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Letter From The Editor

Irrespective of the outcome of the airstrikes and the probability of an emergence of a coalition comprised of Russia, Iran, Iraq and Syria to fight radical Islamists, Syria is sliding slowly and surely along the path to a break up. On the other hand, Saudi Arabia, Qatar and Turkey are assembling a formidable army comprised of militants of all shapes and sizes…

Indeed, many times in the past we have warned about the break up of the existing world order through bloody civil, religious and racial wars in the MENA region. We fear that when the scores in the world's main energy hubs are settled, instability and death will probably continue spreading elsewhere, for the same or similar reasons.

Which area will be next and when? And how close to Brussels, Washington, Moscow or Berlin will it be? Until the world powers decide on how to split the spoils, we are going to see more blood of innocent victims being spilt.

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Yours Sincerely,

George Hatziioannou
Editor

Incorrect Statistics: What Does It Mean For The Oil Market?

Finally, it happened!

The US Energy Information Administration (EIA) has changed the methodology of the calculation of American oil production (see Oil Prices: Fluctuations, Convulsions, Evolution, EIRA, Volume 3, Issue 6, June 2015 and Financial Drivers Of Oil Prices' Volatility, EIRA, Volume 3, Issue 8/9, August/September 2015). The problem was the gap between the real output and the moment when that statistics of the actual output were put together and published. It took, on average, 9 month (29 months in the case of Texas production) but the figures released immediately after the end of a certain period (month, etc.) were based on estimates elaborated through a basically mathematical model.

Nobody was satisfied with that mechanism to find crucial data, EIA in the first place, and this administrative body was working on a new formula, more corresponding to the reality. Consequently, the August data claimed there was a downturn of oil production, stabilizing at 9.1 mb/day, the worse record since September 2014. The decline was to the amount of 500,000 b/d compared to April 2015, and an additional comparable drop in production EIA is forecasting for the next 12 months.

EIA also made public the revised figures about the production in the previous months, recalculated through the use of the new mechanism. It turned out that in March 2015 the acclaimed record US production of 9.7 mb/day, for the first time in 40 years, actually never happened. The peak was reached in April 2015 with 9.6 mb/day, but in June the level was only at 9.3 mb/day (instead of the previously widely communicated 9.54 mb/day).

The new data (still not yet firm statistics!) was revising downward the overall US production, cutting from 40,000 to 130,000 barrels/day. Essentially, it shows that the evaluation of US oil production is based on either biased data or on inaccurate statistics. The figures on the current US oil production are sending a wrong price signal. Taking into consideration that these figures are crucial for the market, for pricing and stock exchange operations, one should be very careful to build conclusions of the oil fundamentals on unreliable statistics.

It would be interesting to compare these figures with the real statistics, not estimates, somewhere in the mid-2016, once, finally, it would be available.

However, even inaccurate US figures do not challenge the global oil oversupply. Yet, the expert's consensus is rooted in the assumption that US oil production is going down, and this is not encouraging.

The International Energy Agency (IEA) in its monthly report, published in September, disclosed that in 2016 low prices will lead to a decline in oil production in the non-OPEC countries, mainly in the US while pushing up the global demand. The slowdown there will be the worst in more than two decades, assumes the Paris-based Agency: 0.5 mb/day, to be fixed at 57.7 mb/day, with a 0.4 mb/day cut in the US production.

Simultaneously, the forecast is that the global demand growth will reach a 5 year peak, adding some 1.7 mb/day in 2015, then it will decrease to 1.4 mb/day in 2016 (0.2 mb/day more than in the previous forecast). The Agency explains that bullish trend by low prices, a better macroeconomic context and an anticipated pretty cold 2015/2016 winter.

Some analysts start to believe that Saudi Arabia's strategy aimed to squeeze US oil from the market by low prices starts to work. That approach is shared by IEA and even by some influential London media, namely The Times and The Daily Telegraph.

In this perspective, it should also be mentioned that a powerful financial factor is also part of the equation. In H1 2015 American producers of shale oil and gas have accumulated a financial 'imbalance' of $32 billion, compared to $37.7 billion for all of 2014. The Financial Times has calculated, using Factset data, that the overall debt of producers of unconventional hydrocarbons in the US have totalled by mid-2015 at $169 billion, double the debt recorded in 2010. That financial burden will, for sure, contribute to the slowdown of US shale oil and gas production.

