DATAMONITOR

NEW LEADER IN GAS FOR DATAMONITOR'S ENERGY SURVEY

Gazprom's market entry continues to sweep away the competition as it tops customer satisfaction rankings for large gas users, shows a new survey from Datamonitor Energy.

18 September 2012 | Published by Datamonitor

FOR IMMEDIATE RELEASE

LONDON – Tuesday, 18th September 2012 - Gazprom entered the UK B2B gas market with the acquisition of Pennine Gas in 2006 and has gone on to become the second largest supplier in terms of volume, based on tailored service to some of the largest gas consumers in the UK. This has culminated with the supplier topping Datamonitor's Energy Buyer Customer Satisfaction Survey for the first time, dislodging Dong Energy (formerly Shell Gas Direct).
While there may be questions about the success of competition in the UK residential energy market, as highlighted by the current focus of the Energy Select Committee, competition is heating up in the B2B energy market, with independent suppliers beyond the Big Six gaining market share on the back of competitive deals and high levels of customer service.

Significantly, Gazprom top the table for major gas customers. Gazprom's market share has grown rapidly, now accounting for more than 14% of gas volume sold to B2B customers. Shell Gas Direct, acquired by Dong Energy in May 2012, held the top ranking since 2008, making it the most consistent providers of customer service in the market but the transition period has had an effect on what customers are experiencing from the supplier.

"The independent suppliers in the energy market are performing extremely well in terms of growing market share and maintaining high levels of customer satisfaction," says Rhys Kealley, lead analyst at Datamonitor Energy. "The agility of the independent suppliers in providing tailored service and efficiently handling customer queries is reaping tangible benefits which many of the Big Six simply cannot match."

This is further confirmed in the power market with Smartest Energy topping the rankings for large power users for the second survey running. With a relatively smaller number of large energy users, the supplier can harness its flexibility to provide innovative products and customer service initiatives to obtain a market leading customer satisfaction score. However, not all the Big Six are suffering at the rise of independent suppliers in the market.

"E.ON Energy's 'Reset Review' – which is intended to refocus the company's efforts into improving the customer experience – is having clear benefits, with the supplier steadily increasing its customer satisfaction score to sit 2nd in the rankings for SME customers," Kealley added.

It is another smaller supplier, Haven Power, which tops the SME category ahead of E.ON Energy making it clear that business customers value premium levels of customer service from smaller suppliers.

"Although it may still be price that dictates a lot of a customer's decision making, customer service is and will continue to be an incredibly important factor in a highly competitive and increasingly informed market place," says Kealley.

http://datamonitorenergynews.blogspot.co.uk/2012/09/new-leader-in-gas-for-datamonitors_9700.html

DATAMONITOR

Commentary and analysis from the Datamonitor Energy team

TUESDAY, 18 SEPTEMBER 2012

New Leader in Gas for Datamonitor's Energy Survey

Gazprom Energy's Market Entry Continues to Sweep Away the Competition as it Tops Customer Satisfaction Rankings for Large Gas Users

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MEU GAS Rank	H1 2012 & H2 2011[1] Company	Score
1	GAZ	7.64
2	DONG	7.46
3	BGB	7.28
4	EON	7.00
5	SSE	6.66
	Average	7.18

Source: Datamonitor

Notes: 1) Result is combination of H1 2012 & H2 2011 Surveys

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MEU POWER Rank	H1 2012 & H2 2011[1] Company	Score
1	SMAR	8.86
2	RWE	7.37
3	EDF	7.36
4	HAVN	7.36
5	EON	7.25
6	BGB	7.13
7	SP	7.01
8	SSE	6.98
	Average	7.28

Source: Datamonitor

Notes: 1) Result is combination of H1 2012 & H2 2011 Surveys

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SME POWER	H1 2012 & H2 2011[1]	
Rank	Company	Score
1	HAVN	8.10
2	EON	7.42
3	SP	7.41
4	OPUS	7.16
5	EDF	6.99
6	SSE	6.96
7	RWE	6.95
8	BGB	6.74
	Average	7.27

