Oil and Gas News Briefs
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Russia will pay one-quarter of Arctic LNG-2 port construction costs

(The Barents Observer; Norway; June 12) - The Russian government will cover 26.57 percent of the costs for building a new liquefied natural gas export terminal on the Gydan Peninsula for the proposed Arctic LNG-2 project. The private sector will pay 73.43 percent. A government commission has approved the funding plan, which was ordered by Russian President Vladimir Putin. Russian gas producer Novatek is expected to make a final investment decision on the LNG project later this year.

The terminal work will include dredging a major ship channel through the nearby shallow waters of Ob Bay and installment of navigational aids. In addition to reconstructing some existing facilities and upgrading an existing pier, the work will include building new infrastructure at the port. The Arctic LNG-2 project, estimated at $20 billion to $25 billion, is based on the resources of the Salmanovskoye field, which holds 70 trillion cubic feet of gas and about 1 billion barrels of liquid hydrocarbons.

Across the bay from where the new terminal will be built is the Yamal LNG plant and its shipping terminal. Yamal, also led by Novatek, started up exports in December 2017. Arctic LNG-2 is planned for 19.8 million tonnes per year of LNG production capacity, about 10 percent larger than Yamal. The production units for Arctic LNG-2 would be constructed in Kola Bay near Murmansk, then towed and anchored at the project site.

Russia will use National Wealth Fund for Baltic LNG project

(Reuters; June 7) - Russia will use its National Wealth Fund to finance Gazprom's petrochemical and liquefied natural gas project in the Baltic port of Ust-Luga, Deputy Finance Minister Andrei Ivanov said June 7. Gazprom said the project would require equipment purchases of at least 900 billion rubles ($13.87 billion). Gazprom had initially planned to build only an LNG plant in the area, then changed its mind earlier this year and redesigned the project to add a chemical plant.

Shell, which is a partner with Gazprom in the 10-year-old Sakhalin-2 LNG terminal in the Russian Far East, also was a partner on the Baltic Sea project until it dropped out of the venture this past spring. The proposed Baltic terminal would have the capacity to send out 10 million tonnes of LNG a year. Gazprom could make an investment decision next year. If approved, it would be Russia's fourth LNG export terminal, assuming gas producer Novatek goes ahead as planned this year with its Arctic LNG-2 project.

Saudi Aramco still interested in Russian Arctic LNG investment

(OilPrice.com; June 10) - Saudi Arabia's oil giant Aramco has offered to buy a stake in Russia's liquefied natural gas project Arctic LNG-2 and hopes that project operator Novatek will accept the offer, Saudi Arabia Energy Minister and Aramco Chairman Khalid al-Falih told Russian news agency TASS in an interview published June 10. Aramco has long been reported to be considering buying a stake in the Arctic LNG-2 project. Novatek plans to take a final investment decision this year.

Asked about recent reports that Aramco had backed out of a possible deal for the Russian LNG project, al-Falih told TASS: "No, no, this is not true. Aramco extended the offer and we hope that offer will be accepted by Novatek." In April, Novatek signed agreements with two Chinese companies to each take a 10 percent stake in the project, estimated at $20 billion to $25 billion for almost 20 million tonnes of annual capacity. Earlier this year, France's Total signed on to buy a 10 percent interest in Arctic LNG-2.

Apart from Arctic LNG-2, Aramco is looking at other projects in Russia, including potential ventures with oil giant Rosneft and with gas giant Gazprom, as well as in petrochemicals, al-Falih told TASS. Aramco could also be interested in some joint projects or even equity investment in Russia's petrochemical company Sibur, "but the interest has to be from both sides," he said. "So, we will wait for Sibur and its shareholders to express their interest in future cooperation," al-Falih told TASS.

Chinese, Russian companies create LNG shipping joint venture

(Wall Street Journal; June 11) - China is breaking into Arctic transport through a joint venture between the country's biggest ocean carrier, Cosco Shipping Holdings Co., and its Russian counterpart Sovcomflot to move liquefied natural gas from Siberia to Western and Asian markets. The state-owned companies will operate a fleet of a dozen ice-breaking LNG carriers serving Russia's Yamal LNG project along the northern coast of Central Siberia to destinations in Northern Europe, Japan, South Korea, and China.