How will oil prices behave in that dire context?

The mainstream opinion is that the world has entered a long period of low oil prices, maybe around $50/barrel. The arguments are well known, no need to repeat them. However, one of the less mentioned but possibly the most serious argument supporting that approach is the fast developing technology.

Just one example to illustrate it. One of largest shale oil producers in the US, EOG Resources Inc., is cutting expenses, and the number of drilling rigs (from 50 to 15 in 2015 alone) but the production efficiency is growing. In 2012, the ROD was at 35% with a high oil price, now the company generates a 50% ROD with a low price. Its CEO, Bill Thomas, contrary to the market, believes that prices will go up.

Some pundits also are predicting that kind of bullish trend with the main argument being that slowing production will make it impossible to meet the growing demand.

"Current prices are unsustainable," said the founder of consultants PIRA, Gary Ross at a conference in London. "It's hard not to see oil hitting $100 a barrel at some point in the next 5 years."

He argues that the market is mistaken to believe that there is an oil oversupply because the spare capacity, mainly in Saudi Arabia is tight. In his view, the oil-rich kingdom is able to raise the output only by 1 mb/day in 90 days with some additional drilling.

Last but not least are the US Federal Reserve decisions. In September 2015, that body didn't up its rates for a number of reasons. The policy of a weak dollar is still adhered to, and, as a result, oil prices are no more going down, they have stabilized. Anyway, at a certain point, even during the current year the FED can raise them and that may affect the oil market.

The only firm conclusion to be made is that oil prices are set to remain volatile and unpredictable, also thanks to the startling lack of reliable data on the actual volume of its production in no minor actor, in the United States.

Egypt Discovers Gas Bonanza. Will It Be A Game-Changer?

The discovery by the Italian major Eni of a huge gas field in the Egyptian waters is the major event in the hydrocarbon industry in the Eastern Mediterranean. It was announced at the very end of August 2015, and has secured a privileged place in the local economic and geopolitical context.

The field is called Zohr and is part of a wider prospection block, Shorouk. It is located in deep waters (1450 m), some 190 km off the Egyptian coast. The reserves are estimated at 850 bcm. The investment decision to develop Zohr could be taken by the end of the year, drilling is likely to start in 2016, and the first product could be available on the market in 2017. It is not excluded that prospection could disclose additional potential volumes of gas in that particular zone.

So far, there is one key point to be made clear: the size of recoverable volumes at the field could be determined only after further drilling operations. Claudio Descalzi, CEO of Eni, told a panel of Italian Senate members that Zohr could contain even bigger volumes which are difficult to define at the moment.

Both the Egyptian Government and Eni were absolutely happy with the discovery which changes the state of play on the energy market in that part of MENA.

Egypt has some proved reserves of natural gas (2.2 trillion cubic meters). The internal consumption (41.5 bcm per year) is growing and is experiencing difficulties to be covered by national production. Egypt has some export obligations (15 bcm per year, mostly as LNG) but was starting to import gas in a situation of inadequate local output. Egypt was earmarked by Israel, where off-shore gas was discovered before, as the main export market.

After Zohr field gas production is put on stream, Egypt will be able to satisfy its national demand and to export some minor volumes of gas without harming domestic consumption.

It is very good news on the eve of upcoming parliamentary elections. The first leg will be celebrated on 18-19 of October, the second leg – on 22-23 of November. Egypt is living without Parliament for 3 years. The previous Chamber was dissolved in June 2012. New elections were planned before the presidential when Abdel Fatah al-Sissi was elected: a court declared the electoral law unconstitutional.

The coming poll is intended to prove the democratic roots and nature of the new regime. The House of Representatives in Egypt is composed of 569 deputies. To obtain a positive result for the regime, it needs some positive news, a rarity in times of tensions and unrest.

Eni also finds itself in a winning situation with Zohr, a huge new reserve to tap. Although most of the gas from that field will go to the Egyptian market, the Italian major could think about securing some export capacities, especially for supply to Italy. That perspective seems more attractive. The company has growing problems with working in unsecure Libya, the nearest and the traditional source of hydrocarbon resources for Italy. In the new configuration Eni may smoothly move the focus from one North African country to another and present it as a positive result of the governmental policy of engaging with Southern neighbours.