Source: Datamonitor

Notes: 1) Result is combination of H1 2012 & H2 2011 Surveys

Written by Rhys Kealley
Lead Analyst in Datamonitor's Energy Team

http://datamonitorenergynews.blogspot.co.uk/2012/09/new-leader-in-gas-for-datamonitors_9700.html

DATAMONITOR

Business benefits from competitive energy market

25 January 2011 | Published by Datamonitor

Press Release

UK businesses are reaping the rewards of an extremely competitive energy market, as new market entrants and specialist small providers drive up standards and lower costs, according to latest research from independent analyst, Datamonitor*.

The research, based on interviews with 2,000 major energy using businesses**, found that suppliers are using a variety of strategies to attract customers in the extremely competitive market. These strategies include extremely competitive propositions from the likes of Gazprom, to exceptional service as seen from SmartestEnergy, Haven Power and Shell Gas Direct.

David Mayne, energy market analyst at Datamonitor, comments: "Small suppliers have entered the market and have been able to set new benchmarks in service delivery by focusing on a small customer base and being able to react quickly to customer demands.

"As a result, small suppliers Smartestenergy and Haven Power achieved first and second place respectively for highest customer satisfaction in 2010. Gas specialist Shell Gas Direct has topped the rankings for highest customer satisfaction for a gas supplier since 2008.

"This has had a knock-on effect, with larger more established players adamant that they are not going to be left behind, and striving to improve their performance. SSE and EDF Energy, in third and fourth place in the rankings table, have shown that this is possible. This is only good news for the end user.

"In the face of the looming questions about energy security and environmental concerns, business customers should be reassured that their suppliers are doing their utmost to provide them with the services and propositions that they need to meet their energy needs," concludes David.

http://about.datamonitor.com/media/archives/5330

DATAMONITOR

EU funding a shot in the arm for Nabucco

25 March 2009 | Published by Datamonitor

London – The European Union has finally signaled its willingness to finance Nabucco; the proposed gas pipeline linking the Caspian Basin with Europe via Turkey. At a summit in Brussels on the weekend, leaders gave final approval to a €200 million finance package intended to kick-start the controversial project. However, according to Datamonitor energy & utilities Kash Burchett, the pipeline is still by no means guaranteed as a number of other obstacles, including ensuring reserves, remain.

Important step for Nabucco

The money that the EU has pledged to provide comes from a larger pot of five billion euros earmarked for investment in energy and telecoms infrastructure as part of the wider European stimulus package. This is an important step forward for the Nabucco project and brings an intergovernmental accord closer to reality. However, the agreement was not reached easily, and comes after weeks of tortured wrangling and negotiations between heads of state.

In the wake of the Russia-Ukraine gas crisis in early 2009, eastern European governments reiterated their support for the pipeline at a meeting in Budapest in late January. In response to eastern Europe's pledged support, German Chancellor Angela Merkel, backed by Italian Prime Minister Silvio Berlusconi, moved against the project. Both leaders attacked the proposals on the grounds that the construction of Nabucco is unlikely to begin for many years, undermining the stated objective of providing jobs and stimulating economic growth. This position belies a wider truth; neither Germany nor Italy is keen to invest in energy diversification projects, having secured bilateral energy treaties with Russia.

Somewhat ironically, Chancellor Merkel's insistence on the money being spent on projects with immediate economic impact may actually speed up the construction of the pipeline. If the Nabucco consortium is to receive the funds, they will need to bring the project's start date forward to early 2010.

