Oil and Gas News Briefs
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Markets want a lot more oil, but OPEC+ may not oblige

(Bloomberg; June 24) - The global oil market is calling out for a substantial increase in supplies, but OPEC+ is expected to provide only a fraction of what buyers are demanding. International crude prices have soared to a two-year high above $75 as demand bounces back from the pandemic slump. With talk swirling of a return to $100 oil and fears over inflation mounting, the International Energy Agency is urging the Organization of Petroleum Exporting Countries and its partners to fill a supply shortfall.

When it meets July 1, the OPEC+ alliance led by Saudi Arabia and Russia is widely expected to revive more of its halted output, according to a Bloomberg survey, and delegates from the group said discussions are already underway. Yet with Riyadh determined to proceed cautiously, market watchers expect any increase to leave the market wanting more. "This market's on fire," said Bill Farren-Price, a director at research firm Enverus. "The Saudis don't seem inclined to signal a substantial increase in supplies. But even if OPEC+ adds barrels, prices are going to stay strong."

OPEC has only gradually revived production this year. The 23-nation alliance has restored roughly 40% of the almost 10 million barrels of daily production it shuttered when demand collapsed last year. Ministers will gather on July 1 to assess the next step. Russia is considering making a proposal that the coalition increase supplies, and delegates say a hike in August is being informally discussed. Yet several of the cartel's officials also say that opening the taps now would be a mistake when fellow member Iran is engaged in diplomatic talks that could result in a major revival in its oil exports.

U.S. oil stockpiles in Oklahoma hub could dip to 2018 lows

(Bloomberg; June 24) - Crude oil inventories in America's largest storage hub could fall to historically low levels by the end of September as the demand rebound continues to outpace production. Stockpiles in Cushing, Oklahoma, the delivery point for West Texas Intermediate oil futures, fell nearly 4 million barrels in the past two weeks, bringing inventories to the lowest since March 2020 when the pandemic forced the country into lockdown. Analysts are estimating and traders are betting that supplies could dwindle to seasonal levels not seen since 2018 by the end of September.

Inventory levels at the massive complex, which houses crude oil produced across West Texas, the Midwest, and western Canada, arguably has more sway over oil prices than anywhere else in world. With U.S. shale production still 15% off of its pre-pandemic peak and imports from Canada running low, there is a growing consensus among trading house and Big Oil executives that prices are set to surge as supplies tighten.

Stockpiles at Cushing, currently at 41.7 million barrels, could drop to the lowest in almost three years as refineries ramp up output and oil production is still lagging, said Chris Sloan, a Houston-based analyst with BB Energy Trading. Inventories could fall to the 30-million-barrel range in the next three months, he said. “I think that Cushing stocks will decline to minimum operating levels of 32 million to 34 million by the end of July,” said Andy Lipow, president of Lipow Oil Associates in Houston.

Climate lawsuits against Big Oil expected to increase

(CNBC; June 25) - Big Oil is likely to face an exponential increase in climate lawsuits over the coming years, a trend that analysts say is reminiscent of activists turning to the courts to take on the tobacco industry. The prospect of cases against heavy emitting businesses comes after a landmark courtroom defeat for Shell. The Hague District Court on May 26 ordered the oil giant to set more ambitious emission reduction targets. It also said Shell is responsible for its own carbon emissions and those of its suppliers.

The ruling marks the first time a company had been legally obliged to align its policies with the Paris Agreement and reflects a watershed moment in the climate battle. “You will see the ruling on Shell being used as precedent to add new pressure,” said Elizabeth Hypes, senior climate change analyst at risk consultancy Verisk Maplecroft.

A report by Verisk Maplesoft last month found that businesses associated with oil and gas, coal, and electric utilities are currently most at risk of climate liability lawsuits. Since 2000, more than 2,000 climate litigation cases have been filed in a trend that is widely expected to have global implications for carbon-intensive companies. The U.S. and EU account for 90% of climate-related lawsuits since 2000, but cases are starting to move into new territories — such as Argentina, South Africa, and India, among others.

“I think you see a lot of cases that are just incentivizing or motivating others to follow suit — even if they are not successful,” said Franca Wolf, Europe and Central Asia analyst at Verisk Maplecroft. “The amount of media attention that a lot of these cases get, it is a great way to pressure governments and force corporations [to change].”

Enbridge says environmental review will delay pipeline

(Reuters; June 23) - Enbridge said on June 23 that construction of its Line 5 oil pipeline tunnel under the Great Lakes will be delayed, after the U.S. Army Corps of Engineers announced the project will undergo a much tougher environmental review. Calgarybased Enbridge had planned to start building the $500 million tunnel beneath the Straits of Mackinac, connecting Lake Huron and Lake Michigan, this year.

The tunnel and new pipes would replace a 4-mile section of the aging Line 5 oil line that runs along the lake bed. Line 5 ships 540,000 barrels per day of oil and refined products from Superior, Wisconsin, to Sarnia, Ontario, and is a key link in Enbridge's network. "The decision by the U.S. Army Corps of Engineers to complete an environmental impact statement instead of an environmental assessment for the project will lead to a delay in the start of construction," Enbridge spokesman Ryan Duffy said in an email.

