

Dear Colleagues,

As we stagger out of H1 2014 today I list below some of the more notable international trends in the energy sector that come in mind that have or may impact North East Asian energy markets including Japan in H2 2014:-

ISIS/Syria/Iraq

50% of Iraqi oil is exported to China.

The ISIS scenario may be the elephant in the room as we head into Q3 2014 particularly with regard to global oil prices as Iraq is now regarded as a critical swing supplier by IEA among others. After prosecution of the Gulf War II at a cost of \$1.7 trillion (Japan and Germany underwrote the cost of Gulf War I) two of Saddam Hussein's former generals have now been appointed governors of Tikrit and Mosul respectively by ISIS insurgents who appear to be gaining more ground inside Iraq and may possess financial resources in excess of \$2 billion.

There has been little impact so far in the south of Iraq where most of the oil exploration is taking place but if there was an overthrow of the government in Baghdad this could bring the administration of the Iraqi oil industry to a standstill and remove 3 mbpd from global oil supplies.

Israel also broke with the US this morning announcing they support the establishment of an independent Kurdistan. The Kurds are looking to export 1 mbpd of oil through a pipeline into Ceyhan in Turkey for onward distribution through the Mediterranean into Europe.

ISIS's immediate goal now seems to be to establish a Muslim Caliphate that stretches from Aleppo in North West Syria to Samara and Fallujah adjacent to Baghdad. Beyond that immediate goal their long-term intentions seem to be to extend their influence from as far west as Nigeria to the Muslim Far East in Indonesia encompassing an area whose potential population is over three billion people.

Spot Asian LNG Prices

Collapse of Asian Spot LNG prices to \$12 mmbtu in H1 2014. METI's Mission Accomplished? At the risk of sounding like George W. Bush on the USS Abraham Lincoln in May 2003 it would appear that METI may now get its wish as spot LNG prices edge closer to its target price of \$13 mmbtu.

As we move forward into Q3 and Q4 approximate LNG price points to keep in mind might be:-

Max Pricing post Fukushima : \$20 mmbtu

China-Russia Pipelined Gas : \$10 mmbtu

LNG prices into Japan pre-Fukushima : \$7.80 mmbtu

US

US Oil production now exceeding 8 mbpd.

40 to 100 GW of coal fired power plants may terminate operation between now and 2020 following the introduction of emissions reduction targets by the US's EPA.

Monterey California shale oil reserves written down by 96% by EIA.

More US LNG export licenses granted for FTA and non-FTA countries by DoE and FERC.

US has sanctioned two companies to export oil condensate, the first time this has happened since the oil crisis in the 1970s, when US Congress banned the export of crude oil.

Japan Nuclear Re-starts

No further clarity available on time-tables for re-starts or which reactors may re-start.

We are currently trying to analyze the sunk and forward costs for Japan's nuclear power fleet, including storage and re-processing, on the assumption that the nuclear fleet, once re-started, is expected to meet 10% of Japan's power requirements or 90 TWh of power per annum through 2030 or 2040.

Germany RE

The German government is about to legislate caps for solar and onshore wind new capacity of 2.6 GW/annum each through 2020, and separately a 6 GW cumulative new offshore wind capacity between now and 2020 (a 7 year cap). The intention is to slow RE development while the German power grid is strengthened.

Italy RE

The Italian government are pursuing legislation to retroactively reduce the FiTs (or premiums as they are known in Italy) for solar projects given Italy's fiscal constraints. This follows similar moves in Spain.

France

Alstom's energy business sold or JV'd to GE. This is expected to close in 2015.

UK Power Market

Ofgem, the UK regulator of the UK's power sector, has referred the UK's power market to the Competition & Markets Authority (CMA). This may result in structural changes and in particular the separation of power generation from power distribution. The CMA expects to publish its final decisions by the end of 2015. The report is also expected to address barriers to entry, excess profitability, lack of competition, low consumer engagement and weak competitive pressures.

EU

The EU is establishing a joint study group to explore unconventional hydrocarbon extraction across the EU.

Ukraine/Russia

Ukraine, Moldova, and Georgia have signed EU accession agreements as a precursor to joining or having closer associations with the EU. This is likely to exacerbate tensions with Russia in its "near abroad" with potential impact on gas supplies into Europe and a possible risk of "sectoral" sanctions against Russia by US or EU or both.

Rosneft has hinted at the introduction of specific force majeure clauses into

oil and gas contracts to enable Russia to raise prices if international sanctions are applied against its oil and gas energy sector.

India-Russia Gas Pipeline

Discussions have commenced on the construction of a \$30 billion+ gas pipeline from Russia through Xinjiang Province, China southwards into India.

Regards, Tom.

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