Eni plans to apply the so called fast-track development, which enables to start production in 2-3 years timeframe. The needed investment is estimated at $7 billion. The peak gas production could reach 24-29 bcm/year and cover for 3 decades half of the Egyptian internal demand and even more.

There are 2 theoretical possibilities for Egyptian gas to reach some distant export markets; first, it is Turkey, second, the EU. One is with its LNG in case of available additional volumes, the second is by pipeline.

The perspectives of LNG developments are weak while the oil prices stay at present low levels and could be considered only if the price paradigm changes significantly.

In order to organize pipeline gas deliveries to Turkey and the EU, the Arab Gas Pipeline should be upgraded by additional capacity of 15 bcm. In that case gas from Egypt may reach these markets by 2020 at the earliest.

However, there is one major obstacle to all these projects. The political and social shape of the region, after the devastating Arab Spring, is so bad, the security situation, including Egypt, is so unpredictable, the terrorist risks are so high that it is difficult to imagine large industrial and infrastructural investments in export oriented projects.

Security risk considerations combined with growing domestic demand in Egypt will set limits to the development of Zohr gas field and channel its end product to the internal market.

Nevertheless, its coming on stream will have some geopolitical implications in the mid and long-term for other hydrocarbon projects in the Eastern Mediterranean. Most affected seems to be Israel and its plans to become a regional provider of natural gas for neighbouring countries.

Israel discovered gas deposits in its offshore zone. The first discovery, very small, was made in 1999, in front of Ashkelon. Ten years later, more important fields were mapped in front of the Northern coast. The Tamar field (400 bcm of reserves) is delivering gas for 3 years already. Combined with the potential of other fields, the biggest being Leviathan (680 bcm of reserves), Israel was planning to increase its energy independence, turn to gas generation in power generation, since it is cheaper and environment friendly, but also to start exporting some volumes. The target markets were the neighbours, Palestinians, Jordan, but the jackpot was considered Egypt. Extra volumes, if any, could be liquefied and sold on distant markets.

Now, that plan is crumbling with the Egyptian market set to turn self-sufficient in 5-6 years. Israel is obliged to look for alternative, more difficult clients. Could it be Turkey? In that perspective, Israel has to combine efforts with Cyprus, because this country is in possession of another important off-shore field, Aphrodite (200 bcm of reserves). But in order to succeed, Cyprus has to overcome the decade's long political conflict with Turkey. At the same time, Aphrodite field seems to not be ample enough to consider the export option. Should Israel consider liquefying the export-designated gas? While LNG facilities in Egypt were underused due to falling production, the idea was commercially sound. Now that possibility is vanishing. Israel is studying a plan to build a common facility in Cyprus, but there is no progress so far.

The Zohr field discovery was such a sensitive blow for Israeli energy plans that the Italian Government is preparing for a political backlash coming from Tel Aviv!

Summarizing, Zohr field is not going to change the energy state of play in the Eastern Mediterranean, except for Egypt and Eni. The company is saying that it plans to organize a gas hub including Egypt, Cyprus and Israel, but does not specify how it would do it. Gas to be produced in Zohr will be designated mainly for the Egyptian market, and the country will stop importing this commodity. Simultaneously, export allocated Israeli gas is stuck without its main client, and a new destination has to be found. It's not easy at all. The volumes are not huge, even combined with Cyprus' output to justify a new costly transportation system and to challenge the well established and potential suppliers like Russia, Algeria, Qatar, Iran, etc. On top of it all, the region is not at all secure from geopolitical turbulences and military conflicts, and it creates additional risks.

Serbia's Gamble. Catering To Three Masters

In the last 10 months, right after the cancellation of the South Stream project and enhanced uncertainties over the traditional supply of natural gas to Serbia via the Ukrainian route after 2019, Belgrade launched a series of diplomatic sorties, engaging any plausible counterparts, which could offer a viable alternative.

The government of Serbia and mostly Prime Minister Aleksandar Vučić have been exploring all possible options to find the sustainable energy supplies irrespective of the political strings attached as long as it is commercially justifiable. The last argument has featured prominently. As PM Vučić repeatedly intoned, his cash-strapped government cannot afford to design and build energy infrastructure all by itself and has to rely on outside financing.

