Oil and Gas News Briefs
Compiled by Larry Persily
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Lack of investment in new oil presents an unaffordable risk

(Bloomberg opinion column; Dec. 19) - This won't win me any friends among the green lobby, but Saudi Arabia Oil Minister Abdulaziz bin Salman is right to warn of a potential energy crisis resulting from falling investment in fossil fuels. His call for more spending serves as a recognition of two things: That the world's need for affordable oil isn't going to disappear anytime soon; and that Saudi Arabia can't supply it all by itself.

Even the International Energy Agency sees oil demand remaining near pre-pandemic levels to 2030. But have potential investors been so bullied, or so scared, by environmental campaigners that they are unwilling to sink capital in new oil production? Saudi Arabia — holder of the world's largest oil reserves — is investing to boost its own output, planning to add an additional 1 million barrels a day in the next few years.

Other countries in the Middle East are investing to boost their capacity, too. Russia has big plans for its Arctic wilderness, but that's a remote, hostile place, one of the worst imaginable from an environmental perspective to invest in oil extraction. There are big projects in the works in other areas like Kazakhstan, Azerbaijan and Brazil. But with output from all of the world's fields currently in production declining — at an average rate from 4% to 8% a year — you need a lot of investment in new oil just to stand still.

We ignore those warnings at our peril. A drop in oil supply might seem like a victory to shortsighted environmental campaigners, but without a fall in oil demand it will come with a price tag none of us can afford — oil prices at levels never before imagined.

U.K. business leaders call for 'reasoned debate' over oil and gas

(BBC News; Dec. 19) - Business leaders have written a joint open letter to political party leaders calling for a "reasoned debate" over the future of oil and gas in the U.K. The call comes after plans for the controversial Cambo oil field offshore Shetland were put on hold. The letter says any statements calling for an end to new exploration have shaken investor confidence, placing tens of thousands of jobs at risk. It warns politicians against creating a "hostile investment environment."

The letter, from the Aberdeen & Grampian Chamber of Commerce, supported by the British Chambers of Commerce and Scottish Chambers of Commerce, has also been signed by 58 leading figures from business and civic life in Aberdeen. It says the economic well-being of entire communities across the U.K. is also being put at risk.

"A transition, by definition, is a change of state over time," the letter says. "This is one of the most complex challenges we have faced in our history and it doesn't lend itself to a simple, 'Who's good, who's bad? Who's green, who's not?' approach. To characterize it in this way is overly simplistic. … We must now pause and allow for a reasoned debate about our energy future to take place."

Russia's 2022 oil output expected at 1 million barrels a day over 2021

(S&P Global Platts; Dec. 22) - Russian oil output is expected to rise in 2022, although factors including the coronavirus pandemic and the release of strategic petroleum reserves could lead OPEC+ to amend its production plans, according to analysts. Analysts expect the OPEC+ agreement to continue to be the key driver of Russian output volumes, with potential changes to Western economic sanctions policy, as well as spare production capacity, also playing a role.

"We estimate a new drilling program will get Russian supply growth back in line with its OPEC+ quota hikes, allowing crude production to increase by nearly 500,000 barrels per day by June 2022 versus November 2021," Platts Analytics Paul Sheldon said. Russia is comparatively resilient to oil-price volatility compared to its OPEC+ allies. Current oil prices are significantly above levels included in Russia's state budget for 2022 of $44.20 per barrel.

The government, producers and analysts currently predict that Russian crude and condensate output will increase next year, with Russian officials predicting it will return to pre-pandemic levels by May 2022. OPEC's latest forecast includes predictions for Russian crude and condensate output at 11.78 million barrels per day in 2022, up from 10.79 million in 2021. The International Energy Agency estimates Russia's 2021 liquids output at 10.87 million and 2022 production at 11.66 million.

Sri Lanka will use tea to settle $251 million oil debt to Iran

(BBC News; Dec. 22) - Sri Lanka plans to settle a debt for past oil imports from Iran by paying it off in tea, a government minister said. Ramesh Pathirana said his country hoped to send $5 million worth of tea to Iran each month to clear a $251 million debt. Sri Lanka is experiencing a severe debt and foreign exchange crisis, which has been made worse by the loss of tourist income during the coronavirus pandemic.

