests in Brazil. Meanwhile, Rosneft signed deals with both ExxonMobil and Statoil. Morgan Lewis' international energy and infrastructure partner, Lewis Jones, described the accords as heralding "the return of significant new foreign investment into Russian oil and gas, though on much different terms than the optimistic days of the 1990s."

Intriguingly, the biggest European deal of the final three months of 2013 largely flew under the radar. In November, Italy's Eni sold its stake in the Severenergia gas project in Russia's Yamal Peninsula for US\$2.94 billion to Yamal Development, an equal joint venture between Gazprom Neft and Novatek. Speaking to NewsBase, Imprima – a firm that provides virtual data rooms for clients undergoing M&As – CEO Torgny Gunnarsson, said that the deal marked the continuing rise of gas transactions in recent months, which climbed four-fold from 2012 to 2013. "There's a specific appetite for these M&As in Southern and Eastern Europe as the potential for cross-continent sales grows," Gunnarsson explained. "Another similar deal, completed in December and

worth US\$300 million, involved the acquisition of a 29.99% stake in Exillon Energy by the Russian private investor Alexei Khotin. Exillon Energy, much like Severenergia, is an oil and gas exploration business, highlighting the growth in the exploration and distribution market."

## Blurred lines

Interestingly, this also emphasises another trend. "Joint venturing has become increasingly challenging over the last decade," says London School of Business and Finance's (LSBF) head of research, Steve Priddy. "It was always seen as a vehicle for allowing IOCs and NOCs to work together, giving IOCs access to the acreage, while they enhance the traditional inefficiency and bureaucracy of NOCs," he added.

"However, JVs have taken a hammering – think of BP in Russia, for example, while NOCs are pursuing more aggressive growth strategies such as Statoil's plans and achievements beyond the Norwegian Continental Shelf."

This pattern reflects the successes of China's state energy firms, the biggest spenders on M&As during 2013 by far. It seems likely that as 2014 progresses the boundaries between some IOCs and NOCs will continue to become indistinct during exploration. "We can see a transition taking place, with the monopoly of traditional operators dissipating in favour of a more open market," said Edinburgh-based accountancy firm Campbell Dallas' corporate finance partner, Tom Faichnie. ▶▶

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***"It would not be surprising to see a pick up from the lows of 2013, but not back to the frenetic pace of 2012 and earlier"***

## COMMENTARY

“Statoil is expanding and its Eurasian operations include long-term activities in the UK, Ireland, Faroe Islands, Azerbaijan and Russia. Its acquisition activities have allowed many of these operations to come to fruition. Gazprom, Saudi Aramco, Apache and Talisman Sinopec are also putting down roots in Europe.”

### An unsteady outlook

Outside of the state firms, the view for 2014 remains unclear. Berwin Leighton Paisner’s global co-head of mining, Alexander Keepin, believes the optimism in the market is positive given the sluggishness of early 2013, but is still unlikely to lead to a spate of expansions by smaller companies.

“It was a very difficult year for deals last year, as the focus, particularly in the integrated oil companies, was on capex reduction, which meant that there were fewer mergers and acquisitions and less money spent on development and exploration,” he said. “We believe that there is increased optimism going forward but we are expecting a large part of that to be with the mid-market independents,” Keepin added.

“Elsewhere, the focus on shareholder returns is likely to continue. The valuation of E&P assets is still low, as many companies are cash-constrained and it needs greater access to capital for this to change. Stronger economic performance from the US will help in this regard but the other key factor is the oil price, which a number of commentators predict will fall.”

Since September 2013, crude oil prices have dropped sharply from a peak of US\$110 to current levels of around US\$94. Given that production from the US shale oil sector is set to increase over the coming months, while output from both Libya and Iran – the latter owing to a seeming breakthrough in the standoff over its nuclear programme – is also poised to rise, the signs appear to indicate that this trend will continue.

This is a sentiment backed by consultancy firm ECON Oil & Gas, with its managing director, Ole Njaerheim, saying: “Given that there seems to be less cash available for transactions, it is also likely that prices could be lower going forward.”

He added: “The main driver for more transactions in the market would be higher oil and gas prices. If they stay at today’s level we expect the market to be slow because of expected prices not being achieved.”

Njaerheim also noted that several appealing assets had come onto the market. “A number of companies and assets have been put up for sale, including Marathon’s assets in northwest Europe, Talisman in Norway and RWE DEA. These are significant transactions, and should be of interest for a number of players. But the big question [whether] the owners will get a bid they are likely to agree to?”

Morgan Lewis’ head of the Energy Transactions practice and partner, David Asmus, added: “We are perhaps more sceptical about the overall level of oil and gas M&A in 2014.”

Speaking from the firm’s Houston office, he continued: “It would not be surprising to see a pick-up from the lows of 2013, but not back to the frenetic pace of 2012 and earlier, unless there’s a surprising shift in prices, or similar factors.”

He went on to attribute this to a settling of the dust caused by the shale boom, where some US independents offloaded their international assets in order to focus on acreage back in North America. Whilst some of this activity may continue into the coming year, it seems that the majority of big spenders and sellers have had their fill.

Either way, the global marketplace remains heavily tied to the performance of the US energy sector, whether it is because of falling crude prices, global divestments or the flood of cheaper gas that has entered the market.

As Lewis Jones from Morgan Lewis concluded, the overall impact is profound: “Many US independent are retreating from their international investments and their places are being taken by a diverse range of new entrants: Asian SOEs, frontier-focused juniors, private equity investors searching for returns and even service companies venturing into E&P.

“Middle East gas is flowing east, not west; Russia’s dominant position as Western Europe’s gas supplier is no longer assured and Africa sees its energy future inexorably tied to Asia. In short, there’s disruption to the old order.” ■

## East Med faces uncertain 2014

Major gas developments in the East Mediterranean are advancing more slowly than expected as economic and political problems prevail

By Gary Lakes

The Ensco 5006 drill rig is due to set sail from the Cypriot port of Limassol to Singapore for refurbishment in the next few days. Once it leaves, it could be the

last rig to be seen in the East Mediterranean for some time.

The Ensco 5006 arrived in Limassol during the first week of January having

finished its work for the only active operator in the Levant Basin, US explorer Noble Energy. ►►

## COMMENTARY

Noble used the Ensco 5006 for an exploration well in Israel's Tamar Southwest prospect, where a discovery of 700 billion cubic feet (19.8 billion cubic metres) of natural gas was reported, and for the first appraisal well in the Aphrodite structure offshore Cyprus, which finished in early October.

That appraisal well, which happened to be only the second well drilled offshore Cyprus, proved to be a disappointment for everyone with a stake in it, but for Nicosia most of all.

The Cyprus A-2 appraisal well showed a gross mean gas resource of 5 trillion cubic feet (141.6 bcm) compared with the earlier 7 tcf (198.2 bcm) gross mean that was estimated when the field was discovered in December 2011. The results meant that the island's plan to move forward swiftly to construct an LNG export facility at Vassilikos, east of Limassol, would have to wait for a better appraisal result, new gas discoveries or a deal with Israel to export gas from the 19 tcf (538 bcm) Leviathan field through Vassilikos.

### Noble intentions

It was a frustrating year for Noble in the East Mediterranean in 2013. Plenty happened, but little of it contributed to speeding the development of the natural gas resources the Houston-based company has discovered in the region.

While Noble was busy discovering gas and bringing the Tamar gas field on stream for Israeli consumers, the

country's government took months to determine gas resource export policy. This in turn jeopardised a deal to bring Australia's Woodside Petroleum into the Leviathan project.

It remains unclear whether Woodside will join Leviathan as a strategic partner. That decision will likely hinge on how Leviathan gas will be exported: by pipeline to Turkey; by pipeline to Jordan and the West Bank; by pipeline to Egypt, where it will be routed into the idle LNG export plants at Damietta and Idku; by pipeline to Cyprus, where it will feed into Vassilikos LNG, or by a floating LNG vessel anchored over the Leviathan field.

Israel did manage to decide that it would make 40% of its natural gas resources available for export, but now it is wrestling out a tax policy for its hydrocarbon industry. In the meantime, Noble has decided to occupy itself elsewhere. During a conference in Houston last month, Noble reported that it had discovered gross resources in its East Mediterranean acreage in the Cyprus and Israeli offshore of almost 40 tcf (1.1 trillion cubic metres), and added that "significant exploration potential remains." But Noble executives let it be known that no further drilling is planned in the East Mediterranean until late 2014 at the earliest – a signal that decisions need to be made by governments in the East Med. During the last six months, Cyprus has been in negotiations with Noble and its Israeli partners,

subsidiaries of the Delek Group, over the terms of a framework agreement for the LNG project at Vassilikos. Talks adjourned over Christmas – described as a "time out" for the Cypriot government so that it could consider a number of important issues – and are due to resume early this year, but as yet a date to restart has not been set.