In the course of PM Vučić's recent visits to the United States (June and September) he was greeted by Vice-President Joe Biden, Secretary of State John Kerry, IMF Director Christine Lagarde, as well as members of the Congress. The end-result was interpreted by American and Serbian media as a most significant rapprochement between the two countries, which comes in the wake of March 1999 US Air Force's attacks on various targets on the territory of Serbia.

The most distinctive appraisal of PM Vučić's visit to Washington came from US Vice-President Biden who commended the government of Serbia for the intention to diversify its suppliers of natural gas. Biden added a political overtone by praising Vučić's courage in "deciding who is a partner for Serbia", further on deciphering what he meant. In Biden's perception, by coming to Washington to seek energy alternatives "Vučić is annoying the Russians with his policy."

In fact, the choice of alternatives is rather limited. The most talked about remains the Interconnection Bulgaria-Serbia (IBS), a 150-km long pipeline connecting the gas transmission networks, which is one of the favourite projects of Maroš Šefčovič, Vice-President of the

European Commission in charge of the Energy Union. Reportedly, the EU would be happy to finance IBS pipeline. The only undisclosed detail of this joint enterprise is the source of natural gas.

The other alternative, most favoured by the Obama administration, is the potential link-up with the Krk LNG terminal in Croatia, which is probably earmarked as the preferred destination for American LNG exports to Europe (see also, in this issue of EIRA: **US LNG for European Markets: Sparkling Or Still?**).

Yet, there is a deal-breaking uncertainty hanging in the air: no hard-core data on the actual volumes of US LNG to hit European shores is available so far. On the contrary, there is a solid certainty that LNG brought over from the other side of the Atlantic would be anything but cheap. Could Serbia afford it?

Judging by the complicated flurry of Belgrade's diplomatic activities sprinkled by vague and contradictory statements, the government of Aleksandar Vučić is really desperate. He keeps saying that Serbia would maintain relations "with all sides" in a clear reference to the traditionally close ties with Russia.

It has a bearing on the calculations by the Serbs not to be excluded, should it materialize, from the TurkStream project. This pipeline network is intended to bring Russian gas to the Balkans with the pipeline stretching across Greece, Macedonia, Serbia and Hungary, and ending in the Baumgarten gas hub in Austria.

However, with the current political turmoil in Turkey and even more uncertainty due to Russia's air strikes against the Islamic State militants, some of whom enjoyed preferential treatment by Ankara, the chances of TurkStream getting off the ground appear to be slim. It narrows the scope of options for Serbia.

Noteworthy, Belgrade is becoming more susceptible to the lure of the European Union's membership card (see: **Serbian Government's huge reformist ambitions**, EIRA, Volume 2, Issue 5, May 2014). In December 2014, Vučić's cabinet adopted a new energy law stipulating the break-up of the energy monopoly Srbijagas into two entities, in full accordance with the EU Third Energy Package. Srbijagas will be divided into a division dealing with transport and storage services, and another one focused solely on distribution and trading.

The restructuring of the company was criticized by its CEO Bajatović. He warned that losing ownership of Srbijagas Transportation would entail gross losses in revenues while Srbijagas Distribution would be stuck with all outstanding debts.

The rigid model of restructuring Srbijagas was adopted evidently to please the European Commission. Local observers note that in the time span of the last 10 years German business has been cultivating a more assertive presence on the Serbian market with its aggregated investments surging five-fold.

For any nation sitting on two chairs at once is a challenge. But trying to sit on three chairs simultaneously is a daredevil endeavour. Source in Belgrade has revealed that for Brussels it is not solely about energy cooperation. It is a package deal. An insider disclosed, "Serbia has to show its intention to follow and implement EU common foreign policy." To put it simple, the EU demands from Serbia to align its long-term priorities with the West, which means turning its back on Russia.

Interaction with the US also comes at a cost. The US-led International Monetary Fund required from Serbia to adjust its electricity tariffs: they should be adjusted upward to reach the average European level, despite the apparent discrepancy of the wages, pensions, and the overall standard of living. In the worst case scenario, it would drive Serbia into heavily borrowing from IMF, thus limiting both its space for economic policy manoeuvre and curtailing its national sovereignty.