A member of the country's tea board said it was the first time tea had been bartered to settle foreign debt. Pathirana said the method of payment would not violate U.N. or U.S. sanctions, because tea was categorized as a food on humanitarian grounds, and no blacklisted Iranian banks would be involved. "We hope to send $5 million worth of tea each month to repay Iran for oil purchases pending since the last four years," he said.

"The recommended scheme will save Sri Lanka much-needed foreign currency since the settlement to Iran would be made in Sri Lankan rupees through the sale of Ceylon Tea," the Sri Lanka government said. But a spokesperson for the Planters' Association of Ceylon, which includes all the major tea plantation companies in Sri Lanka, was critical of the deal. "(It) provides no real value to us," the spokesperson said. Almost 5% of the population of Sri Lanka works in the billion-dollar industry, picking leaves on the mountain slopes and processing the tea in plantation factories.

China's appetite for LNG a bright spot in U.S. relations

(Financial Review; Australia; Dec. 21) - China's voracious appetite for natural gas has sparked a wave of deals with U.S. exporters of the fuel, strengthening energy trade between the world's two biggest economies even as their relationship grows more fraught. The latest sales were announced on Dec. 20 when Venture Global LNG, a company building a pair of liquefied natural gas export plants in Louisiana, said it had agreed to two contracts to ship 3.5 million tonnes a year of the fuel to state-owned China National Offshore Oil Corp. (CNOOC), the country's biggest LNG importer.

The deals bring to seven the number of big contracts signed between U.S. exporters and Chinese customers since October. China is poised to surpass Japan as the world's largest LNG buyer this year, while the U.S. will leapfrog Australia and Qatar in LNG export capacity next year, according to the U.S. Energy Information Administration. The U.S. was the No. 2 LNG supplier to China in the first nine months of this year, according to trade data. It was behind only Australia.

The gas sales are another sign of ties between the two powers on energy and climate issues, though tensions between the two countries have escalated over everything from China's persecution of Uighurs and the crackdown on the pro-democracy movement in Hong Kong to its military activity near Taiwan. "The U.S.-China relationship in many respects is at a very low point," said Jason Bordoff, dean at Columbia Climate School and a former energy official under President Barack Obama. "But energy and climate are a potential bright spot where there can be more cooperation."

China's largest LNG importer signs up for more U.S. gas

(S&P Global Platts; Dec. 21) - An affiliate of China's largest LNG importer, CNOOC, has agreed to buy 3.5 million tonnes per year of the fuel from U.S. liquefaction terminal developer Venture Global LNG, the companies said Dec. 20. Under one 20-year deal, CNOOC Gas & Power will take 2 million tonnes a year from Venture Global's proposed Plaquemines LNG facility in Louisiana.

Under a second deal, which will last for a shorter duration that the companies did not disclose, state-owned CNOOC, or China National Offshore Oil Corp., will take 1.5 million tonnes per year from Venture Global's Calcasieu Pass facility that is under construction in Louisiana. Production could begin within weeks at Calcasieu Pass. The pricing terms for both deals were not disclosed.

The agreements, announced in a joint statement, add to a flurry of commercial activity between Chinese buyers and U.S. exporters over the past year as high end-user prices in Asia and Europe have spurred buyers to seek out term deals that carry a lower fixed price. Cheap feed gas costs and destination flexibility have made U.S. contracts more appealing in such an environment. Venture Global and Cheniere Energy have been the beneficiaries of all the Chinese deals with U.S. exporters that have been disclosed so far in 2021, though other developers are said to be in talks with Chinese buyers.

U.S. LNG could meet 22% of global demand next year

(Reuters; Dec. 20) - The United States is set to become the world's biggest liquefied natural gas exporter in 2022, surpassing Qatar and Australia, and may hold that title for years to come. In a year when China and other large economies in Europe and Asia scrambled to source enough gas supply for heating and power generation, the United States was sitting on a bevy of supply — one that will grow in coming years.