China Shipping LNG Investment, a Cosco unit, will operate another nine such vessels, according to maritime data provider VesselsValue. The agreement comes a year after Beijing released its first Arctic policy white paper, encouraging investment across the Northern Sea Route and operating commercial sailings as part of a "Polar Silk Road." Although the Arctic Sea is thousands of miles from China's northernmost port, the country sees the northern route as part of its Belt and Road Initiative, an investment program intended to connect Asia and Europe through sea, rail, and road networks.

China became an observer member of the Arctic Council in 2013, an intergovernmental forum comprised of the U.S., Canada, Russia, Denmark, Norway, Sweden, Finland, and Iceland, which considers development issues and sailing rights. China has made Arctic investment a priority to advance its energy and shipping interests. Cosco has done trial runs through the Northern Sea Route, including moving windmill blades and towers to the U.K. It is also looking to deploy car carriers with China-destined European vehicles.

Russia may be oversupplying Europe to test U.S. LNG, Citigroup says

(Bloomberg; June 10) - Russia’s strong natural gas shipments to Europe may be an attempt to test the resilience of U.S. exporters, Citigroup said. Shipments this year from Russia have helped boost European gas storage to near full capacity and exacerbated the region’s oversupply, the bank’s analysts wrote June 9. One motivation for not cutting supply — which would help boost prices — could be Moscow is “testing the response of the global gas market in a low-price environment, especially U.S. LNG export elasticity.”

Given the current storage levels in Europe, restricting U.S. LNG exports for two months may make sense, according to Citigroup. That could trim about 400 billion cubic feet of supply in late summer and early fall, roughly equivalent to the inventory overhang in Europe. Otherwise, Russian pipeline exports to Europe, its biggest market, may have to fall by as much as 15 percent year-on-year to balance the market, the bank estimates.

Pain for U.S. gas exporters caused by Russian oversupply has the potential to further politicize competition in the European market. While American LNG sales to Europe are a fraction of what the region gets by pipeline from Russia, the U.S. has framed its gas as an alternative to reliance on Moscow. If Russia is seeking to test the global market, then low LNG prices could last through fall and possibly into next winter, the bank said.

Global LNG oversupply driving down prices

(Barron’s; June 11) – Natural gas prices have slumped 20 percent in the past year, and prices of liquefied natural gas just hit a three-year low as supplies have risen faster than demand. Now one analyst sees a “looming global price crash” that will ripple through the energy sector. As more countries, particularly in Asia, switch to natural gas from other fossil fuels, demand has been rising. But supply appears to be rising even faster.

Citi analyst Anthony Yuen said gas supplies have built up much faster than most analysts expected. He expects “a 25 percent surge in global LNG supply from 2018 to 2020, with more than half from the U.S.” The supply glut has caused prices to fall around the world with U.S. Henry Hub benchmark prices falling to the mid-$2 range per million Btu from $4.80 in the fourth quarter of last year, and a gas futures contract in Asia dropping from $12 in the fourth quarter of 2018 to $4 today for LNG.

Natural gas supplies are rising so quickly that European gas storage may be full two months earlier than expected, Yuen estimated. He sees Henry Hub prices averaging $2.50 in 2019, down from his prior estimate of $2.80. And that decline could have a ripple effect across several industries. "LNG tanker day rates should surge as tankers should be increasingly used as floating storage of excess LNG," Yuen wrote. "Global coal prices should fall, as coal-to-gas switching pressures coal prices lower. Power prices should also fall on lower prices of gas and coal as power generation fuels."

Analysts warn trade fight could do long-term damage to U.S. LNG

(Energywire; June 11) - A diminishing market for American natural gas in China will probably evaporate completely if trade negotiations collapse, experts warn. Data shows China continuing to purchase U.S. liquefied natural gas but at much smaller volumes than before the two nations began lobbing tariffs at each other. So far in 2019, only four cargoes of U.S. LNG have made their way to China, compared with 35 cargoes before tariffs were put in place, according to an assessment by consultancy Wood Mackenzie.

But even those sales could fizzle if China keeps its promise to slap higher tariffs on U.S. LNG, Barclays Investment Bank analyst Sam Phillips warns in a note to clients. "The increase to a 25 percent duty adds further pressure and could push U.S.-China LNG trade flows to zero from one to two cargoes per month to China," he said. Phillips and others warn that the trade friction will make it very difficult to nearly impossible for new U.S. projects to secure supply contracts with Chinese purchasers.