…Whether or not the energy-driven pivot to the West would best serve Serbia's interests and would not produce the same dismal result as in Bulgaria (see **Bulgaria plays politics with nuclear power,** EIRA, Volume 2, Issue I, January 2014), is not only a matter of regional geopolitics. It is a key factor in shaping the future energy security in the Balkans in a wider context.

Algeria En Route To Political Transition

On 13th of September 2015 the all-mighty chief of the Algerian security service (DRS) expired. A presidential decree dismissed Mohammed Lamine Médienne, 76, alias Toufik, called also Reb E'dzair ("God of Algeria") who stayed at the top of the most powerful and feared institution in the country for a quarter of a century.

It is considered as a major shift in the Algerian political life, a starting point to a probably piloted transition of power.

Killings, tortures and atrocities were attributed to that security service. Toufik himself was never personally suspected of corruption or financial wrongdoings, or political scandals. His private life was mostly unknown. He was supposed to play football every Friday at a barrack, Béni Messous, and that his two sons were under strict control, so they never were part of the local jet-set society. Even his birthplace is not known for sure and until now the most recent photo of the general dated back to the 1990s. But he had a reputation of a patriot, thinking first about the national interest, and a kind of arbiter in the complex Algerian political life.

It is supposed that General Toufik deliberately started to classify all his personal data when he was a young officer of the Algerian military security service. He's supposed to participate at the anti-colonial activity as a teenager. Then he was picked up by the newborn Algerian military, trained in the Soviet Union and then sent to missions in Libya and Morocco. The Moroccan police have discovered his real identity. He was arrested and even tortured. From that bad experience Toufik has kept an injury at his back and walked with a stoop.

His career was excellent, being loyal, efficient ("a living scanner"), and trying not to be involved in power struggle. At the end of the 1980s he turned out to be an autonomous actor in Algerian politics, and in 1990 he was finally named as head of the security service, the DRS which he has reformed from the previous military security (SM). General Médienne and his service became a central figure in the difficult and bloody years of standoff with Islamists and terrorists. The DRS turned out to be a kind of a parallel State. He was the first to look for a political dimension of the internal conflict.

During the 16 years of the ongoing presidency of Abdel Aziz Bouteflika, 78, General Toufik was absolutely loyal; he never plotted against his master, respecting all the protocol formalities. It is reported that he always addressed the Head of State "Mr. President" although the President called him "Si Toufik". But Algerian political analysts converge to say that he had a kind of real parallel power. But now, Mr. Bouteflika finds himself all alone on the top of the power pyramid in Algeria.

There are different interpretations of Toufik's demission. The official one is that the President, who is very ill but swearing to accomplish his 4th mandate (due to expire in April 2016), wants to leave a reformed institution, including changes in the Constitution. For that purpose he's cutting the prerogatives of the DRS, transferring some of them to the Army, and the change on the top is the ultimate element of that process. There are also rumours that the dismissed General himself asked to be fired.

The Algerian political class does not believe too much in the last assumption. Generals are still interfering in local politics and the constitutional changes are expected simply to bring more power to the Head of State. General Toufik will remain extremely powerful for some years to come; he has all the crucial information about almost everybody in the local elite and not only that. There are also no signs that any political reform will bring a full-fledged democracy to the country.

However, there is an impression that the Presidential move has launched the political transition in Algeria. Mr. Bouteflika and the establishment are supposed to control this delicate procedure with the president trying to guarantee that his family would not become the target of a possible persecution in the future.

The key person to be watched closely is his brother, Said, 58. He's an extremely influential counsellor of the President and is even considered to be the real playmaker in Algeria after 2013, when the Head of State had a stroke and never completely recovered. Some believe that Said will succeed his elder brother, although that possibility is perceived as meager. The Head of the General Staff, General Ahmed Gaid Salah, who in 2013 started to be assigned to some DRS' missions, is not considered strong and able enough to become the designated heir.

The Algerian elite, including the Army, is obliged to stick together confronted by risks of destabilization of the country and new security risks in a more and more unstable MENA region. They may dislike the would-be presidential choice and plunge into chronic struggle between clans, but Mr. Bouteflika at the moment is in a position to take all decisions arbitrarily.

The situation is complicated by the current economic situation affected by the falling of oil prices. Hydrocarbon export contributes to 95% of budget revenues. Some pundits predict tough years ahead, some mentioning even the possibility of a State default in 3 years if low oil prices persist.