Global LNG demand has hit record highs each year since 2015, due mostly to surging demand in China and the rest of Asia. Much of that demand has been met by steadily rising U.S. exports, which have hit new records every year since 2016 and are poised to continue in 2022. The U.S. Energy Information Administration projects LNG exports will average 11.5 billion cubic feet per day in 2022. That would account for roughly 22% of expected world LNG demand of 53.3 bcf per day next year, according to Goldman Sachs, and would outpace Australia and Qatar, the two largest exporters at present.

The U.S. should remain the biggest LNG exporter by capacity until around 2025, when Qatar could regain the lead as its North Field expansion starts to enter service. But if some U.S. developers start building new LNG export plants, the country may not give up the title. A lot depends on China. "After years of avoiding a commitment to buy U.S. LNG, Chinese companies have finally made their move," said Nikos Tsafos, at the Center for Strategic and International Studies think tank in Washington, D.C.

LNG cargoes divert from Asia to higher-value European markets

(Bloomberg; Dec. 20) - Asia’s relentless buying of liquefied natural gas earlier this year has left the region so well stocked for winter that spot shipments are being diverted to energy-hungry Europe. Multiple vessels are now being diverted from Asia after prices in

Europe traded at a rare premium, traders with knowledge of the matter said. A looming LNG wave will bring much needed supplies to Europe just as temperatures are dropping fast and is helping push European gas prices down from record-highs last week.

Energy prices soared in Asia earlier this year as China stockpiled everything from coal to fertilizers ahead of the winter. Now that a mild start to winter has ensued in Northeast Asia, buyers from Japanese utilities to Chinese factories are sated, while spot inquiries for cargoes dropped to a whimper last week, said traders. In Europe however, buyers are struggling to replenish inventories amid uncertainty over the start-up of the Nord Stream 2 pipeline from Russia, and are paying more than LNG cargoes fetch in Asia.

"Europe is simply bidding gas away from Asia to not run out of electricity," Goldman Sachs analyst Damien Courvalin told reporters Dec. 17. Sellers have begun diverting cargoes away from Asia to take advantage of the spread, which may only accelerate over the next weeks. The Minerva Chios was sailing from the U.S. to Asia when it U-turned around Dec. 15 and is heading toward the Red Sea, according to Bloomberg shipping data. The Lngships Manhattan, which was originally heading to China, is on its way to North Europe from the U.S., Kpler's Ang said. More shipments could follow suit.

More LNG cargoes divert from Asia to earn higher prices in Europe

(Reuters; Dec. 22) - At least 10 LNG cargoes have recently been diverted from Asia, drawn by Europe's record high prices amid supply concerns ahead of peak winter demand, industry sources said. European and British benchmark wholesale gas prices soared to record highs on Dec. 21 as Russian gas shipments to Germany through a major pipeline reversed direction and colder weather boosted demand.

Refinitiv Eikon data showed one Nigerian and at least two U.S. LNG cargoes have been diverted toward Europe while sailing through the Indian Ocean. In addition, a U.S. cargo headed toward Panama, bound for Asia, was diverted northeast and now appears bound for the U.K.'s South Hook terminal, according to ICIS LNG Edge. Data Intelligence firm Kpler said it has listed more tankers diverting toward Europe from Asia.

A West African LNG cargo onboard a vessel chartered by Shell has been called back to Europe after it was on the cusp of passing the Cape of Good Hope, said Felix Booth, head of LNG at energy intelligence firm Vortexa. "In many cases cargoes are turning around in the middle of a voyage and heading to the highest price markets in Europe, as the market differentials have extended beyond $4 per million Btu," Booth said.

High power costs push European industries to shut down or cut back

(Bloomberg; Dec. 22) - European power climbed to a fresh record as France faces a winter crunch, spurring the region's top aluminum smelter to curb output. Electricity for delivery next year surged as much as 6.4% to an all-time high in Germany, Europe's biggest power market. France, which usually exports power, will need to suck up supplies from neighboring countries to keep the lights on as severe nuclear power plant outages curb generation in the coldest months of the year.