To see further growth in U.S. LNG export sales, Washington will need to achieve an agreement with China, market watchers generally agree. China is projected to overtake Japan as the world's largest LNG customer by around 2025. For the next two years or so, global LNG supply is likely to expand faster than demand and the U.S.-China trade war affords an opportunity for other countries seeking to lock in market access in China, while diminishing appetites for investment in new U.S. LNG projects, analysts said.

U.S. could become China's top LNG supplier, if trade war is settled

(Bloomberg; June 11) - Here's another reason for Presidents Donald Trump and Xi Jinping to seal a swift trade deal: It could put the U.S. on track to become China's biggest supplier of liquefied natural gas, according to Morgan Stanley. A pact this year between the world's two largest economies will likely lead to large Chinese purchases of American LNG, which would help shrink the U.S. trade deficit, the bank said in a report.

It would help boost the U.S. share of China's gas imports by 2025 to 21 percent versus 5 percent without a deal, Morgan Stanley said. It was only 2 percent last year. "LNG trade from the U.S. to China would potentially be a win-win deal for both," analysts including Andy Meng wrote. Not only could it cut the U.S. trade deficit with China by $17 billion a year, it might help China save $1.8 billion a year in energy costs, the bank said.

There may also be major implications for the global market. The U.S. is bringing on new production and is set to become the world's top LNG supplier. All that gas needs to find homes, and China is expected to take the title as top importer early in the next decade. Without a deal it is likely to turn to other countries including Russia, Australia, and the Middle East, Morgan Stanley said. A "no-deal" scenario would be negative for long-term U.S. gas prices, as well as for projects seeking final investment decisions. The ongoing trade war has caused Chinese buyers to avoid investing in U.S. developments.

China's natural gas importers try to reduce losses

(Radio Free Asia; June 10) - China's oil companies are trying to recover their losses from natural gas sales as they brace for the uncertainties of the next step in energy-sector reforms — creation of a national oil and gas pipeline company. Last month Reuters reported that the PetroChina subsidiary of state-owned China National Petroleum Corp. (CNPC) had raised wholesale gas prices this spring, when demand usually falls, hoping to offset huge losses from importing the cleaner-burning fuel.

The struggle over pricing is one of the consequences of the government's campaign to cut reliance on cheaper coal and reduce smog in urban areas. China imported about 44.5 percent of its gas last year, either by pipelines from Central Asia or as liquefied natural gas by ship. In either form, the imports cost more than state oil companies can recover from sales at government-controlled rates. According to Reuters, PetroChina lost nearly 25 billion yuan (US$3.6 billion) on imported gas sales last year.

"Gas importers have been losing money for years," said Philip Andrews-Speed at the National University of Singapore's Energy Studies Institute. China's national oil companies have been unable to take full advantage of this year's plunge in LNG prices on the spot market because of their long-term contracts, said a commentary in April by the Oxford Institute for Energy Studies. PetroChina has been trying to reduce its losses by seeking approval for a 6.4 percent price increase, Reuters reported. The company had sought rate hikes as high as 20 percent but met resistance, the report said.

Sinopec turns pipeline bidirectional to serve LNG import terminal

(S&P Global Platts; June 12) - State-owned Sinopec's Sichuan-East pipeline has received its first regasified LNG from the Shanghai Yangshan import terminal, the company said June 11. The move is a key step toward greater natural gas supply flexibility and energy security in China, market sources said. It also increases utilization of the pipeline's capacity, which had earlier transported gas solely from Sinopec's Puguang gas field, China's largest.

With a length of more than 1,300 miles and capacity of more than 1.1 billion cubic feet per day, the pipeline was originally designed as a one-way transmission system to deliver gas produced at the Puguang field in western Sichuan province to China's east coast markets. Sinopec and Shanghai Natural Gas Pipeline Co. have since remodeled their Shanghai and Liantang stations on the Sichuan-East pipeline and a connection pipeline, respectively, to enable transmission in both directions, Sinopec said.

The Shanghai station began feeding gas from the LNG terminal into the system in the reverse direction on June 9, Sinopec said. It was transmitted to Jiaxing station, enabling local city gas operators to now receive gas from both the east and the west, Sinopec said. The Shanghai Yangshan LNG terminal, which has a capacity of 3 million tonnes per year, is owned by Shanghai government-controlled Shenneng Group and state-owned CNOOC. Shanghai Natural Gas Pipeline Co. is a subsidiary of Shenneng Group.