The Government made a choice opting for an austerity policy and is attempting to invigorate the economy, attract investments. The Prime Minister, Abdelmalek Sellal, is reassuring the country by affirming that it is better prepared for the crisis than it was in 1986.

Then the crisis led to the rise of the Islamists and civil war which raged through the 1990s.

Now the transition could turn into a difficult endeavour against dire economic and social circumstances depressing the country.

With Syria Facing Break Up, It's Endgame For Westbound Pipelines

The nightmarish scenario of the final blow to the Sykes-Picot agreement, which largely determined the boundaries of today's Middle East, is coming as large as life and twice as natural. Redrawing boundaries of the steadily dissolving states, most probably through multi-layer negotiations, often with horse trading and bulldogs' fight under the carpet, and through lengthy and exhausting 'peace conferences', might soon become the order of the day. It might even turn fashionable as at the times of T.E. Lawrence who went into history textbooks as Lawrence of Arabia, the one-man crusader with a ruler instead of a sword.

The main driver of the dramatic reformatting of the region remains the mythology-minded Islamic State (ISIS) strategist, if they deserve the title. Last year the theological visionaries proclaimed the resurgence of the Caliphate and swore vengeance on the Asia Minor Agreement (the official name of the document concluded on 16 May, 1916) that defined "spheres of influence" of European powers and drew lines later to become state frontiers.

Irrespective of the outcome of air strikes launched reportedly against ISIS by Moscow, and the probability of an emergence of a second coalition to fight the radical Islamists, comprised of Russia, Iran, Iraq, and Syria, the fate of the latter looks to be sealed. It is sliding slowly and surely along the path to a break up.

Military experts might be correct assuming that Bashar al-Assad, well aware of the dismal fate of "the bull of Bagdad", that is or rather was Saddam Hussein, felt compelled to accept the sad truth: the probability of preserving the integrity of what used to be Syria is close to zero.

Better secure the safe zones which could be possibly integrated into a future Alawite-controlled but multicultural and multi-confession state stretching along the Mediterranean coast, overhanging Lebanon, and shutting off the Sunnite heartland, now administered by ISIS.

It would make perfect sense even if it constitutes only 20% of the territory; it is still home to about half of the population of Syria.

To achieve this goal, the regime in Damascus relies today on IV Division at the command of Assad's brother to protect the capital, on the "Coastal Army" deployed around the principal port city of Latakia, friendly loyalist Druze units, Special Forces sent over by Iran, and Russian air force squadrons. The "operational center" to coordinate military operations against ISIS is due to be opened soon in Bagdad, thus overcoming, at least on paper and for protocol photo opportunities, the time-dishonored animosity between the Iraqis and Syrians.

On their part, Saudi Arabia, Qatar and Turkey are assembling a new formidable army comprised of militants of all shades and shapes. One might find under the same banners the salafists (ultra-conservative orthodoxical sect within Sunni Islam) of Ahar al-Sham, the jihadists of al-Nusra, and smaller but no less motivated and boisterous paramilitary formations on the payroll of the local patron states. This heterogeneous ad hoc alliance of the hard-line fighters would probably fulfill the task set by the sponsors: establish control over the vast desert lands in the middle of Syria, while never abandoning the ambition to storm Damascus.

In the north of Syria local Kurds who produced staunch and resilient warriors (they proved their worth during the siege of Kobane) would nurture the grand vision of a separate independent state. Some of them have direct links with the Kurdish Workers' party (or PKK) considered to be a 'terrorist' organization by Turkey and the United States. The latter provided arms and logistics for their units, and even sent American commandos to fight on the ground alongside the Syrian Kurds.

Ankara was furious but later consented after the Kurds, these uneasy 'comrades-in-arms' agreed not to trespass the red line: not to cross Euphrates in the West direction. As a payback, Syrian Kurds were promised a place in the future configuration of what would come out of the partitioned Syria.

Finally, there is a fair degree of likelihood that ISIS would not be wiped out altogether, and would remain for some time around, in some form or another. After all, the ISIS preachers cum former Baath party officials cum Saddam Hussein's army officers proved to be capable of extracting oil and smuggling it to outside markets. Money so indecently earned serves to buy loyalty of the locals and keep them calm, amid the aggravating chaos. A relatively manageable population which chose not to flee to Germany via the Balkans is one of the foundations of the proto-state that ISIS plans to maintain and evolve into a medieval Caliphate.