EC hopes for big returns

The €200 million will be made available to the Nabucco consortium via the European Investment Bank. The consortium consists of OMV (Austria), MOL (Hungary), Transgaz (Romania), Bulgargaz (Bulgaria), BOTAS (Turkey) and RWE (Germany), each with a 16.67% share. In early 2008 GDF-Suez's attempt to gain a stake in the pipeline was vetoed by Turkey on political grounds. However, the State Oil Company of Azerbaijan Republic and Polish gas company PGNiG plan to join the project in the future.

The money being given to this consortium is essentially a loan, intended to be used to generate further cash. Somewhat optimistically, the EC estimates that this could eventually yield some two billion euros. Even if the final figure is only half that, it is symbolically important, Mr. Burchett says. "The loan comes at a time when credit markets have all but seized up and securing finance for any project, let alone one as risky as Nabucco is difficult. The EC, which has continued to back the project in the face of mounting obstacles, can legitimately view this as a victory."

It will also be seen as a victory for the eastern European states that view Nabucco as a means of escaping dependency on Russian gas. Poland, Slovakia and Romania in particular see reliance on Gazprom as the central threat (as opposed to transit through politically unstable Ukraine). This distinction was made explicit last week when a draft document presented at the EU heads of state summit replaced references to Nabucco with a more generic proposal for pipelines through the "Southern Energy Corridor". This implied tacit support and indeed potential funding for the Russian-backed South Stream pipeline, the latent rival to Nabucco; feeding Russian gas to Europe through Bulgaria. This proved unacceptable to the former Soviet satellite states, which insisted on explicit reference to Nabucco.

Their success in excluding South Stream is a set-back for Gazprom, which has until now proved adept at promoting its alternative (and for that matter Nord Stream) though divide and rule tactics. Deputy chief Alexander Medvedev was quick to point to Nabucco's continuing lack of secured upstream reserves. He is in fact correct to highlight this as a major obstacle. Furthermore, the finance agreed this weekend is a drop in the ocean compared to the estimated €10.2 billion required overall. However, the bigger problem may reside closer to Europe.

As the critical transit state, Turkey is demanding a pre-emptive right to buy 15% of the Azeri gas that will pass through the Nabucco pipeline en route to Europe. Furthermore, Ankara insists on paying less than European netback prices for that off-take portion, and on taxation rates higher than those proposed by other states through which the pipe would flow. These demands may cause turbulence in the future.

In recent months, Turkey has started to voice these demands more confidently. Buoyed by the damage done to Russia's reputation in Ukraine and Georgia, and by the potential for energy exports from an increasingly stable Iraq, Prime Minister Recep Tayyip Erdogan envisages Turkey as Eurasia's energy hub. Concurrently, he sees Europe as increasingly amenable to Ankara's objectives. Mr. Erdogan's confidence in the future of Nabucco was manifest two months ago when he essentially threatened to withdraw from the project if EU leaders were not more forthcoming over Turkey's accession to the club.

As well as revealing how Ankara sees itself, this willingness to 'play the energy card' also poses two deeper questions, Mr. Burchett says. "Firstly, will Turkey follow Ukraine's example and become more bullish in exacting transit fees? If so, this could prove an even bigger obstacle to Nabucco's eventual realization than securing upstream reserves.

"Secondly, and perhaps more importantly, does shifting dependence from Russia and Ukraine to Turkmenistan and Turkey necessarily improve security of supply?".

http://about.datamonitor.com/media/archives/2157

DATAMONITOR

Brinkmanship in Kiev & Moscow wears Western patience

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In stark contrast to 2006, Ukraine's political leaders bear as much responsibility for the recent stand-off as their Russian counter-parts. Although Kiev might have seen it as in their interest to delay an agreement, such tactics are already eroding support in Western capitals.

London – A tangible air of inevitability surrounded the latest gas dispute between Russia and Ukraine. The brinkmanship which has marked relations between the two states and their respective energy champions put both parties in such a position that neither would, or arguably could back down. To a certain extent, that suits Kiev better than Moscow but Ukraine's leaders cannot play politics much longer, according to Datamonitor energy & utilities analyst Kash Burchett.