Shell's Prelude in Australian waters ships first LNG cargo

(Reuters; June 11) – Shell on June 10 shipped the long-awaited first cargo of liquefied natural gas from its massive Prelude floating LNG plant off northwest Australia, sealing the nation's position as the world's top exporter of the fuel. Prelude's start-up marks the end of a $200 billion LNG construction boom in Australia over the past decade, during which eight export plants were built on the country's eastern and northwestern coasts.

Prelude's first cargo had been targeted for 2018 but was delayed as the company tackled a string of teething problems at the world's biggest floating facility (it lacks its own propulsion). The 1,600-foot-long vessel is longer than four soccer fields and as big as six large aircraft carriers. Shell declined to comment on how much Prelude cost, but consultancy Wood Mackenzie estimates around $17 billion. The shipment on the Valencia Knutsen LNG carrier is going to customers in Asia, Shell said.

Prelude will produce 3.6 million tonnes a year of LNG, 1.3 million tonnes a year of condensate and 400,000 tonnes a year of liquefied petroleum gas — about 46,000 barrels a day of liquids. The start-up comes just as spot-market LNG prices have sunk to three-year lows with new projects in Australia and the U.S. boosting global supply while demand in Asia was dented by a mild winter. Prelude is owned by Shell, Japan's Inpex Corp., Korea Gas, and a unit of Taiwan's CPC Corp.

First cargo from Cameron LNG in Louisiana headed to France

(Reuters; June 11) - The first liquefied natural gas cargo from Sempra Energy's $10 billion Cameron export terminal in Louisiana is heading to France, shiptracking data from Refinitiv and Kpler showed June 11. Mitsui, one of the partners in Cameron LNG, is the charterer of the carrier, Marvel Crane, that picked up the commissioning cargo. The cargo, which loaded in late May, is set to arrive at France's Dunkirk on June 18, Refinitiv data showed.

Japanese stakeholders of the project were initially expected to import the cargoes to meet domestic demand, but weak spot prices in Asia mean it is not economically viable to ship cargoes from the United States to Asia, traders said. The stakeholders' commitment to their Japanese customers is expected to start only after all testing and commissioning has been completed at Cameron, which means they will sell the commissioning cargoes they do not need, one of the companies said.

Demand from North Asia, the world's biggest importing region, is lackluster amid high inventory even as new supply enters the market from Australia and the U.S. "The fact that Mitsui is shipping the cargo to (Europe) shows how weak the demand is in Japan," a Singapore-based industry source said. With Asian prices expected to remain down, LNG shipments to Europe are likely to stay high, traders added. France and Spain are providing the best netbacks for U.S. cargoes, Refintiv Eikon data showed.

LNG projects attract opposition in Brownsville, Texas

(Houston Chronicle; June 7) - Flora Gunderson nearly lost her husband in March 2005 when a vapor cloud ignited at the BP refinery in Texas City where he worked, sparking an explosion that killed 15 people and injured 180. Her husband escaped after ducking between two trucks, where, by luck, the force of the blast sent the door of a portable toilet above him, shielding him from shrapnel and burning debris. The Gundersons now live in a retirement community along the coastal waters of the Texas Rio Grande Valley.

Nearby, three miles down the Brownsville Ship Channel, three companies are proposing liquefied natural gas export terminals that the Gundersons and others fear would pose health and safety risks and change the character of the community. The Gundersons and their neighbors are part of the fierce opposition to the LNG plants that are dividing residents of the impoverished border region along the familiar lines of growth versus quality of life, jobs versus the environment and change versus preservation.

Those fault lines have taken a particularly sharp edge in this debate, with the nearly $40 billion that the LNG projects promise to invest juxtaposed against one of the poorest metropolitan areas in the country, where nearly one in three people live in poverty and the unemployment rate, 4.7 percent in April, is the highest in Texas. Mario Lozoya, CEO of Greater Brownsville Incentives Corp., a workforce development agency, believes the projects could help lift people and communities in the Rio Grande Valley out of poverty.

Brownsville has become a hotspot for LNG developers largely because it holds some of the last available deepwater property along the Gulf Coast. It's the water that drives the economy. "If we have an ugly and nasty beach," said Terrie Nunez, a real estate agent whose husband's family owns a local restaurant, "who's going to want to come here."

Challenge adds delay to Texas LNG state permit

(Houston Chronicle; June 12) - A state permit decision for Texas LNG's proposed export terminal at the Port of Brownsville will have to wait another three and a half months. In a June 12 decision, the Texas Commission of Environmental Quality sent the permit application to the state administrative hearings office based on a request from the City of Port Isabel. Texas LNG is seeking permission from state and federal regulators to build along the Brownsville Ship Channel, but faces stiff opposition from a coalition of communities, fishermen, shrimpers, environmentalists, and Native Americans.