Since ISIS fundamentalist visionaries regard Saudi Arabia and other Sunnite petro-monarchies, and recently even its sponsor Turkey as renegade and rogue states unworthy of existing on the face of the earth, it is hardly possible to count on a protracted peaceful co-existence between them.

Today, ISIS can be tolerated and even upheld for the sake of ruining the Syrian regime and preventing the emergence of a Shiite axis, linking Iran, Iraq, and Syria. Tomorrow, irrespective of whether this Sunnite supreme goal is achieved or not, ISIS would become a major problem even for its direct and indirect backers. Inevitably, the ideological controversy would erupt into yet another war, pitting Islamic radicals against Islamic moderates or Islamic radicals but of another breed.

In sum, whether wittingly or unwittingly, the ISIS makers and sponsors have created a monster. Today, they are still "leading from behind" but with time passing they would face the gloomy necessity to put the Frankenstein of their making to sleep, maybe with a poisoned dagger. It spells another round of hostilities in the already turbulent region over-burdened with poignant misunderstanding dating back thousands of years of distrust, disunity and desperation.

For the moment, the immediate result of the surge of military activity, triggered off by the civil war in Syria unzipped more than four years ago, amounts to solidified centrifugal trends which have brought this part of Levant to the brink of partition. A miracle might have saved Syria from the break up, but God seems to have more important issues to attend to. The countdown has started.

For the two regional energy markets, the Middle Eastern and European, recent developments sound the death knell for daring infrastructure projects nurtured by Qatar and Iran. Neither of them would have a safe passage for their planned delivery of pipeline gas across the Syrian terrain to the shores of the Mediterranean Sea. The dismal forecast is that this area would resemble the 'no-go' space on the maps drawn by ancient Romans: whenever they came across a patch of land no one has yet discovered, they would mark it with a sign: "Tigers live here".

US LNG For European Markets. Sparkling Or Still?

The classical model of the pre-'postmodernism' energy market rooted in the symbiosis of supply and demand has been affected by the emergence of additional drivers and factors. For instance, the dependence of oil prices on Federal Reserve policy of Quantitative Easing (in other words, the decree to print US dollars), which modulates prices of oil-linked long-term gas supply contracts. Yet, supply-demand fundamentals are far from being obsolete and irrelevant.

This is especially true when it comes to making forecasts on the shape of regional gas markets, and, in particular, on the expedience and feasibility of the American LNG arriving en masse to Europe.

Reportedly, the US project Sabine Pass will storm into the ring of LNG suppliers either in December this year or in January 2016 with its first cargo. In October, Gladstone LNG and Australia Pacific, the two newcomers in the liquefaction sector from the land of the Ozzies, will start export deliveries.

All in all, in the time span of the next 6 months new LNG projects will come on stream in the United States and Australia alone, with a combined annual production capacity of around 50 million tons. If the upward trend is observed on the horizon of the next 18 months, extras would be close to 100 MMtpa of LNG.

It supports the Wood Mackenzie prediction that the oversupply will not thin out soon, and in Asia, as the main destination for suppliers and shippers, it would probably last at least until 2025. The first encouraging windows of opportunities for new LNG in Asia would be flung open not until after 2022.

Since most of the US LNG producers, originally, viewed Asian premium markets as their natural choice, the prolonged gas glut narrows the array of options. However, it leaves Europe as a relatively attractive client. Although the currently consolidated trends on the European gas market are somewhat contradictory.

On the one hand, the base scenario envisages that gas consumption would rebound, with aggregated growth totalling 14 percent in the interval from 2014 till 2035. In theory, it's a welcoming sign for the US LNG exporters. However, concurrently, the previous trend noted by a gradual decline in domestic production, which has seen 90 bcma wiped out of the total output in the previous ten years, has slowed down. New estimates show that in the next decade the decrease will amount to only 40 bcma; so forecast for extra gas imports must be revised downward.

The slowdown of the indigenous production decay should be taken against the background of concentrated and concerted efforts of the European Commission and national governments to become "energy-wise", boost efficiency and prop up the development of the renewables, even at an extreme cost of subsidizing this segment of the energy balance. There is no point in dismissing the statistics: while gas consumption in Europe peaked in 2010 reaching 597.9 bcma, in the next four years it has shrunk by an impressive 23%. The trend is well there, and outside providers of energy, from oil to oil fuel, diesel, gas, and coal, should consider it.