### Economic headaches

One of the main issues that the Cypriot government must consider is its share of participation in the LNG project, which is estimated to cost US\$6 billion for the first train. A two-train project would cost some US\$9 billion. Ultimately, Cyprus would like to see at least three 5 million tonne per year trains operating at Vassilikos, exporting its own gas as well as Israeli gas and establishing the island as an East Mediterranean energy hub.

In March 2013, Cyprus was forced to request an economic bailout of US\$10 billion from its European partners. And since last spring the country has been living under economic restrictions set by the EU/ECB/IMF troika.

The government of Cyprus is bankrupt. It has been forced to make stringent cutbacks in its budget, its financial sector is tightly restricted, the private economy is suffering and unemployment has grown. But the country is keen to hold as big a stake as it possibly can in the planned LNG facility.

Sources close to the talks estimate that for Cyprus to secure a 50% share of the LNG project, it would need to raise at least US\$900 million in equity. And while it is clear that Cyprus wants a large stake in the project, the question is how it would raise that sort of money.

Cyprus entered 2013 with a head of steam. Following a successful offshore licensing round in 2012, the Cypriot government awarded Block 2, 3 and 9 to Italy's Eni and its joint venture partner South Korea's KOGAS. In February, it awarded Blocks 10 and 11 to France's Total. Eni and Total have acquired seismic in their respective blocks, and talk in Nicosia suggests that Eni may plan to start drilling in the fourth quarter of 2014. ▶▶



## COMMENTARY

### Lebanon

Lebanon, too, has had its disappointments. In February last year it launched the pre-qualification phase for its first offshore licensing round. Many big international energy companies applied and were accepted to participate. Lebanon has gathered considerable seismic in its offshore territory and initial interpretations of the data as reported in the Lebanese media suggest that large hydrocarbon resources exist.

But Lebanon's government resigned last March and the caretaker government in place since then lacks the constitutional authority to pass two

decrees essential for the final stage of the licensing round to take place: a decree approving the model for the production-sharing agreements (PSAs), and a decree approving the demarcation of the country's 10 offshore blocks.

After nearly a year without a government, Lebanon's political parties and factions are finally in negotiations over the formation of a new government. If a new government should be formed, it is anticipated that one of the first matters on its agenda will be the approval of the two decrees. Once they are passed, Lebanon's Ministry of Energy will likely move as fast as possible to complete the

licensing round and award blocks, but that would push the original plan back by about six months.

Despite the prospect that not a lot of exploration work will take place in the East Mediterranean during 2014, the year is going to be an important one for Cyprus, Israel and Lebanon. The decisions that these countries make this year will have an impact on the energy futures of each other as well as the region. And the events in the region will certainly have their role to play in the decisions that these three countries make. ■

## PIPELINES & TRANSPORT

### Njord Gas launches lawsuit

Njord Gas Infrastructure, which has interests in the Gassled pipeline, has filed a lawsuit against the Norwegian government aiming to overturn a cut in gas transport tariffs.

The company's partners in the Gassled pipeline network estimate the cuts will cost them US\$5.5 billion in lost earnings over 20 years.

Norway's new government has backed the decision by the previous administration to push through cuts to the tariffs as deep as 90%. These set the amount that gas pipelines operators can charge to transport the fuel from North Sea platforms to processing plants in Norway and terminals in the UK, Germany, France and Belgium. The price cuts, announced in June, will come into effect from October 2016.

Norway's previous government argued that the price cuts would encourage exploration by oil companies in Norwegian waters.

Njord's objection claims that the government's "decision to reduce the Gassled tariffs does not have sufficient legal basis and must therefore be ruled invalid," according to a statement last week. "The company also claims compensatory damages for the loss the company incurs as a result of the decision."

The Gassled owners, which also include Solveig Gas Norway, Silex Gas Norway and Infragas Norge, estimate that the cuts will reduce their income by around 34 billion krone (US\$5.5 billion), Njord chief executive officer Dan-Jarle Floelo told Bloomberg.

The company has not, however, specified a compensation amount in the lawsuit, he said.

Silex will decide at a board meeting to be held in the next "week or two" whether to join Njord in its lawsuit, its CEO Kurt Georgsen told Bloomberg last week. Solveig and Infragas Norge also said in December that they would file a lawsuit against the government but have been silent since.

Njord Gas is controlled by funds run by Swiss bank UBS and France's Caisse des Depots et Consignations and headquartered in Stavanger, Norway.

Other investors in Gassled include the Abu Dhabi sovereign wealth fund, German insurer Allianz, the Canada Pension Plan Investment Board and Public Sector Pension Board. ■

### Russia, EU clash over South Stream

Moscow and Brussels have failed to reach agreement on a number of issues related to Gazprom's South Stream natural gas pipeline project, but they have also agreed to look for possible solutions.

European Energy Commissioner Guenther Oettinger and Russian Energy Minister Alexander Novak met for discussions on South Stream in Moscow last week. Following negotiations, Nicole Bockstaller, a press officer for the

European Commission's energy policy department, said that both sides had agreed to create a working group to address all legal and technical issues related to the pipeline project. ►►

## PIPELINES & TRANSPORT

The Russian Energy Ministry confirmed this plan in its own press statement. However, neither side addressed the questions of whether a key sticking point – namely, the EC's demand that the bilateral agreements signed between Moscow and several European Union member states on the South Stream project be renegotiated.

According to the Russian business daily Vedomosti, Oettinger told journalists after last week's talks that Brussels and Moscow would "find a solution to honor the previous inter-governmental agreements Gazprom has made with European transit countries."

Last December, the EC announced that it wanted the EU members that are participating in South Stream to renegotiate their inter-governmental

agreements with Gazprom, Russia's state-owned gas monopoly. It explained the request by asserting that these accords violate EU laws governing competition and security. Specifically, it said the project could give Gazprom control over production, export and transport of natural gas, which goes against the EU market principle of "unbundling."

Gazprom and the Russian government responded by declaring that they viewed the inter-governmental agreements as valid under international law, which has supremacy over EU law. Moscow also said that all accord had been were signed before the EU adopted the laws and regulations that restrict such projects. Additionally, it reiterated its call for Brussels to exempt the gas pipeline

project from the regulations in question.

For his part, Russian Deputy Energy Minister Anatoly Yanovsky said at a European Parliament event last December that his country rejected the proposition that EU rules applied to cross-boundary projects such as pipelines that are not executed solely on EU territory.

South Stream is designed to pump up to 63 billion cubic metres per year of Russian gas to Europe. It will include an underwater pipeline across the Black Sea and an onshore network serving the Balkans, Southern Europe and Central Europe. Gazprom officially broke ground on the link last year and aims to launch it by 2015. ■

## Ukraine continues talks on reverse gas flow from Slovakia

Kyiv has signed a draft contract on reverse natural gas flow via Slovak territory and forwarded it to Bratislava for signing, Ukrainian Energy and Coal Industry Minister Eduard Stavvtsky announced on January 15.

Ukraine forwarded the document to Slovakia in mid-December, around the time when the Russian government agreed to cut its gas price for Ukraine to US\$268.5 from US\$400 per 1,000 cubic metres from January 1, 2014. The two sides had been scheduled to sign an agreement on December 4, but the deal was postponed after the Ukrainian delegation failed to arrive.

Ukraine began importing gas from the European Union under a contract with RWE. The German company began delivering gas via Poland in autumn 2012 and via Hungary in spring 2013.

Kyiv signed the contract with RWE as part of a wider-ranging effort to cut its dependence on Russian gas.

In line with this campaign, Stavvtsky announced plans to sign gas import contracts with Slovakia last September

and Romania last October. He had especially high hopes for the Slovak route, which is capable of pumping up to 10 billion cubic metres per year of gas to Ukraine.

By comparison, the Polish and Slovak routes can only handle around 2 bcm per year. Ukraine has imported just about 2 bcm of gas along these routes since shipments began in late 2012.

Ukraine has conducted talks with Slovakia with EU mediation. However, the discussions have been difficult because Russia's Gazprom, which supplies the gas on which Slovakia depends, has pressed Bratislava so as to prevent reverse flows to Ukraine. Such shipments would involve gas that Gazprom considers its own.

Last autumn, the Slovak pipeline operator Eustream finally gave preliminary approval to a gas delivery deal with Ukraine. However, Kyiv delayed the signing, apparently in anticipation of a pricing deal with Moscow.

Some Ukrainian media outlets have

speculated that the deal with Bratislava will never be signed. They have asserted that Ukraine can no longer afford gas from the EU, which will be far more expensive than Gazprom's gas this year.