The crunch is so severe that it's forcing factories to curb output or shut down altogether. Aluminium Dunkerque Industries France has curbed production in the past two weeks due to high power prices, while Trafigura's Nyrstar will pause production at its zinc smelter in France in the first week of January. Romanian fertilizer producer Azomures temporarily halted output.

Electricite de France said last week it would halt four reactors accounting for 10% of the nation's nuclear capacity, straining power grids already facing cold weather. At the beginning of January, 30% of France's nuclear capacity will be offline, increasing the need for gas, coal and oil. Soaring gas and power prices have already forced European utility giants from RWE to Uniper to boost liquidity requirements. Many smaller suppliers didn't have the same option, with more than 20 going out of business in the U.K. alone.

European Union considers ban on long-term gas contracts past 2049

(Natural Gas Intelligence; Dec. 20) - European Union long-term natural gas contracts would not be extended after 2049 under a package of legislative proposals put forward by the European Commission last week to decarbonize EU gas markets, promote hydrogen and reduce methane emissions. The proposals are part of a broader strategy to cut greenhouse gas emissions 55% by 2030 and reach net-zero emissions by 2050.

"Europe needs to turn the page on fossil fuels and move to cleaner energy sources," Executive Vice President for the European Green Deal Frans Timmermans told reporters during a video conference on Dec. 15. The EC's rationale to end long-term gas contracts by 2049 is to avoid locking in the use of fossil fuels leading up to the net-zero target of 2050. The EC is the executive branch of the EU.

"The whole long-term contract ban by 2049 is a complete red herring," said Jonathan Stern, a senior research fellow at the Oxford Institute for Energy Studies. "Already, no one can sign contracts longer than 10 to 15 years, and then only if they are replacing coal with gas. So, the market is going progressively toward contracts of five years or less because they can't lock themselves into commitments to buy gas that — if they meet their [climate] targets — they will not need."

Long-term gas supply contracts often finance new gas production or LNG facilities. With the rejection of long-term contracts, Stern questioned how investments in fossil fuels and LNG production could continue. Producers could take greater investment risks without the possibility of more long-term commitments.

Germany will close more nuclear plants, straining power reserves

(Bloomberg; Dec. 21) - Germany is set to close almost half of its nuclear power capacity before the end of the year, putting further strain on European grids already coping with one of the worst energy crunches in the region's history. The shutdowns are part of the country's nuclear phaseout and will leave just three atomic plants, which will be taken offline by the end of 2022. Beyond the squeeze on supply, the closures remove a key source of low-carbon power in a nation where emissions are on the rise.

After the 2011 Fukushima disaster, Germany vowed to ditch all of its reactors. At the time, the country was a leader in renewables, but the phaseout has left it more reliant on coal and lignite for electricity generation. The nation fell behind in the net-zero race after making major concessions to the coal lobby, and also to protesters against wind farms and to manufacturers, particularly carmakers.

"From a pure emissions perspective, it was always a questionable idea to shut down German nuclear before the plants have reached the end of their lifetime," said Hanns Koenig, head of commissioned projects at Aurora Energy Research. "It was always clear that the nuclear phaseout would need coal and gas plants to run more and therefore cause substantial extra emissions." The removal of 4 gigawatts of baseload output from the nuclear plants highlights a dwindling buffer reserve in Germany.

Pakistan faces crisis amid natural gas shortage

(Asia Times; Dec. 20) - Pakistan is teetering toward an energy-cum-economic crisis as natural gas supplies dry up, export-oriented factories that use the fuel close down, and households that rely on it for heat and cooking are left in the cold. Critics blame shortsighted government policymaking, while textile producers, the backbone of the export industry, warn of an indefinite shutdown next month due to fuel shortages.

The government has already cut supplies to non-export industrial operations due to the sudden shortfall in supplies. Gas shortages are pumping up the price of food, while many have been forced to use scarce firewood for basic cooking, according to local reports. Top official sources said the situation is worse than the government publicly suggests, claiming that gas supplies may remain suspended all winter. They said a yet-unveiled load management plan proposes to disconnect supplies to about 200 textile producers so the gas can be diverted to other areas of the economy.