Claim and counter claim

On the morning of January 7, Russian gas supplies to Europe via Ukraine were halted completely. Precisely which party is responsible for the shutdown is unclear. Gazprom claims that Naftogaz Ukrainy unilaterally closed its export pipelines to Europe. Naftogaz retorts that Russia turned off the taps despite receiving full payment of outstanding debts. Since neither the Euro-Ukraine nor Russo-Ukraine gas metering stations are independently monitored, there is no way of verifying either party's claim. Regardless of who initiated the suspension, its effects are now clearly being felt. Poland saw an 11% decline in its Russian gas imports. In Bulgaria, twelve thousand homes were left without central heating in icy conditions whilst fertiliser producers Neochim and Agropolychim have been forced to halt production.

This represents an escalation in a crisis which had until now been characterised by some parties as a bilateral technical affair. Kiev's court's nullifying a transit agreement on Monday and Moscow's angry accusations of Ukraine stealing gas represent the two parties playing hard-ball.

For both Russia and Ukraine the stakes are extremely high. Since 2005 Gazprom has been seeking full "market rates" from Naftogaz for its gas but those demands have taken on greater urgency now. The Russian economy, which relied heavily on hydrocarbon exports and foreign capital, has struggled to deal with the tumbling price of oil and the collapse of credit markets. The ruble has lost 15% of its value since June and foreign currency reserves have shrunk by more than 25% to just under $160 billion. Hence, exacting all possible revenues from Ukraine has become a pressing priority. The temptation for belligerence was reinforced by a further cooling in relations when Ukraine supplied arms to Georgia during Russia's August invasion.

From Kiev's perspective the gas prices being proposed by Gazprom would undoubtedly cripple an already nose-diving economy. GDP has contracted an agonising 15% since November 2007 and the hryvnia (Ukraine's currency) has tumbled in value. The $4.5 bn loan from the IMF in December came on the condition of a current account surplus in 2009 and strict foreign reserve requirements, such that government social-spending has effectively been frozen.

Although Gazprom is currently asking for $450 per 1000 cuM, the firm had earlier offered a rate of $250/1000 cuM. Naftogaz balked at that, since gas prices are essentially indexed to oil prices with a six to nine month time lag. Consequently, gas prices are expected to fall across Europe in 2009; hence Naftogaz proposed $202/1000 cuM.

Even at that rate, the economy can be expected to contract further by a politically unaffordable 2.7%. Steel and fertiliser (both gas intensive industries) account for over 40% of the export currency inflows and 20% of tax collections alone, but at such a gas price (and in the context of stiff Chinese competition) the industry will become unviable.

Elections looming

With elections due in the next 12 months, neither Yulia Tymoshenko nor her nemesis Viktor Yushchenko are willing to be labeled as the politician who caved in to Muscovite aggression and sentenced thousands to unemployment. This political calculation is the main reason why both Prime-Minister and President were so willing to push negotiations over the edge.

Furthermore, Ukraine put an amazing 17bcm into storage (at $179/1000 cuM) which is enough to meet domestic needs until around April. This clearly made it easier for Ukraine to hold out for a better deal than Russia. In this sense, there was more pressure on Gazprom to bring the crisis to an end. Even if the prospect of legal action against Gazprom is low (nothing happened in 2006 despite a volley of threats), each passing day represented a loss of an estimated US$9.5 million profits for Gazprom. Add to this the reputational damage done in turning off the gas altogether, and one might conclude chairman Alexi Miller may have played his hand too soon.