Stavvtsky announced earlier in January that Ukraine stopped gas imports from Poland and Hungary, so his statement on the agreement with Slovakia on January 15 was unexpected. But on January 16, the business daily Kommersant quoted a source inside Ukraine's Energy and Coal Industry Ministry as saying that the option of gas import from Slovakia would serve as a bargaining chip in talks with Russia, which has said it would be revising the price for Ukraine each quarter.

The EU understands that Ukraine and Slovakia have not abandoned their intention to sign the gas agreement, EU Energy Commissioner Guenther Oettinger's press secretary Sabine Berger told the Ukrainian news agency UNIAN on January 17. ■

## INVESTMENT

# Shell plans US\$15 billion sell-off

Royal Dutch Shell revealed last week that it was planning to sell US\$15 billion worth of assets over the next two years. The company then issued a profit warning in which it said its fourth-quarter 2013 figures were “expected to be significantly lower than recent levels of profitability.”

In terms of its divestment strategy, Shell is to sell some off its North Sea oilfields as well as parts of its refining portfolio and some early-stage projects. Meanwhile, the Anglo-Dutch super-major anticipates profits for the fourth quarter to be about US\$2.2 billion and profits for 2013 as a whole to be US\$16.8 billion. The FT reported that the expected profits of US\$2.2 billion for Q4 include impairments of US\$700 million.

When these are discounted, the profits would be US\$2.9 billion. Shell’s official annual results are due to be published on

January 30. In a statement, the company’s new CEO, Ben van Beurden, said: “Our 2013 performance was not what I expect from Shell.”

The super-major’s fourth-quarter profits were hurt by a range of factors, including higher exploration costs, security problems in Nigeria, and maintenance work that hit oil and gas production. In December, it also cancelled a US\$20 billion project to build a gas-processing plant in Louisiana in the US. And last week, it outlined plans for its North Sea oilfield sell-off.

Commenting on the development, Santander analyst Jason Kenney said: “In the North Sea, something like 80% of its production comes from 20% of its asset base, so there’s a long tail of smaller positions.”

Meanwhile, the Motley Fool financial services company talked of a “hidden

nasty” in Shell’s latest results. “In recent years [it] has become a bloated, high-spending beast of a company,” it said.

Despite the bad news, there is some cause for optimism. The new CEO has made it clear to shareholders that he is going to implement key changes, which will likely result in a shake-up of the company’s management and assets in 2014. This should ultimately result in improved shareholder returns.

Furthermore, Fitch ratings agency believes Shell’s strategic goal of investing US\$130 billion between 2012 and 2015 is achievable. The super-major announced US\$10 billion of acquisitions in 2013, which included the purchase of Repsol’s LNG business for US\$4.4 billion and US\$1.4 billion for a 20% in a consortium to develop the Libra field offshore Brazil. ■

## PERFORMANCE

# Premier lowers 2013 results again

Premier Oil’s overall production volume for 2013 will come in at the bottom end of its estimates, despite the figure having already been revised downwards several times throughout the year.

On January 16, the company – which has operations in the North Sea, Brazil Vietnam and the Falklands – said that output for the year stood at around 58,200 barrels per day. Previously, the company had placed the figure at 65,000 bpd, which was lowered following issues at its Huntington field in the North Sea and a leak at the Chim Sao discovery in Vietnam.

Looking ahead to 2014, Premier went on to say that it anticipated producing an average of 58,000 to 63,000 bpd in 2014,

although its active oilfields have the capacity to yield over 75,000 bpd.

Premier’s CEO Simon Lockett said that 2013 had been a challenging year for the company and the industry, but that “it is, however, pleasing that production reached record levels towards the end of the year, that four new projects will achieve first oil and gas in 2014 and that our mid- to longer-term projects, including Bream, Catcher and Sea Lion, have taken significant steps forward.”

Meanwhile, the Sea Lion project in the

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***Premier said it expected to produce an average of 58,000-63,000 bpd in 2014***

Falkland Islands, which Premier took control of last year in a deal with partner Rockhopper Exploration, will now be developed with a tension leg platform, rather than a floating production, storage and offloading (FPSO) vessel. Lockett explained that this offered a more “robust and lower cost” solution.

“The final investment decision [FID] is now likely to be taken in the first half of 2015 and Rockhopper continues to expect first oil three and a half to four years after project sanction,” said Oriel Securities analyst Dragan Trajkov in a note. “Rockhopper expects a rig contract to be awarded in the first half of this year and the first well to spud in late 2014 or early 2015,” he added. ■

## PERFORMANCE

## Groningen production to drop

The Dutch government has given in to pressure from local residents and scaled back production quotas at the Groningen gas field, amid public concerns about extraction-related earthquakes and subsidence. Output will drop by about 25% over the next three years, the Ministry of Economics Affairs said.

Production at Western Europe's largest onshore gas field was 53.8 billion cubic metres in 2013, higher than normal owing to an unusually long winter. Previous forecasts had predicted the figure to remain around 49 bcm per year until 2020. But annual production will now drop to 42.5 bcm in 2014 and 2015, and to 40 bcm in 2016. The ministry said it was technically possible to reduce output to 30 bcm and still meet domestic demand. The biggest production cut – by up to 80% – will occur in the area

considered to be most at risk, around the northern Dutch town of Loppersum.

The government's decision will also mean a drop in its own income. State revenues from the gas field amount to around 12 billion euros (US\$16.3 billion) per year. The cuts will reduce this by 600 million euros (US\$814 million) in 2014, 700 million euros (US\$950 million) in 2015, and by 1 billion euros (US\$1.36 billion) in 2016, according to the ministry's own calculations. Moreover, the government has said it will make a further 1.2 billion euros (US\$1.6 billion) available to cover damage repairs and reinforcement of homes and other buildings and infrastructure.

The gas field has produced more than 2 trillion cubic metres since it was discovered in 1959, and is estimated to contain a further 700 bcm. It is operated

by Nederlandse Aardolie Maatschappij (NAM), which is a 50:50 joint venture between Royal Dutch Shell and ExxonMobil. All output is sold to the Groningen-based gas trading company GasTerra, which is owned jointly by the same two oil and gas majors and the Dutch government. Gas is mostly sold to utilities and industry in the domestic market, although some is exported to France, Germany, Italy and the UK.

But according to data from the Dutch Meteorological Institute (KNMI), around 1,000 earth tremors have been recorded in the area since 1986, with the strongest measuring 3.6 on the Richter scale. Local residents had been calling for gas production to stop since the quakes began causing damage to homes and buildings. ■

## POLICY

## Polish shale development too slow

The Polish Supreme Audit Office (NIK) has criticised the government for being too slow in developing its shale gas industry. The NIK issued a report saying the licence-issuing process was both time-consuming and unreliable.

NIK said work on the legal framework for shale gas exploration and extraction was behind schedule when it started in 2011. Some aspects have yet to be clarified, and the delays are putting off potential investors. Describing the Environment Ministry as slow to act, it said current licensing processes were unreliable and did not promote equality, and were taking longer than necessary to complete. It currently takes an average of 130 days to issue a licence, something NIK said should take no more than 30 days. The report concluded that such irregularities could potentially lead to

corruption. Beyond legislation, NIK's report was also critical of the slow progress being made in estimating the size of the country's reserves. It calculates that at current rates of test drilling, it will take another 12 years to work out the total accurately. "In order to carry this out, it would be desirable to have about 200 wells," the report said, pointing out that only around 50 wells had been drilled to date. Besides criticising the government, the report also accused the companies that have been granted exploration licences of delaying paying the licensing fees, and of either not conducting the necessary geological studies, or of conducting them with major delays.

It said that while 113 licences had been issued, only a small proportion of the territory in question had actually been

explored. Last week Italian oil giant Eni became the latest company to abandon Polish shale gas, by allowing two of its three exploration licences to expire, with the third likely to follow. Insiders blamed this decision on unclear regulations and difficult geology. ExxonMobil ended its operations in 2012, with Marathon and Talisman following suit in 2013. Of the international majors, only Chevron remains.

Foreign interest has also waned since the US Energy Information Agency (EIA) began lowering its estimate of the total Polish shale gas. Initial figures had suggested there might be 5.3 trillion cubic metres of gas in the country, but this has since been downgraded to around 346-768 billion cubic metres. ■

## PROJECTS &amp; COMPANIES

# Maersk plans wildcat and wins five new licences in Norway

Denmark's Maersk Oil has sought government approval to drill a wildcat well at the Tvillingen South prospect in the Norwegian Sea, it said last week. The announcement came just days before it revealed that it had won another five licences in Norway.