“Gas reserves have been depleting since the last few years,” Qaiser Bengali, a distinguished national economist, told Asia Times. “They failed to bid for liquefied natural gas at an ideal time in summer when the spot prices in the international market were low.” Pakistan had based its LNG import policy over the past few years on the premise that the fuel would be abundant and cheap in the near-term. But that projection missed the mark as Asian LNG rates have skyrocketed this year, crucially when half of Pakistan’s demand must be bought at prevailing global spot prices.

Natural gas prices climb to near $30 at Boston delivery point

(S&P Global Platts; Dec. 21) - Winter-season natural gas prices at Boston's Algonquin city-gate are up sharply over the past several trading sessions as the forwards market reacts to a recent surge in gas and LNG import prices in Europe. On Dec. 20, Algonquin's January and February gas contracts settled at their highest yet this season, reaching $29.63 and $27.89 per million Btu, respectively, S&P Global Platts' most recent data showed.

Surging prices in New England's gas market, which has historically relied on LNG imports during the peak-winter heating season, comes as onshore gas and LNG import prices in Europe hit record highs. At Europe's benchmark pricing hub, gas prices topped $59 in Dec. 21 trading, marking the location's highest ever recorded settlement dating back to 2008. In Northwest Europe, prompt-month LNG import prices were also assessed at a record high on Dec. 21, topping $58, S&P Global Platts data showed.

So far this winter season, New England has received just a single LNG cargo at the region's Everett import terminal, which delivered the regasified equivalent of almost 3 billion cubic feet of gas on Nov. 3. From November to March last season, Everett received seven cargoes carrying more than 20 bcf. During the 2019-2020 season, the terminal took nine cargoes carrying nearly 23.5 bcf, Platts Analytics data shows.

Wisconsin tribal agency critical of pipeline environmental review

(Wisconsin Public Radio; Dec. 20) - An intertribal agency says the state’s draft environmental review of a Canadian firm’s $450 million plan to reroute an oil and gas pipeline across northern Wisconsin is incomplete and flawed. The state Department of Natural Resources released its draft environmental impact statement on Dec. 16 for a 40-mile reroute of Enbridge’s Line 5 in two counties. The line carries up to 23 million gallons of oil and gas liquids per day from Superior, Wisconsin, to Sarnia, Ontario.

Enbridge wants to move the pipeline after the Bad River Band of Lake Superior Chippewa sued the company in 2019 to shut down and remove Line 5 from the tribe’s reservation. The company’s proposed route is expected to cross nearly 200 waterbodies and temporarily affect 135 acres of wetlands. Enbridge maintains the nearly 70-year-old pipeline serves as a vital link for fuel across the region.

The Great Lakes Indian Fish and Wildlife Commission, which represents 11 tribes, told the natural resources department in a Dec. 10 letter that the state review has significant gaps in information. The commission said the draft lacks adequate data to support the impacts of an oil spill to downstream waters, including Lake Superior. The commission said the draft also fails to assess compliance with the Bad River tribe's water quality standards or combined impacts of other projects. A public hearing is set for Feb. 2.

Libya wants to boost oil output, considers new production contracts

(Bloomberg; Dec. 19) - Libya may introduce contracts with private oil companies that would give bonuses to those that meet targets and penalize those that don't, as the OPEC member tries to raise its output to 1.4 million barrels a day by mid-2022. Reaching that figure is possible if a national budget is finally passed that unlocks funding for the sector, according to Oil Minister Mohamed Oun. Otherwise, the North African nation may undertake oil-service agreements with private Libyan or foreign companies to develop fields and boost production, he said.

Output is currently 1.25 million to 1.3 million barrels per day, Oun said. "If the state is stabilized through elections or the forming of a government, we hope to reach 2.1 million barrels within two or three years." Libya is set to hold long-awaited elections on Dec. 24, in a step meant to cap a decade of conflict sparked by the uprising that ousted dictator Moammar Al Qaddafi. There are now serious doubts the vote will go ahead as planned, as disputes over the eligibility of candidates threaten to sow fresh turmoil.