However, that does not imply that Kiev's intransigent stance has not also come at a cost. During the 2006 crisis, Ukraine attracted far more sympathy for its predicament than today. Gazprom's actions two years ago were read as 'Kremlin Inc.'s' punishment for the Orange Revolution. This time, the bitter divisions which mark Ukrainian politics have precipitated a clear readiness amongst the Ukrainian elites to exploit the inevitable gas dispute and score points. Such pettiness has allowed Moscow to frame the conflict as partly the fault of Kiev and cast Ukraine as an unreliable transit state, unfit for EU accession. This has not gone unnoticed; EU Commission President, Jose Manuel Barroso went so far as to suggest that such games may delay Ukraine's accession to the EU – something both Tymoshenko and Yushchenko would urgently seek to avoid.

The likely outcome is that Naftogaz will pay somewhere around the $225/1000 cuM mark. This is cheaper than European prices but still a massive hike from the $179/1000 cuM paid throughout 2008, and of course comes on top of the $600m Naftogaz is being fined by Gazprom for late payments. Ukraine will almost certainly end up paying European market rates by 2010, not only because Naftogaz will have to pay more but also because European rates will decline throughout the coming year on account of lower oil prices. The increases may well be staggered, as was initially penciled in October. It's also likely that a deal could be struck in which Ukraine pays a higher rate for Russian gas in return for a higher transit fee on exports on to Europe.

The bigger question mark hangs over the fate of the shadowy RosUkrEnergo (formerly EuralTransGas). The Swiss-registered intermediary has monopoly rights on the export of Russian gas to Ukraine and is an unnecessary additional cost which Ms. Tymoshenko sought to remove in earlier negotiations with Mr Putin*. Eliminating RosUkrEnergo seems to be a necessary precondition to any settlement from Kiev's point of view but Moscow will likely be reluctant to relinquish the firm given that it is two-thirds owned by Gazprom, says Datamonitor energy & utilities analyst Kash Burchett. "Both sides will have to make concessions.

"Theoretically, Kiev is operating with a marginal advantage, in that they can afford to delay longer than Moscow would wish. Yet the longer Ms. Tymoshenko and Mr Yushchenko continue to play games, the less goodwill either can expect in Brussels or Washington," he says.

http://about.datamonitor.com/media/archives/1364

DATAMONITOR

Oil markets: when is a fundamental a 'fundamental'? Some inconvenient geopolitical truths

3 September 2008 | Published by Datamonitor

London - Strange things have been happening in oil markets of late. Classic price signals such as falling inventories, economic quagmire in the OECD and slackened growth in emerging markets all failed to quell a bull market on the way up to July, while geopolitical flashpoints, storms looming over the Gulf of Mexico, and the persistence of tight markets are failing to stop its bearish decline on the way back down. This raises a number of 'inconvenient' truths as to the self selecting nature of 'fundamentals' in play at any given time in oil markets.

Red rag to a bull, or is that a bear...

During a stampeding bull market up to July 2008, traders failed to let news of sharp falls in US employment figures or weakened growth in Asia cool the market, as speculators piled into oil as a hedge against the weak dollar amid rising inflationary pressures. The longer term cause of this upward run was the fact that financial investors were convinced that tight supply-demand fundamentals could be exploited as they built up a large net long position in crude oil futures from 2004 onwards.

Every scrap of geopolitical friction was seized upon to push prices up; the hijacking of a small Japanese oil ship passing through the Gulf of Aden prompted the market to hit $117/b while intractable conflicts in Iraq and Nigeria alongside exotic statements from Libya, all supposedly served to bring supply-demand fundamentals closer together. Rumblings in Latin America were billed as a potential 'Andean cataclysm' rather than a largely predictable and well rehearsed contratante between Venezuela and Colombia. Even failed Presidential candidate, Hillary Clinton, managed to move the market by firing a virtual warning shot across Iranian bows as a desperate attempt to increase her poll ratings against Barack Obama after the markets had previously brushed aside US National Intelligence Estimates casting doubt on Iranian nuclear capabilities. Contractual instability in Russia and Central Asia also came as a supposed 'surprise' to the market in restricting Non-OPEC supply, which admittedly, still has more mileage than the death of Benazir Bhutto drawing supply-demand fundamentals closer together when pushing the markets to brink of $100/b in the closing hours of 2007.