The planned wildcat well 6406/6-4 will be drilled in Maersk's operated production licence 510, in the Halten terrace area. Drilling will start in August at the earliest and will last an estimated 120 days, according to Petro Media News. The well is intended to test hydrocarbon potential in the Jura formation – in this case the reservoir is expected to contain gas condensate.

Maersk intends to use the semi-submersible Leiv Eiriksson to drill the

well at the high-temperature and high-pressure (HPHT) prospect in a water depth of 260 metres. The energy explorer operates PL510 with a 50% stake. Its partners include Edison with a 30% holding and North Energy with 20%.

On January 22, Maersk also revealed that it had been awarded five new licences in Norway, as part of the latest round of the government's Predefined Areas awards. Two of the licences are in the North Sea and three are in the Barents Sea. In the southern part of the North Sea, Maersk was awarded licences PL728 and PL732. The former is operated by DONG with a 45% stake, while Maersk holds 35% and Petoro 20%. Maersk is the operator of PL732 with a 60% stake, while partner

Suncor owns 40%. In the Barents Sea, Maersk was awarded licences PL764, PL765 and PL766. For the first two, Lundin is the operator with a 40% interest, while Maersk holds 40% and Bayerngas owns 20%. For PL765, Statoil is the operator and has a 40% stake. Lundin, Bayerngas and Maersk Oil each have 20%. Maersk also announced earlier this month that it had agreed an acquisition deal for two exploration blocks in the Kurdistan region of Iraq.

The Kurdistan Regional Government (KRG) has approved Maersk's acquisition of a 40% non-operating interest in the PiraMagrun and Qala Dze production-sharing contracts (PSCs) from Repsol Oriente Medio, the company said in a statement. ■

# Serbia punishes state gas company for failure to pay Gazprom debt

Serbia's Finance Ministry has barred Srbijagas, the country's natural gas supplier, from paying salaries to its 1,300 employees, citing the firm's failure to settle debts owed to Russia's state-run energy giant Gazprom.

Finance Minister Lazar Krstic said that the move was in line with new legislation requiring all public companies to settle their debts to suppliers within 45 days. According to Serbian media reports, Srbijagas recently missed a deadline for payment of a US\$7 million tranche of its US\$305 million debt to Gazprom for gas supplies. Serbia is heavily reliant on Russia for gas. The country consumes around 2 billion cubic metres per year of gas, but domestic production accounts for only around 25% of the total.

In 2013, Srbijagas and Gazprom signed a long-term gas supply agreement. Under the 10-year deal, Gazprom will be

supplying Serbia with up to 1.5 billion cubic metres per year of gas at preferential prices.

In 2012, Serbia bought 1.5 bcm of gas from Gazprom at an average price of US\$545 per 1,000 cubic metres. In 2013, by contrast, prices averaged US\$380-US\$390 per 1,000 cubic metres.

State-run Srbijagas is Gazprom's major partner in the South Stream project. It holds a 49% stake in a joint venture set up to build the Serbian stretch of the gas pipeline. The ministry's move is seen as an attempt to pressure Srbijagas to start a long-awaited restructuring programme. After years of bad business, debt-for-equity swaps in loss-making companies and below-market retail gas prices, Srbijagas has accrued a debt burden of around 1 billion euros (US\$1.36 billion). In 2012, it posted a loss of more than 300 million

euros (US\$406.9 million), partly because of late payments from state-owned companies in restructuring.

Dusan Bajatovic, the general manager of Srbijagas, has repeatedly said that the company was losing money because government-regulated gas prices were below what the company was paying for imports from Russia. The gas company is slated to be unbundled and divided into two parts, separating trade and distribution from storage and transportation, in line with European Union requirements. Its trade and distribution units will continue operating as Srbijagas, while its transportation and storage operations will be assigned to a company called Transgas. Both will be closed joint-stock companies controlled by the state. ■

## NEWS IN BRIEF

*The following news items are sourced from local and international news sources. NewsBase is not responsible for the contents of the stories and gives no warranty for their factual accuracy.*

### POLICY

#### Oil bosses call for action over slump in North Sea exploration

Analysts yesterday called for urgent action to boost spending on exploration and avoid job losses. One industry leader said that even where wells are being sunk, companies are not finding enough oil and gas.

The findings are a worry for the UK Treasury but an even bigger one for Alex Salmond, who has based the economy of an independent Scotland largely on North Sea revenues.

Despite record investment over the last 12 months exploration has fallen, with 15 wells drilled in 2013 compared to 48 in 2007 and 47 in 2008.

Industry body Oil and Gas UK said the Treasury and energy firms had to act. Chief executive Malcolm Webb said: "We are just not drilling enough wells and those that we are drilling are not finding enough oil and gas."

"This worrying trend started in 2011 with a 50 per cent drop in the number of exploration wells drilled, which has since failed to recover. This clearly illustrates the parlous state of exploration. Drilling rig availability and the ability of smaller companies to secure equity capital are major hurdles.

"It is clear we now face a crisis which demands urgent concerted action by the Department of Energy and Climate Change, HM Treasury and the industry if we are to maximise economic recovery of our offshore oil and gas resource and sustain future production.

"The paradox is that the UK continues to record annual levels of capital investment at over GBP13billion. We now have a two-speed North Sea. On the one hand we have seen a tremendous spurt in

activity from a small number of large, highly robust projects, plus a greater number of smaller ones."

But production from existing fields has fallen significantly.

Webb added: "Unless we do something about exploration now, we face a risk of a collapse in capital spending in a few years' time and lower future production. "The top rate of tax in the offshore industry is 81 per cent. We pay corporation tax at a combined total of 62 per cent. There's a high tax take and I think that's acting to some degree on day-to-day business. It's a significant part of the issue."

A spokeswoman for the Scottish Government said: "Investment is booming at all-time record levels. "But that investment needs to be matched by Government policies which encourage exploration, something Westminster has failed to do.

"An independent Scotland would provide the industry with fiscal and regulatory policies which help it to thrive. There are around 24 billion barrels of recoverable oil and gas remaining in the North Sea with a potential wholesale value of up to GBP1.5trillion.

"This means that more than half the value of North Sea oil is still to be extracted."

**EXPRESS NEWS, January 20, 2014**

#### Investment in North Sea oil and gas softens

The latest report from DNV GL reveals that the North Sea and Norway have become less attractive as investment destinations in 2014, according to a survey of oil and gas professionals. The UK and Norway have fallen from joint 4th position in 2012 to 7th and 9th place respectively in 2014. Meanwhile, China, Malaysia and Canada have moved up the ranks, while the US, Brazil and Australia lead the way in the top three spots.

The findings come from a new report, Challenging Climates: The outlook for the oil and gas industry in 2014, which was undertaken on behalf of DNV GL.

The report provides a snapshot of industry sentiment for 2014 and is based on a survey of over 430 oil and gas professionals and in-depth interviews with more than 20 industry executives. Confidence in the sector is lowest in Europe. Only 24% of those polled expressed strong confidence about the overall outlook for the oil and gas industry for 2014, compared with 44% in North America and 38% in Asia Pacific. Also, 20% of operators in Europe believe the oil and gas industry's prospects for growth in 2014 are less certain than they were in 2013.

Executives in Europe express the least certainty about hitting their goals compared to those in the USA and Asia Pacific, although only 10% predict falling short on profits; 49% cite skills shortages and the ageing workforce as a major concern.

Liv Hovem, DNV GL's Divisional Director for Europe, commented: "Uncertainty in the industry has a lot to do with cost, which is one of the biggest challenges for the year ahead. We're seeing signs of a softening in the mega projects, but smaller projects are still happening. Capex is rising, but subsea is mitigating some of those costs and it's a positive signal that investment in R&D will be highest in Europe, which will help ensure that mature fields remain viable and safe."

**ENERGY GLOBAL, January 21, 2014**

### COMPANIES

#### Cairn Energy outlines plans for exploration

Cairn has not included the Arctic territory in a US\$400m programme of nine oil and gas exploration wells it will drill this year as it ramps up activity around the world.

Last year the Edinburgh-based company said it planned to drill its ninth well off Greenland in 2014. In yesterday's update Cairn said only that it was maturing plans for the Pitu block, off north-west Greenland, with Norway's Statoil. ▶

## NEWS IN BRIEF

A spokesman for the company said Cairn still saw significant potential in Greenland but had been busy finalising planning for the nine wells it would drill in coming months.

Chief executive Simon Thomson said Cairn had the potential to generate more big returns for investors after amassing a portfolio that combines frontier exploration acreage, in places such as Senegal, with lower-risk assets in the North Sea.

The company made its name with a series of bumper finds in India, which funded payouts to investors worth around GBP2.2bn in 2011. It launched a US\$300m share buy back programme in October.