The commissioners said the project location is outside Port Isabel's city limits but falls within its extraterritorial jurisdiction. Although multiple other communities and groups had requested "affected persons status" for Texas LNG's state permit application, Port Isabel was the only party recognized. The commissioners ordered that the contested-case hearing be held within the next 150 days to address health and safety issues and impacts on plants and wildlife, among other concerns.

Port Isabel City Manager Jared Hockema said city officials are preparing for the hearing and plan to travel to the state capital to testify against the project. "The city will continue to fight to protect our environment, our economy and our way of life from being destroyed by these LNG facilities." Texas LNG is one of three liquefied natural gas export terminals proposed to be built at the Port of Brownsville.

Delaware River commission approves tanker terminal over opposition

(The Philadelphia Inquirer; June 12) - The Delaware River Basin Commission on June 12 approved a plan to build a $96 million, 1,600-foot-long pier to load tankers at the former DuPont Repauno Works in New Jersey, where an investment firm proposes to export large volumes of propane and butane from Pennsylvania shale gas wells. The commission rejected pleas from environmentalists to delay the project, which activists say will be used for exports of liquefied natural gas delivered by road and rail to the port.

DuPont shut down its Repauno dynamite factory about 20 years ago. The commission said its review was confined to the impacts of building the wharf and dredging the river to connect with the main channel. The property's owners, Delaware River Partners, said LNG is only one of several commodities that may be shipped, including other fuels, automobiles, and bulk cargo. An affiliate of the company plans to build a gas liquefaction plant in Pennsylavnia's shale fields.

A coalition of climate activists opposed to fossil fuels raised alarms about the dock project but local elected officials support the terminal, saying it's an economic development project that will revive a dormant industrial site with taxable improvements and jobs. Opponents could challenge the commission's approval, as well as to try to block other permits needed to develop the site, including state environmental approvals, Coast Guard permits, and Energy Department approval for LNG exports.

The site contains a valuable underground cavern carved out of granite that can store up to 186,000 barrels of propane and butane. The new owners want to enlarge the cavern to 3 million barrels, which would make it the East Coast's largest underground fuel storage.

Pennsylvania second-largest U.S. gas producer at 6.2 tcf in 2018

(Lehigh Valley; Pennsylvania; June 9) - Pennsylvania's natural gas production in 2018 was nearly four times greater than in 2011, when hydraulic fracturing operations were beginning to ramp up in the state's Marcellus Shale region. To help get that gas to homes, schools, businesses, and industries, two pipeline projects are continuing their march toward construction through the Lehigh Valley. PennEast Pipeline is a $1.2 billion project from the Marcellus Shale region to New Jersey.

Its developers say the new line, reviled by environmentalists, is vital to safely and affordably meeting the region's gas and electricity needs. Adelphia Gateway is an estimated $339 million retrofit of an existing line originally built in the 1970s to transport oil. The line will transport both Marcellus and Ohio Utica shale gas to the Philadelphia region. The Marcellus formation is central to Pennsylvania's gas boom — it has the largest estimated proved reserves of any natural gas field in the United States.

Fracking has made Pennsylvania second only to Texas in gross withdrawals of gas. Production in 2018 yielded 6.2 trillion cubic feet of gas in Pennsylvania, or 16.8 percent of the U.S. total. Gas has helped make Pennsylvania the nation's biggest exporter of electricity. PennEast and Adelphia Gateway are far from the only companies looking to cash in on Pennsylvania's boom. Williams Cos. says it will reapply for environmental permits, rejected June 5 by New Jersey regulators, to build a contested $926 million pipeline that would carry gas from Pennsylvania through New Jersey and to New York.

U.S. oil and gas production up by double-digit percentages in 2018

(Wall Street Journal; June 11) - The shale revolution powered U.S. oil and gas production in 2018 to the largest annual increases ever recorded by any country, according to energy giant BP. Surging global energy demand is fueling the production boom, even as economic growth slows, said BP's annual statistical review published June 11. Worldwide demand for energy grew 2.9 percent in 2018, its fastest since 2010.

U.S. liquids production — crude oil and condensate — averaged 10.96 million barrels a day in 2018, BP reported, a 17 percent jump over 2018's number of 9.35 million. U.S. natural gas production averaged over 80 billion cubic feet per day in 2018, more than a 10 percent gain over 2018's 72 bcf a day.