Time to talk it up
Little wonder then, that despite a lack of any major change in market fundamentals (beyond Saudi Arabia working towards a record 12.5m b/d output) investment banks started to hint towards forecasts of $200/b. Not to be 'outdone', Gazprom nudged estimates a little higher hitting $250/b, a figure that many analysts started to present as a self fulfilling prophecy as the markets approached the $150 mark in July 2008.

But just as the bull market wouldn't let weak employment figures or dampened growth forecasts stop the oil markets meteoric rise, it is now highly unlikely that a bear market will let 'minor' inconveniences such as heightened contractual instability in Russia, North Africa or Central Asia, or major geopolitical flashpoints in the Caucuses between Russia and Georgia (and 'associated' PKK attacks on the BTC pipeline), stem its decline as investors look for safer waters on its way down. Long standing OPEC stubbornness to increase output no longer appears to be a major problem, nor does entrenched difficulties in the Niger Delta. The fact that Evo Morales has been fighting for his political life in Bolivia as Pervez Musharraf desperately clung onto his last vestiges of power in Pakistan has barely touched the sides as the oil price slipped to $112/b. Iran's threat in early August to block the Strait of Hormuz should Tehran be attacked also failed to register, (a point which stands in stark contrast to the $6 spike following Iranian missile tests merely a month earlier). Even the specter of Hurricane Gustav wiping out the Gulf of Mexico, has failed to rally the market. The slow road to US recovery from the credit crunch is also failing to make much traction in recalibrating oil prices on an upward trajectory.

Wall Street runs its course
This all points us towards our first inconvenient truth; namely, that speculation has added a sizeable chunk on the oil price in capitalising on tight market fundamentals. Given that the latest 'price signals' emanating from the Caucuses over the fraught existence of the BTC pipeline and access to Central Asian oil reserves that feed it, or looming storms in the Gulf of Mexico, have actually prompted the oil market to drop even further (hitting $106/b), provides unequivocal evidence that the market is currently being dictated by financial investors unwinding their net long positions to realise capital gains and release liquidity, rather than any shorter term price signals in play.

The strategy, as far as the market is concerned, is simple. It is actively looking to steer itself back towards a fundamental correction (probably to around the $85-95/b mark), which remains a truer reflection of the supply-demand fundamentals to hand with OPEC pushing production to its highest level in 48 years to 33mb/d. But what remains remarkable about this correction, is the extent to which the market is once again willing to ignore genuinely seismic events (such as those in the Caucuses), which, even a month ago, would have made prices above $170/b entirely conceivable. While it might be a little strong to say the market is broken, the degree to which speculation has forced the market up, now means that it having to break all the rules in order to restore a semblance of rationality.

So what next? OPEC is back on, as is the 'market'
Once prices become reattached to the fundamentals in play, shorter term price signals will re-enter market sentiment. This will come as welcome news to OPEC, and in particular, Saudi Arabia, which prizes notional control over the market more highly than receipt maximisation. Indeed, the fact that OPEC earned as much in the first half of this year as they did in the whole of 2007 – putting $645bn into state coffers in six months – underlines the fact that they have more petrodollars to recycle than they actually know what do with.