“Over the past 12 months, Cairn has built a long-term sustainable business,” said Thomson. “The exploration programme will provide investors with exposure to material growth potential alongside mature basin development and pre-development assets, all against a backdrop of continued balance sheet strength.”

This year’s drilling programme includes three exploration wells in the UK North Sea and one in Norwegian waters.

Cairn acquired extensive acreage in the North Sea through the takeover of Agora Oil & Gas and Nautical Petroleum in 2012, for around GBP700m in total. The company has been pleased with the progress it has made in the area and hopes to develop a series of fields that could be used to generate cash to fund exploration work around the world. Cairn Energy and Enquest have won UK Government approval to develop the GBP4bn Kraken heavy oil field east of Shetland. First oil is expected by summer 2017, with Cairn’s share forecast to be 12,500 barrel oil per day. It expects a development plan for the Catcher field, east of Aberdeen, to be submitted to the Government in the first quarter.

The results of recent appraisal drilling on the Skarfjell find made off Norway following the acquisition of Agora were encouraging.

Cairn was so impressed it has agreed to

acquire a 20% interest in the nearby Atlas prospect, for an undisclosed sum. It was awarded three more Norwegian licences yesterday.

The company has planned an active drilling programme on the licences it has acquired in relatively under-explored areas of the Atlantic Margin, where Cairn’s geologists believe there is potential to make big finds.

**HERALDSCOTLAND, January 20, 2014**

### Oil firms cool over Greenland oil drilling

None of the oil companies that have a licence to drill in the seas surrounding Greenland have applied for one in 2014, according to the environment NGO Greenpeace.

Oil companies that want to drill in Greenland will have to apply before February 1, but according to Greenland’s Mining Agency, no applications have been received thus far.

This will be the third year in a row that no company has expressed interest in oil drilling around the Arctic country.

Though oil has never been found in Greenland, the deposits are estimated to be huge, especially in the northeastern and western parts of the country.

However, oil drilling is complicated due to icebergs, rough weather and drifting ice.

“For the third year in a row, the oil companies stay away from the risky drillings and the release of big amounts of chemicals into the Greenlandic seas,” Jon Burgwald from Greenpeace Denmark told the newspaper Politiken. “An oil spill in Greenland would be a catastrophe for both the environment and the fishery, and no one – not even the Danish defence or the companies – can clean up if there’s an accident,” he explained.

According to Burgwald, Greenpeace hopes that the Greenlandic government will use the break to reconsider whether oil drilling is the right way forward for the country.

Between 2010 and 2011, the Scottish company Cairn Energy spent more than 1 billion euros on oil drilling off the western coast of Greenland.

Denmark and Greenland are currently discussing plans to allow uranium exploitation in Greenland.

**EURACTIV, January 20, 2014**

### GDF looks to energy services, not big takeovers, for growth

GDF Suez can achieve most of its planned growth without resorting to acquisitions, its chief executive said on Tuesday, after banking and industry sources said Talisman Energy had rebuffed a takeover approach by the French utility.

The sources said on Monday that GDF was still seeking acquisitions of up to US\$20 billion outside Europe and had looked into buying companies including US utility AES after being rejected by Canadian oil and gas producer Talisman. CEO Gerard Mestrallet denied any such plans on Tuesday and insisted on the strong organic growth prospects of the gas and power utility’s existing businesses, notably its energy services provider Cofely.

GDF is playing down the prospect of game-changing, multi-billion-dollar tie-ups for now. Cofely said last month it wanted to buy several smaller peers with combined revenue of 1 billion euros (US\$1.4 billion) to drive home its advantage as Europe’s biggest provider of energy services for buildings.

“In an environment with economic growth around zero and with energy demand falling by 1 to 2% per year, we are seeing growth of around 2.5% per year in demand for energy efficiency services,” Mestrallet told reporters in Paris.

Alongside its push in energy efficiency services, GDF wants to consolidate its position this year as the biggest independent power producer in emerging economies, in particular by expanding its energy services in those countries too. ▶▶

## NEWS IN BRIEF

"I believe efficiency needs will also grow in the emerging world," Mestrallet said, adding that this was why GDF last year bought a 51% stake in Emac, a Brazilian air-conditioning maintenance company with 850 staff.

In 2012, GDF also bought Chilean energy services firm Termika and invested in the urban cooling network of Cyberjaya city in Malaysia.

Mestrallet said GDF had no plans for major takeovers, and voiced confidence in the group's current balance of traditional, asset-heavy power generation and labour-intensive and capital-light energy services.

*REUTERS, January 21, 2014*

### DONG divests in Netherlands

DONG Energy has signed an agreement to divest its sales activities in the Netherlands – DONG Energy Sales B.V. – to Eneco. DONG Energy has agreed with the buyer that the sales price will not be disclosed. The divestment is still subject to certain conditions, including merger control clearance in the Netherlands. The divestment will not alter the focus on the Netherlands as a part of DONG Energy's geographical footprint, including inter alia activities in offshore wind and LNG shipping through the terminal in Rotterdam.

*DONG, January 21, 2014*

### Lundin increases debt financing

During the fourth quarter of 2013 Lundin Petroleum achieved a production rate of 31,100 barrels of oil equivalent per day resulting in production for the full year of 32,700 boepd. The profitability of the fourth quarter of 2013 will be negatively impacted by certain expensed exploration costs. These items are non-cash charges which will impact on profitability but will have no impact on operating cash flow or EBITDA, Lundin said. The net debt position of Lundin Petroleum at 31 December 2013 amounted to US\$1,182 million. Lundin Petroleum has increased its existing US\$2.5 billion credit facility

to US\$4.0 billion with its existing group of 25 banks. The credit facility will provide the necessary financial flexibility to fund the ongoing development, exploration and appraisal programmes including the Johan Sverdrup development.

*LUNDIN, January 21, 2014*

### Nautical backs out

Following its acquisition by Cairn Energy, Nautical Petroleum Limited has decided to withdraw from the P1918 licence. A farm out agreement with Nautical has been terminated and InfraStrata, together with partner Corfe Energy Limited, will acquire their 10% licence interest, subject to DECC approval. InfraStrata will acquire an 8% interest for no consideration and will include this licence interest in the ongoing farm out process. Prior to the farm out InfraStrata will hold a direct 78% interest in the licence and a further 8.8% via a shareholding in partner company Corfe Energy Limited.

*INFRASTRATA, January 21, 2014*

### InfrStata looks for partners

The formal granting of planning permission to InfraStrata for the proposed onshore to offshore exploration well in Licence P1918, Wessex Basin, in December 2013 included a condition that construction and drilling activities must take place between September 2014 and March 2015. The company says that drilling may start in November 2014. Arrangements will also be required to drill from an onshore licensed area, across which the well will be directionally drilled for 600 metres to access offshore licence P1918. Drilling will be subject to completing funding for the well through a farm out process. The dataroom opened in January 2014. The well will target prospective resources within the licence estimated by the joint venture at 10 million barrels of oil equivalent.

*INFRASTRATA, January 21, 2014*

### Largest Black Sea seismic survey completed

The largest 3-D seismic survey in the Black Sea and in OMV's history of 7,740 square km has been completed, and the company says this is a major step to explore hydrocarbon resources in the 1-21 Han-Asparuh block offshore Bulgaria. The seismic acquisition activities took 210 days and the 3-D survey is complemented by an additional 2-D seismic survey of 3,000 km which was completed in October 2013. The 1-21 Han-Asparuh block is offshore in the Bulgarian sector in the western part of the Black Sea and covers an area of 14,220 square km with water depths up to 2,200m. Partners are OMV (30%) currently the operator, Total 40% (operator for the drilling phase) and Repsol 30%.

*OMV, January 21, 2014*

### MOL says not aware of Croatian court case

Hungarian oil and gas group MOL said on Saturday that it had not been notified by Croatia about a case against it at an international arbitration court but was ready to face any procedure.

A Croatian government source confirmed to Reuters late on Friday that the government had filed a case taking Hungary's MOL to an arbitration court in Geneva to seek cancellation of a 2009 deal that gave the Hungarian company full management rights in the Croatian energy firm INA.

"We are not informed about any arbitration process by the Croatian negotiation team. Nevertheless we are very well prepared and do believe that we have a strong position regarding any arbitration," MOL said in a statement. MOL added that it would continue negotiations with Croatia about INA. The Croatian source also said talks about the partnership in INA would continue despite the court case. ►►

## NEWS IN BRIEF

State television HRT said on Friday that Zagreb wanted to void the 2009 agreement on management rights in INA, as well as a separate agreement on divesting INA's gas business.

MOL is INA's biggest shareholder with just under 50%, while the Croatian government has a stake of almost 45% and accuses MOL of acting as a majority owner. Croatia wants the right to influence major decisions.