Unusual weather spurred some of the stronger-than-expected growth in global energy demand, as a greater number of extremely hot and cold days drove up air conditioning and heating use, particularly in China, the U.S., and Russia, the company said. Gas dominated 2018's energy growth, accounting for almost half of global demand growth. Demand rose 5.3 percent, as the world continues to pivot toward the cleaner-burning fuel, partly as a result of environmental concerns. In the U.S., about half of the increase in gas demand came from the power sector, said Spencer Dale, chief economist at BP.

Trump's trade fights push down oil prices

(Houston Chronicle; June 6) - In late 2014, surging U.S. oil supplies from the shale boom contributed to an oversupplied global market. After OPEC failed to intervene, an oil bust ensued and lasted some two years. Tens of thousands of jobs were lost, but the industry learned to operate more efficiently, drilling more and better wells with fewer people. Now, again, U.S. oil production is running amok, reaching an estimated 12.4 million barrels a day with one-third of those from the Permian Basin in West Texas.

This time, however, the Organization of the Petroleum Exporting Countries and Russia are doing something. OPEC has cut production this year while recently indicating it will extend those cuts for the remainder of 2019. OPEC meets again in late June to work out the details. But there's another wild card this time around, and he goes by the name of Trump. The White House has weaponized oil and gas as never before as it seeks to push down prices, said GasBuddy petroleum analyst Patrick DeHaan.

That's bad for the energy sector, but good for consumers finding cheaper prices at the pump. "The White House is having the biggest impact on oil prices in quite some time, if not ever," DeHaan said. "The old saying that the president doesn't have control over oil and fuel prices is certainly being stretched more than ever." Trump routinely encourages OPEC to churn out more oil to make gasoline prices cheaper. But his real impact on oil markets comes from his trade wars. As the trade war with China escalated, oil prices plunged amid fears of a global economic slowdown and slower demand growth for oil.

Oil alliance between OPEC and Russia is complicated

(S&P Global Platts; June 10) - OPEC is learning the dangers of dealing with the Kremlin. Russian President Vladimir Putin now has the group's Middle East kingpin Saudi Arabia over a barrel and can name his own terms to continue their partnership. The oil cartel depends on extending its alliance with Russia to maintain its restriction on global supplies if it stands any chance of engineering a quick rebound in prices.

The price of Brent crude has collapsed by almost 15 percent since April, briefly falling below $60 per barrel last week. Depressed prices are good news for consumers but bad for OPEC's petrodollar economies led by Saudi Arabia, which wants the group and its allies to extend production cuts at least until the end of the year. Moscow can drive a hard bargain if it wants. Its diverse economy and flexible currency can better absorb the blow of a tepid oil market and can handle prices as low as $40 if required.

A bigger concern for Moscow is the potential loss of market share to the U.S., which has leapfrogged Russia to become the top oil producer. Without constraints, Russia could easily exceed its current output of 11.1 million barrels per day. In return for continuing his co-operation with OPEC, Putin may insist Russia has more leeway to increase output. However, Russia also has a strong diplomatic incentive to maintain the alliance, which is about more than just oil. The Kremlin has built a strong political and military presence in the Middle East since its intervention in Syria, adding to its economic clout.

Austrian oil and gas company buys into Siberian gas field

(Reuters; June 7) – Austria's OMV agreed on June 7 to pay 905 million euros ($1 billion) to Russia's Gazprom for a stake in a Siberian gas field, as part of the oil and gas company's strategy to boost its natural gas business. OMV Chief Executive Rainer Seele is banking on a sharp rise in demand for natural gas as a low-emission alternative to oil in power generation and heavy transport including trucks.

OMV's purchase of 24.98 percent of the Achimov IV and V phase developments at the Urengoy gas field is also part of OMV's strategy to focus production in low-cost countries. OMV produced 474,000 barrels of oil equivalent in the first quarter, more than 20 percent of it in Russia. It has a production target of 600,000 barrels a day by 2025.

The Austrian firm also said Gazprom would supply it with more than 42 billion cubic feet of gas as liquefied natural gas in 2020. The companies plan to work together on conventional and small-scale LNG cargo projects and have agreed to “explore options for the joint development of small-scale LNG infrastructure projects,” OMV said. “We have been receiving reliable gas supplies from Russia for more than 50 years, now we are extending our cooperation to LNG,” Seele said.