Qatar invests in U.K.-backed small nuclear power plants

(Reuters; Dec. 20) - Qatar on Dec. 20 joined Britain's Roll-Royce in developing small nuclear power plants capable of delivering low carbon energy to around 1 million homes each. The Qatar Investment Authority said it would invest 85 million pounds ($112.2 million) for a 10% stake in the project, joining existing shareholders Rolls-Royce, BNF Resources UK and Exelon Generation in the British government-backed project.

QIA Chief Executive Mansoor bin Ebrahim Al-Mahmoud said Qatar, which is the world's largest producer of liquefied natural gas, was investing in the energy transition and funding technologies that enable low-carbon electricity generation. Rolls-Royce Chief Executive Warren East said the company had now raised the capital needed to establish its small modular nuclear reactors unit.

Britain last month agreed to invest 210 million pounds in the project, alongside 195 million pounds from Rolls-Royce and its partners, in a drive to reach net-zero carbon emissions and promote new technology with export potential. The reactors will not be available until the early 2030s, and all new nuclear power projects need approval from Britain's Office for Nuclear Regulation and its Generic Design Assessment, which can take about four years to complete for large plants.

Mexico’s national oil company may be staking out 2022 price hedges

(Bloomberg; Dec. 21) - Over 23 million barrels of certain crude options have traded since Dec. 10, suggesting a major player is hedging against lower oil prices to protect 2022 revenues. According to Bloomberg’s analysis of trading data, a significant volume of average-price option put spreads traded during the period, involving simultaneously buying a higher-priced option — giving the holder the right to sell at a pre-determined level — and selling a lower price put, acting as insurance in case prices collapse.

Although there’s no way to determine who initiated the trades from the data alone, people familiar with the deals who are not authorized to discuss the transactions publicly said the moves were consistent with Petroleos Mexicanos’ annual oil-price hedging program, which traditionally takes place in the final weeks of the year. Pemex didn’t reply to requests for comment.

The trades had a differential in strikes of either $5 or $6, data compiled by Bloomberg show. The higher strikes bought were between $66 and $68 a barrel, while the lower strikes sold were between $61 and $63. In total, those spread options would cost the buyer over $40 million in premiums. When Mexican state oil company Pemex hedges, its activity is smaller than and separate from the Mexican finance ministry’s own hedge. But the two serve similar purposes: locking in income from next year’s oil. For Pemex, hedging helps it secure financial protection and stability in the event of roiled markets.

Gulf of Mexico platform owner settles over 17-year-old oil spill

(The Associated Press; Dec. 22) - New Orleans-based Taylor Oil Co has agreed to turn over a $432 million cleanup trust fund and pay an additional $43 million to settle a federal lawsuit over cleaning up abandoned wells leaking since 2004, federal prosecutors said Dec. 22. “This settlement represents an important down payment to address impacts from the longest-running oil spill in U.S. history,” Nicole LeBoeuf, director of the National Oceanic and Atmospheric Agency’s National Ocean Service, said in a news release from the U.S. Department of Justice.

As is common in such agreements, the proposed settlement said Taylor does not admit any liability. U.S. District Judge Greg Gerard Guidry will decide whether to approve the proposed consent decree after a 40-day public comment period. Sixteen wells off Louisiana have been leaking since September 2004, when a subsea mudslide caused by Hurricane Ivan knocked over a Taylor production platform, dragging and breaking a cluster of pipes. Taylor plugged nine wells but has said it cannot plug the rest.

A federal contractor created a system that captured and removed more than 800,000 gallons of oil since April 2019, the U.S. Coast Guard said in the news release. Taylor's website says it sold all its oil and gas assets in 2008 and exists now only to respond to the toppled platform cleanup. The trust fund was created to plug the wells, permanently decommission the facility and clean contaminated soil. One of Taylor's suits, filed in 2016, sought to get back the remaining money that it is now relinquishing.