Croatia's action on Friday came a day after the two sides took a step towards a possible compromise over INA's future, saying they had held talks in a more constructive spirit and would soon continue them.

*REUTERS, January 18, 2014*

### MOL's Hernadi to contest Croatian arrest warrant

MOL chairman/CEO Zsolt Hernadi is contesting an arrest warrant issued for his person at Croatia's Constitutional Court, a court official confirmed to the national news service MTI today. The unnamed official said the court would discuss the matter in an accelerated procedure, but decline to comment on when a decision was expected.

Hernadi filed the case on January 10.

Daily newspaper Magyar Nemzet reported in its Monday issue that Hernadi had turned to the court; he is arguing that the failure of a lower court to allow him to appeal the warrant until in custody is a violation of his constitutional rights. The Zagreb County Court issued a warrant for Hernadi's arrest in September after he failed to show up for a hearing called on suspicion that he had bribed former Croatian Prime Minister Ivo Sanader to give MOL management rights in Croatian peer INA.

After the warrant was issued, MOL said the manner in which Croatian authorities were proceeding was "in contradiction to supra-national European law." It noted that Hungarian authorities had earlier dismissed the case for lack of wrongdoing, and these decisions were legally binding on MOL, a company

bound by Hungarian law.

*MTI – ECONEWS, January 20, 2014*

## OIL

### Norway gives general good grade for oil, gas

The Norwegian Petroleum Directorate, the nation's energy agency, said Thursday oil production from November to December increased but less than it expected.

NPD said an average 1.9 million barrels of oil were produced from Norway in December, about 12,000 barrels per day more than in November.

"The oil production is 2% below the NPD's prognosis for December and 4% below the oil production in December last year," it said in a statement.

Nevertheless, the regulator said oil production in 2013 overall was in line with the NPD's predictions.

It offered no assessment of the production figures.

NPD said Wednesday interest in oil and natural gas areas off the Norwegian coast reached a record level.

"A record number of fields are in operation on the Norwegian shelf," it said. "Discoveries in 2013 offset roughly half of what was produced in the same year."

Last year, there were seven oil and natural gas discoveries in the North Sea, eight in the Norwegian Sea and five in the Barents Sea.

Combined, the new discoveries amount to as much as 666 million barrels of oil and as much as 2 trillion cubic feet of natural gas, NPD said.

Norway is one of the leading oil and natural gas producers in Europe.

*UPI, January 16, 2014*

### Norway sees major interest in offshore reserves

Sissel Eriksen, exploration director in the Norwegian Petroleum Directorate, said

energy companies find Norwegian offshore reserves attractive prospects. The NPD, the country's energy regulator, awarded 65 production licences to 48 companies for work on the Norwegian continental shelf.

"It is clear that the oil companies still consider it interesting to explore for oil and gas in mature areas," she said in a statement Tuesday.

Of the 65 production licences, the NPD said 38 are in the Norwegian waters of the North Sea, 19 are in the Norwegian Sea and eight are in the Barents Sea. Norwegian energy company Statoil secured 10 licences off the coast of Norway and will serve as the operator at seven of the reserve areas.

Irene Rummelhoff, a vice president in charge of exploration in the region, said the licences are necessary to maintain offshore production levels through 2020. Lundin Petroleum, which secured nine licences, and Maersk Oil, which secured five licences, were among the other companies securing access to the Norwegian continental shelf.

Norway is one of the leading oil and natural gas producers in Europe. Combined, discoveries off the Norwegian coast last year amounted to more than 600 million barrels of oil and 2 trillion cubic feet of natural gas, NPD said.

*UPI, January 22, 2014*

### OMV sees Norway assets as 'buyer's market' amid Statoil sell-off

OMV, the biggest central European energy company, is seeking to buy more assets off Norway as Statoil becomes more selective in its investments and other producers cut the size of their operations, pushing down prices.

"It might be becoming a little bit of a buyer's market," Bernhard Krainer, OMV's general manager for Norway, said in an interview in Sandefjord today. "There are a lot of sellers out there right now." ▶▶

## NEWS IN BRIEF

Any acquisitions by Vienna-based OMV would be smaller than last year's US\$2.65 billion deal with Statoil, which operates more than 70% of Norwegian oil and gas output, Krainer said. OMV is seeking both oil and gas assets and is "open" when it comes to their location, as long as they fit its current portfolio of 23 licences in Norway, he said.

Offshore-asset sales in Norway may this year surpass a record 19 billion kroner (US\$3.1 billion) reached in 2012 as Statoil reaps the benefits of exploration success and becomes more selective on which projects it invests in after record spending last year, industry consultant Wood Mackenzie said earlier this month. Other companies seeking to sell assets in Norway include Talisman Energy and Marathon Oil, who have said they will leave the Nordic country, while RWE is looking to sell its Dea oil and gas unit. Royal Dutch Shell, which issued a profit warning this month, will also sell North Sea upstream assets, the Financial Times has reported.

**BLOOMBERG, January 22, 2014**

### Bayerngas sees strategic growth

Bayerngas Norge has been awarded nine licences in the Awards in Pre-defined Areas and says it is happy to further strengthen its position on the Norwegian Continental Shelf. "Through these awards we have strengthened our position further in our core areas around the Frøya Hights and the Utsira Hights and we have reinforced our position in the Northern areas. In addition we have been awarded licences we see as strategic important to our portfolio. The awards of two operatorships is in addition in line with our long term ambition to run continuous drilling operations on the Norwegian shelf. I am very happy with the work our employees have done and the results we have achieved", says Arne Westeng, managing director Bayerngas Norge. Bayerngas pursues a long term strategy with the aim to establish a substantial producing portfolio and cash flow. The portfolio today includes six

producing assets and three fields under development. On this basis the company has over the last years focused on organic growth. The awards reinforce the potential for organic growth. Bayerngas now has (69) licences of which 51 are in Norway.

**BAYERNGAS, January 22, 2014**

### DNO pleased with new licences

Det norske oljeselskap (DNO) has been awarded six new licences, of which two as operator. Det norske said it is very pleased with the awards. The Ministry of Petroleum and Energy announced the awards of new production licences in mature areas on the Norwegian Continental Shelf (APA 2013). A total of 48 companies were awarded ownership interests in 65 new production licences, and 29 of these companies will be offered operatorships. Det norske is very pleased with the awards, said Project Manager Evy Glørstad-Clark.

**DNO, January 22, 2014**

### Ten licences for Faroe

Faroe Petroleum has been awarded 10 new prospective exploration licences, including two operatorships, under the 2013 Norwegian APA Licence Round on the Norwegian Continental Shelf. These 10 licences equate to the largest number awarded in this APA round, equal with Centrica and Statoil. Faroe has been awarded one licence in the northern North Sea. This licence offers exciting exploration opportunities in an area with established nearby production infrastructure in the Brage Field, the company said. Faroe has been awarded four licences in the North Sea, where the company already holds a number of licences, including the Butch oil field, discovered in 2011.

**FAROE, January 22, 2014**

### Pil exploration well spuds

Faroe Petroleum has announced the

spudding of the VNG-operated Pil exploration well 6406/12-3S (Faroe 25%). The Pil prospect (Licence PL 586) is within tie-back distance (33 kilometres) to the Njord platform in which Faroe holds a 7.5% interest. The prospect is a combined structural and stratigraphic closure and the primary target is at the shallower upper Jurassic Rogn formation sandstone which has proved to be an effective reservoir in the producing Draugen field, located 60 kilometres to the north east. The Pil licence drilling operations are operated by VNG Norge (30%) using the Transocean Arctic drilling rig with partners Spike Exploration Holdings (30%) and Rocksource Exploration Norway (15%).

**FAROE, January 21, 2014**

### Lundin expects to double oil, gas output by 2015

Ashley Heppenstall, president of Lundin Petroleum, said Wednesday oil and gas production from the company should more than double within two years. Heppenstall said the company should increase production to more than 75,000 barrels of oil equivalent per day with the help of the launch of four fields -- Brynhild, Boyla, Bertam and Edvard Grieg -- off Norway.

"We have today reserves and contingent resources in excess of 1 billion barrels of oil equivalent and our reserve position will increase by over threefold on submission of the Johan Sverdrup development plan expected by the end of 2014," he said in a statement.

The Johan Sverdrup field is estimated to contain more than 1.8 billion barrels of oil equivalent reserves.

Lundin said Norwegian developments represent 72% of its production forecast for 2014. Lundin said it set aside US\$380 million for exploration this year and the major focus of that spending would be on Norway. Lundin secured 9 new exploration licences during the latest auction from the Norwegian government.