All by itself, it does not create an insurmountable obstacle for the cross-Atlantic passing of American LNG, but there is one more element in the equation: prices. The case study of the LNG spot trading in Asia serves as a telling evidence of the inherent volatility of this trade. For the record: in 2014, nearly 75 percent of LNG was delivered to Asia under the long-term oil-indexed contracts. The downward spiral of global oil depressed purchase prices favouring not the seller but the buyer.

Moreover, in 2014 additional volumes of LNG, supplied under spot deals and short-term contracts, to the tune of only 5 million tons higher than in the previous year sent a shock wave through the industry, hitting the prices on the head. Not too many market watchers expected this very flexible, by definition, market segment to be so susceptible to the modest imbalance of demand-supply equilibrium.

The same degree of price volatility can be foreseen on the European LNG market once all the old and new aspiring purveyors, ranging from the United States and Qatar to Australia, Angola, Malaysia, etc., choose to redirect their cargoes from Asia to the Old Continent.

Indeed, there is a good reason for the change of energy providers' priorities and directions. For the moment, the spread between the traditionally premium LNG spot markets such as Japan and South Korea and other destinations has become almost extinct. For December delivery, the ICIS East Asia Index (EAX) stood at $7/MMBtu, which is less than $0.9/MMBtu above the cheapest European LNG contracts. Today, Europe is trading LNG almost on par with Asia.

This might be encouraging news for the buyers but hardly for the suppliers. The $7/MMBtu benchmark is hardly pleasing compared to the previous envious price tags of $16-17/MMBtu and sometimes even $20/MMBtu. "Those were the days"!

It means that day will come when American shale gas producers, which had pre-emptively hedged all the risks by selling their produce at the peak of high expectations, will have to face the new normality. This would be low rate of return due to the both depressed Henry Hub prices on the domestic market and low cost effectiveness of exporting LNG either to Asia or Europe.

What's more, the internal debate in the US on the expediency of LNG exports is far form being over. When in 2014 the House of Representatives voted overwhelmingly for the LNG Permitting Certainty and Transparency Act, some local critics labeled it the "Let's Send Our Big New Supplies of Natural Gas Overseas Act", and called it a big blunder. The key apprehension was that lucrative export-oriented trade would undermine supply and drive up prices.

For the time being, this danger seems to be mitigated for the American rank-and-file consumer, but those involved in the shale gas business, which pinned hopes on revenues from LNG exports, might be disappointed at the dissolution of the premium prices and the narrowing of their profit margins.

Rubbing salt into wounds could be the coming EU new regulation concerning the 'balancing regime', to be put into practice in 2016, which stipulates gradual reduction in the amount of flexibility available to shippers. It is no secret to anyone that the European Commission has consistently declared its commitment to use regulatory measures to push down energy prices. This school of thought and action is applicable not only to the on-going tug-of-war with Russian Gazprom, but to any non-European suppliers of essential energy sources. The US LNG suppliers will be no exception. Until the Trans-Atlantic partnership comes into being, if it does.

Finally, the prospects of a full-flown stream of US LNG crossing the Atlantic are dimmed by the over-stock from the already existing LNG production lines. In the United States alone, there are from 25 to 35 million tonnes per annum of unsold LNG. Then, the same amount of ready-to-serve LNG (25-35 mtpa) belongs to the dominant market player, Qatar. Presently, the off-take by the buyers, partly due to subdued industry's consumption, is lower than their contractual obligations, and this adds from 8 mtpa to 15 mtpa of available supply to the overall "glut".

It leaves US shale gas producers, keen to convert it into LNG for exports, in dire circumstance. Not only do they have to compete in a low oil-based prices environment, which reduces their revenues mostly drawn from selling oil found in the same gas fields, not only do they face bureaucratic and regulatory hurdles in Europe, but they also have to take into account the formidable foe: gas glut.

There is no quick fix for readjustment of the market's demand side. Consequently, the supply side will be forced to make downward corrections in its growth strategy. For US LNG exporter's ambitions, it might end up realizing that their gassy product earmarked for Europe will turn into still water, not sparkling.

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