But with speculators taking a back seat, and market fundamentals starting to act as price signals once more, the downside for OPEC is that it will come under renewed scrutiny to increase output when it next meets on September 9th, particularly as non-OPEC supply continues to lag. Unfortunately, this brings us to our second inconvenient truth; OPEC is likely to continue to put a floor under prices by further restricting output.
This is either because most members of the cartel are already producing at maximum capacity, or more pertinently, because all producers (including Saudi Arabia) are enjoying elevated prices and are becoming increasingly confident that demand will remain *relatively* inelastic in the midst of an economic downturn. Admittedly, Saudi Arabia might increase output on an *ad hoc* basis to cool the political ardour of Iran on geopolitical issues such as Lebanon or nuclear proliferation, but this will remain a short term play rather than a revision to flooded markets in the 1980s. In effect, the days of 'price moderates' could be over.
The upshot is that prices are unlikely to ease much into 2009-10, with further pressure expected by 2011-12, not least as OPEC will struggle to match demand with actual supply. Needless to say, this is all getting 'peak oilers' very excited, but in reality, it is not so much the physical availability of resources that is in question, but amassing the necessary capital and political conditions needed in order to make major investments. This brings us to our third inconvenient truth; the frequently quoted IEA figure that $22 trillion of investment will be needed in resource development, generation and infrastructure in order to meet global demand by 2030 remains as distant, as it is daunting. So far, attempts to raise investment in the energy sector have been self defeating with cost inflation usurping increases in nominal spending. This means that the world is struggling to invest in sustaining current supply, let alone meeting projected demand growth of 50% over the next 25 years.

Even now, analysts continue to make the assumption that the availability of funds for new investment is linked to prices. But this basic assumption overlooks the fact that the flow of private and state investment depends to a great extent on domestic stability and the political outlook of producer states. Indeed, as far as International Oil Companies (IOCs) are concerned, the greatest risk already pivots around limited access to low-cost reserves with IOCs having gone from holding well over half the world's oil reserves in the late

1970s, to less than 10% today. Opening offshore reserves in the US, or greater development of the North Sea will help to stem this decline a little, but remain insufficient to level the playing field between International and National Oil Companies (NOCs). Whoever eventually 'wins the Arctic' could tip the balance in either direction, but at this stage, few would bet against Gazprom taking the lion's share of reserves.

'Geopolitical peak' is the real concern

To reinforce this point, around 53% of the world's proven oil reserves reside in four countries. Of these, Kuwait and Iran had tried to encourage IOC investment but the process has stalled because of domestic politics or international friction. Saudi Arabia refuses to allow investment from abroad in upstream oil, while Iraq remains particularly challenging for IOCs to make concrete commitments. The other major opening is Russia, which has increasingly cut IOCs out of Production Sharing Agreements; BP is set to become the latest contractual casualty as TNK-BP relations deteriorate. Meanwhile, Mexico will not relax a constitutional ban on outsiders, even as PEMEX production plummets.

Governments with heavy demands on their domestic budgets have also failed to resist the temptation to over-tax exploitation of natural resources, inhibiting further investment. Venezuela, Angola, Algeria, Bolivia, Kazakhstan, Libya and Nigeria are merely a short list of states that have already bitten into the 'contract renegotiation apple'. Even in producer states where the door to reserves remains ajar, invariably the risk profile attached is simply too high for IOCs to take on. This explains why Gazprom has filled Total's boots in Iran (a role it would also like to perform in Nigeria at Shell's expense) while CNPC, ONGC and Petronas surpassed Talisman in Sudan and CNOOC is conducting offshore drilling in Somalia. Similarly cavalier risk appetites from Asian NOCs can be expected in Iraq.

But those waiting for NOCs to fill the supply breach by virtue of reserves, could prove to be disappointed. Even in states not running an active 'depletion policy', NOCs will still find it difficult to extract sufficient reserves out of the ground. The point here is not to champion the role of IOCs (who are arguably paying a heavy price for focusing on shareholders rather than exploration for too long). Nor is it to denigrate National Oil Companies whose governance standards often leave much to be desired when operating overseas, and remain politically expedient at home when cutting IOCs in and out of production agreements. But rather, to highlight the fact that without a seismic shift in political capping of developing reserves, we are likely to meet our fourth and final 'inconvenient truth'; namely, that speculation will be the last thing the world needs to worry about as supply-demand fundamentals run headlong into the limits of a 'geopolitical peak'.

http://about.datamonitor.com/media/archives/347