**UPI, January 22, 2014**

## NEWS IN BRIEF

### Lundin wins four operated licences

Lundin Norway has been awarded nine exploration licence interests in the 2013 Norwegian Licensing Round. The licences include five licences in the North Sea and four licences in the Barents Sea. Four of the awarded licences will be operated by Lundin Petroleum.

*LUNDIN, January 22, 2014*

### Statoil-led appraisal permit in central North Sea

The Norwegian Petroleum Directorate has granted Statoil Petroleum a drilling permit for appraisal well 16/2-19, to be drilled from the Ocean Vanguard drilling facility at position 58°54'12.3" north and 2°29'37.8" east in production licence 265 in the central part of the North Sea.

Statoil is the operator with an ownership interest of 40%. The other licencees are Petoro with 30%, Det norske oljeselskap with 20% and Lundin Norway with 10%. The area in this licence consists of part of block 16/2. The well will be drilled about 2.1 kilometres north to northeast of the 16/2-12 well in the Geitungen segment on Johan Sverdrup.

*NPD, January 22, 2014*

### Tullow Oil expands presence in North Sea with eight new licences

The eight licences, four of which Irish-founded Tullow is the designated operator for, are located off the coast of Norway.

A total of 65 offshore licences were up for grabs. There was high interest from oil firms, despite a recent oil tax hike and increased industry costs.

Other successful bidders included Premier Oil, which gained an interest in two licences, both of which it will operate.

Norwegian authorities hope the interest

will prolong production, after the world's seventh-biggest crude oil exporter saw its oil output fall to a 25-year low in 2013. The licensing rounds were the first after the previous centre-left government, which left power in October, introduced an oil tax hike opposed by oil and gas companies.

The tax increase, together with sharply higher costs and lower oil prices, has led to delays in the development of flagship Arctic projects as well as of smaller oilfields further south.

"Tullow's appetite for Norwegian acreage, based on the number of licences pursued, would appear undiminished" said Goodbody stockbrokers.

*INDEPENDENT, January 22, 2014*

### Trapoil gains UK extension

Trapoil, after consultation with the UK Department of Energy and Climate Change, has successfully retained and secured an extension until December 21, 2014 of its interest in the P.1267 licence (Blocks 12/25a and 13/21b), which contains the Surprise and Nutmeg oil discoveries. The firm, which holds a 90% stake in these assets, said that it has performed significant technical work on them and is also working to secure a suitable farm-out partner ahead of an appraisal well to assess flow rates and unlock upside potential. Trapoil also reported that the Athena field, in which it holds 15%, is currently producing at a rate of 7,000 barrels of oil per day (1,050 bopd net to Trapoil), compared to an already-reduced rate of 7,500 bpd at the end of December.

*TRAPOIL, January 22, 2014*

### Follow-on licence for Providence partners

Having made the mandatory 25% areal relinquishment, the Spanish Point South partners have been offered a follow-on Frontier Exploration Licence (FEL1/14) by the Minister of State at the Department of Communications, Energy and Natural Resources. The principal element of the forward work programme

is the acquisition of a 500 square km 3-D seismic survey over the area, with survey planning having already started. Potential prospectivity has been identified in Upper Jurassic and Lower Cretaceous intervals similar to those which previously successfully tested oil and gas in the adjacent Spanish Point 35/8-2 and Burren 35/8-1 discovery wells. Capricorn Ireland Limited (38%, Operator (wholly owned subsidiary of Cairn Energy)), Providence Resources (32%), Chrysaor E&P Ireland (26%) and Sosina Exploration (4%) were awarded Spanish Point South as part of the 2011 Irish Atlantic Margin Licensing Round. The Spanish Point South area lies in c. 400 metre water depth in the northern Porcupine Basin and is about 160 km off Co. Clare, west of Ireland.

*PROVIDENCE, January 21, 2014*

### Rose gains licences in Germany

Rose Petroleum (formerly VANE Minerals) has announced the completion of its purchase of the entire issued share capital of Parkyn Energy Holdings which in turn owns 100% of Parkyn Energy Germany, the sole owner of two hydrocarbon licences in southwestern Germany. Rose has acquired a 100% interest in the two concessions covering over 635,000 acres for 400,000 euros. In addition, the licences are subject to a 2% overriding royalty interest in favour of 3Legs Resources of gross sales of hydrocarbons less certain costs, plus a 0.5% ORRI to the original finder. The Konstanz and Biberach licences in southwestern Germany (state of Baden-Württemberg), are within the large Molasse Basin and contain both conventional and unconventional petroleum plays. Several conventional Oil & Gas fields exist in the Molasse Basin.

*ROSE, January 21, 2014*

## NEWS IN BRIEF

### Polish crude output doubled

PGNiG, the Polish gas monopoly, doubled production of crude oil last year to about 1.1 million tonnes (8 million barrels) and raised output of natural gas to 4.6 billion cubic metres from 4.3 billion metres in 2012. In the fourth quarter alone, crude production amounted to 310,000 tonnes (2.3 million barrels, or around 20,000 barrels per day), compared with 139,000 a year earlier, it said. The jump was due to the opening of the Lubiatow oil and gas rig, the biggest in Poland, and the start of operations in Norway by PGNiG Upstream International.

*POLISH PRESS, January 21, 2014*

### GAS

### EBRD supports refinancing of Hungary's strategic gas storage

The European Bank for Reconstruction and Development (EBRD) has participated in a syndicate to refinance a strategic gas storage facility in Hungary, following the sale of MOL's majority stake in the gas storage to the Hungarian Development Bank and the Hungarian Hydrocarbon Stockpiling Association. In 2009 the EBRD co-financed the original construction of the storage facility at the Szóreg-1 reservoir in the south of the country, close to Serbia, with a 200 million euro loan to MOL, Hungary's leading oil and gas company. Following a series of supply crises, the gas storage in a depleted oil field was needed to improve energy security in Hungary and in the region. The EBRD has also financed gas storage in Croatia and allocated funds for storage in Serbia. In the current transaction, 100 million euros of the amount outstanding from the original EBRD corporate loan to MOL was converted into a long-term secured project finance loan to MMBF, the

storage operating company. With the successful financial close of this deal, MOL has sold its entire stake in MMBF. MMBF will ultimately be 51% owned by the Hungarian Development Bank (which is in turn wholly owned by the government) and 49% by the Hungarian Hydrocarbon Stockpiling Association, an independent association of all oil, oil products and gas traders in Hungary. MMBF signed the new 114 million euro (US\$154 million) and Ft 60 billion (US\$269 million) facility agreement with a group of banks, in which the EBRD was joined by ING Bank, ING Bank, a Branch of ING-DiBa, MKB Bank, Raiffeisen Bank, and OTP Bank. OTP Bank acted as agent for the transaction. EBRD Managing Director for Energy and Natural Resources, Riccardo Puliti, said: "We see this as a successful completion of a strategically important project – important not only for Hungary but for energy security in the wider region."

*EBRD, January 15, 2014*

### BNK Petroleum upbeat about Polish shale

BNK Petroleum, which has headquarters in California, said it was upbeat about the shale potential in Poland following the start of a drilling campaign. BNK said it started a horizontal drilling program at Polish shale well Gapowo B-1 and expects to spend the next 30 days on the operation. The company said it was targeting gas deposits encountered in similar operations, where "the average and maximum total gas readings were much higher than those seen in the company's other Baltic Basin wells." New drilling technologies like horizontal drilling and hydraulic fracturing, dubbed fracking, are used in shale deposits to access oil and gas reserves previously out of reach. That helped put the United States in a leadership position in terms of production of those resources. Poland is one of the Eastern European countries thought to be rich in shale gas, though the US Energy Information

Administration said optimism has waned because of "unsatisfactory exploration results."

BNK Petroleum said Wednesday its analysis of previous drilling samples leads it to believe the area is "highly prospective for shale gas."

*UPI, January 16, 2014*

### Poland's top fracker predicts commercial gas flows in 2014

Poland can expect its first commercial gas flows and a doubling of the number of shale wells this year, according to the chief executive officer of the nation's largest provider of hydraulic fracturing services.

About 30 reservoirs will be drilled, up from 14 in 2013, thanks to improved techniques and regulations, Dennis McKee, founder and CEO of United Oilfield Services, said in an interview in Warsaw. The company, based in the Polish capital, was involved in 70% of the wells completed in the past eight months, he said.

Poland, ranked as Europe's biggest holder of shale gas by the US Energy Information Administration in 2013, has sought to revive exploration after foreign investors including Marathon Oil and Talisman Energy withdrew amid regulatory constraints and government plans to increase taxation. Prime Minister Donald Tusk in November fired the deputy minister in charge of drawing up shale gas regulations and nominated a new environment minister.

"Regulations have been very rigid and it's improving now and I think it'll improve more in the near future," McKee said. "The industry will have some very good news in the next few weeks or next few months, we perform many jobs and we're seeing gas flow."

United Oilfield Services provided fracking, which blasts open rock with water and chemicals to free natural gas and oil, to explorers including San Leon Energy, PKN Orlen and 3Legs Resources and its partner ConocoPhillips. ▶

## NEWS IN BRIEF

Enterprise Investors, Poland's biggest private-equity fund, bought a minority stake in United Oilfield Services for 21 million euros (US\$28.7 million) in 2012. Commercial flows may help investment in Polish shale projects, Trevor Sikorski, the head of natural gas, coal and carbon at Energy Aspects, a consulting company in London, said by e-mail.

**BLOOMBERG, January 15, 2014**

### Exploratory offshore gas drilling to start soon in Portugal

The multinational Repsol-Partex oil and gas consortium says it will commence "clean and safe" exploratory drilling off the south coast of Portugal late this year or early next, but it may be another four or five years before it can accurately gauge if hydrocarbon deposits are sufficient to make it worthwhile to proceed to commercial extraction. The consortium has already carried out seismic surveys and other preparatory studies since acquiring the offshore concession for blocks 13 and 14 in Algarve waters in October 2011. As the exploration is still in the preliminary stages, no firm date can yet be set for the start of drilling.

Repsol, with its headquarters in Madrid and 90% of the shares in the partnership with Lisbon-based Partex, is the main operator in the Algarve project. In September 2012, Repsol in partnership with Petrobras, Galp and Partex acquired the rights to prospect in Peniche Bay north of Lisbon. The Brazilian corporation Petrobras withdrew from the consortium last May leaving Repsol as the project operator with 65% of the shares. Galp has 30% participation and Partex the remaining 5%. Drilling off Peniche is not expected to start until at least 2016.

While much more sophisticated exploratory techniques exist these days, onshore and offshore searches have been carried out in Portuguese waters for many decades. Several major companies, including Shell, Chevron and Esso, have drilled scores of wells in various

demarcated blocks, especially since the 1970s. No commercial production has ever been achieved.

The Poseidon gas fields in the Cadiz basin suggest that deposits in the neighboring Algarve basin are more likely to contain commercial quantities of natural gas rather than oil.

A Repsol spokesman told Portugal Newswatch this week that environmental and safety studies are being carried out before any drilling takes place. This comes amid public concerns about the possible impact of drilling on regional tourism and the economy, as well as the fishing industry, marine ecosystems and coastal landscapes.

"Environmental and safety studies are being conducted to guarantee a clean and safe drilling operation," the spokesman said. "Repsol does environmental and safety studies prior to any operation, taking into account the social, economic and environmental issues and following legislation and the highest international standards in the industry. The company takes into consideration such studies in the planning of the operations and works closely with national and local authorities."

On the subject of pollution, the spokesman added: "One basic difference between gas and oil is that gas evaporates and oil needs containment on water surfaces. In the event of a well failure, gas spills are easier to control than oil spills, as the gas is not retained in the seawater. No water pollution is generated and the hydrocarbon bubbles into the atmosphere until well control is achieved. In the Algarve, as no hazardous gas is expected, a gas pollution case is an extremely improbable situation."

It is still too early in the exploration process to know exactly where the Algarve or Peniche drilling rigs will be located, "but they will always be some tens of kilometres off the coast and will not be visible from the shore," said the spokesman.

**PORTUGUESE AMERICAN JOURNAL, January 16, 2014**

## SERVICES

### Expro said to attract Halliburton, GE as Arle weighs sale

Expro International Group, the oilfield-services business controlled by Arle Capital Partners, has attracted interest from Schlumberger and General Electric as the UK buyout firm prepares to sell, according to three people with knowledge of the situation.

Halliburton, which bid for Expro in 2008, may also look at the asset, said two of the people, who asked not to be identified because the matter is private. The potential buyers haven't decided to make an offer for the business, which could fetch about GBP 3 billion (US\$4.9 billion), they said.

Arle, private-equity firm Alpinvest Partners and Goldman Sachs Group, which jointly own Expro, are working with Goldman and Deutsche Bank to advise on options, the people said. While Arle is soliciting bids for Expro, the London-based buyout firm sees an initial public offering as bringing the highest valuation, two of the people said. Expro, based in Reading, England, provides exploration and appraisal testing along with drilling technologies and services.

Energy-services companies are attracting interest from potential acquirers as exploration expands in deepwater oil and gas fields and unconventional resources such as shale gas. Irish engineering firm Kentz last month agreed to pay US\$435 million for the field-solutions unit of US-based Valerus, allowing it to expand into shale-gas production.

Amec, the second-biggest UK oil and gas engineer, agreed earlier this month to buy US-traded Foster Wheeler for US\$3.2 billion to expand foreign and fuel-product business.

A spokeswoman for Goldman Sachs referred questions to Arle, whose spokesman declined to comment. A spokeswoman for Alpinvest declined to comment. ▶▶

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A Deutsche Bank spokeswoman declined to comment, as did representatives for Schlumberger, GE and Halliburton.

**BLOOMBERG, January 20, 2014**

### Seismic programme completes off Croatia

Spectrum has successfully completed its Multi-Client 2-D seismic acquisition survey offshore Croatia. This new seismic survey provides, for the first time, approximately 15,000 kilometers of modern long-offset 2-D data. The seismic survey covers the majority of offshore Croatia using a 5 km x 5 km grid. The survey connects to Spectrum's reprocessed Italian Adriatic seismic data, providing scope for basin-wide evaluation and comparisons with analogous producing oil and gas fields in the neighbouring Italian Adriatic. Seismic acquisition started in September 2013 and was completed on January 19 2014. Final processed products will be available by April 2014. The seismic is a precursor to the offshore licensing round that Croatia plans to hold in 2014.

**SPECTRUM, January 22, 2014**

### Norway to build modern icebreaker for Arctic exploration by 2016

The Kronprins Haakon modern icebreaker for exploration of resources in the Arctic will be ready by 2016, Norway's Minister of Fishery Elisabeth Aspaker said at the opening of the Arctic Borders international conference in Tromso, Norway. "For Norway it will be its ever biggest investment in a sea research project," the minister said. "The new icebreaker will be used both for monitoring of the ecology situation in the Arctic and for further exploration of the hydrocarbon resources at high latitudes." The minister continued saying Norway had an agreement on construction of a 100-meter vessel, capable of a six-months' autonomous navigation in ice, with Italy's biggest shipbuilder, Fincantieri-Cantieri Navali Italiani S.p.A. The contract's price is 1.4 billion krone (US\$227 million). The icebreaker's design was carried out by the UK's Rolls-Royce Marine. Norway's Institute for marine research in Bergen is

responsible for the implementation of the project.

As the building is over in Genoa's shipyard, the vessel will go to Norway's Polar Institute, and the first Arctic campaign is due in 2017 already.

The Kronprins Haakon, named in honor of the heir of Norway's throne, will be a most high-technology icebreaker in the world. The project meets modern ecology standards to minimize negative effects on the environment. The jury chose the name "Kronprins Haakon" because it is a name with long royal Polar traditions, at the same time reflecting the crown prince's big engagement and deep knowledge on climate and environment in Polar regions, the Polar Institute says.

The new research vessel will have ice-class Polar 10 Icebreaker. It will have cabin-space for a crew of at least 50 and be fitted for research voyages of up to six weeks in ice-covered waters. The vessel will be 100 metres long and 21 metres wide.

**VOICE OF RUSSIA, January 20, 2014**

# NEWSBASE INFORMATION

## HEADLINES FROM A SELECTION OF NEWSBASE MONITORS THIS WEEK

### Oil and Gas Sector

#### AfrOil

Following further exploration success, Tullow is in talks with the Kenyan government on oil exports.

#### AsianOil

Production from Indonesia's largest gas field is to fall this year as a result of ongoing investment uncertainties.

#### ChinaOil

China's gas imports accounted for more than 30% of annual demand in 2013.

#### FSU OGM

Tethys, CNPC and Total will begin exploring Tajikistan's Bokhtar field this year.

#### GLNG

Chilean copper firm Codelco has bought two LNG cargoes to arrive at the Mejillones terminal in 2014 and 2015.

#### LatAmOil

Petrobras' proven reserves grew by 0.8% in 2013 to over 16 billion barrels of oil equivalent.

#### MEOG

Bids were submitted in mid-January for the first EPC package for full-field development of the UAE's Nasr field.

#### NorthAmOil

TransCanada has started crude deliveries via its Gulf Coast pipeline project.

#### Unconventional OGM

Eni is pulling out of shale exploration in Poland.

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