The company had expected the tunnel to be operational by 2024, but environmental impact statements can take years. Duffy said Enbridge is still evaluating the impact on its timeline. Environmental campaigners have argued for years that there is a risk Line 5, built in 1953, could rupture in the Straits. The existing pipeline is the subject of an ongoing legal battle between Enbridge and the state of Michigan that has also embroiled the Canadian government. Michigan ordered the pipeline to shut down in May over concerns it could leak into the Great Lakes, an order that Enbridge ignored.

Oil production on tribal lands conflicts with climate change push

(The Associated Press; June 24) - On oil well pads carved from the wheat fields around Lake Sakakawea, North Dakota, hundreds of pump jacks slowly bob to extract 100 million barrels of crude annually from a reservation shared by three Native American tribes. About half their 16,000 members live on the Fort Berthold Indian Reservation atop one of the biggest U.S. oil discoveries in decades, the Bakken shale formation.

The drilling rush has brought the tribes unimagined wealth — more than $1.5 billion — and they hope it will last another 20 to 25 years. The nation’s oil boom has driven an almost tenfold spike in production from Native American lands since 2009, complicating efforts to curb carbon emissions. Burning of oil from tribal lands overseen by the U.S. government produces greenhouse gases equivalent to about 12 million vehicles a year. But President Joe Biden exempted Native American lands from a suspension of new oil and gas leases on government-managed land in deference to tribes’ sovereign status.

With tribal lands producing more than 3% of U.S. oil — and huge reserves untapped — Interior Secretary Deb Haaland faces competing pressures to help a small number of tribes develop their resources while also addressing climate change that affects all Native communities. Only a dozen of the 326 reservations produce significant oil, according to an analysis by S&P Global Platts presented to the Associated Press.

U.S. natural gas prices almost double of a year ago

(The Wall Street Journal; June 20) – Natural gas prices are starting the air-conditioning season nearly twice as high as a year ago. Demand for gas is building as the world's economies reopen and as Americans reach for their thermostats in what is expected to be a hot summer. Meanwhile, U.S. gas drillers have stuck to the plans they sketched out when prices were lower, draining the glut that had been holding down prices.

Gas futures ended June 18 at $3.215 per million Btu, up 96% from a year ago and the highest price heading into summer since 2017. Analysts expect prices to be even higher later in the year when it is time to fire up furnaces. It isn't just in the U.S. where gas is running high. A barometer for prices in Western Europe has more than doubled over the past year. In Asia, imported liquefied natural gas is fetching more than five times what it did last June, beckoning tankers full of U.S. shale gas across the Pacific.

If higher prices persist, Americans can expect bigger utility bills, particularly those who work from home. The pandemic shifted energy costs from employers to employees, who heat and cool their home offices and run electronics. Besides being burned to generate electricity and for hot showers and cooking, gas is consumed in large volumes to make plastic, fertilizer, steel, and cement — industries that will see higher costs too.

"These are the consequences of the underinvestment we've seen in natural gas," said Colin Fenton, chairman of investment banking at Houston's Tudor, Pickering, Holt. U.S. gas output peaked in December 2019. March marked the 11th straight month in which production declined, according to the U.S. Energy Information Administration.

Global gas supply not keeping pace with demand

(Bloomberg; June 25) - Natural gas markets are rallying as the world's importers have come to a stark realization: There isn't enough supply to go around. A long, frigid winter drained gas stockpiles from Louisiana to Germany, and utilities are struggling to build them back up. But unforeseen supply disruptions and a rebounding global economy are making it impossible to keep up, setting up a desperate scenario as summer weather approaches — and it's bound to get even worse when demand peaks this winter.

Higher gas prices, which hit a 13-year high in Europe this week, will make it more costly to keep the lights on in Madrid or cool apartments in Tokyo, after scorching heat waves in some regions are already making it more expensive to run air conditioners. The cleaner-burning fuel is the latest commodity to add to the global inflation scare as the price of everything from crude oil to corn and copper surge.

If a gas deficit does develop during the winter months, it could spur European utilities to burn more coal. China's power producers could curtail supplies to industries and cause blackouts like it did last winter. "Supplies are already very tight, and that could get much worse if there is a cold winter," said James Whistler, the head of energy derivatives at Simpson Spence Young, an international commodity and ship broker.

The gas sector had long been segmented between geographical regions, but the ramp-up in new supply of liquefied natural gas and growing liquidity in spot trading over the past several years has helped transform it into a genuinely global market. Supply is expected to be tight for two or three years as the industry makes up for the lack of new supply investments in 2020 and catches up with robust demand growth, an analyst said.

Gazprom's reluctance to boost supply drives up gas prices in Europe

(Financial Times; London; June 23) - Russia has exacerbated a shortage of European natural gas supplies, driving up prices to a 13-year high by quietly limiting top-up sales to customers, according to executives and analysts. Pipeline gas exports from Russia's state-backed monopoly Gazprom to continental Europe have dropped roughly one-fifth in 2021 from pre-pandemic levels despite a sharp rebound in demand and low stockpiles of the important fuel. The imbalance has helped send prices in Europe to the highest levels since 2008, increasing energy costs for homes and businesses.

The price rise comes during a period of volatile relations between Russia and the West. Energy executives and analysts said Gazprom is meeting its long-term obligations, but its reluctance to boost supplies to Europe through more immediate steps such as spot sales is pressuring the market. "Gazprom is just trying to maximize its profits at a time when spot prices are high, gas storage is empty, and LNG demand in Asia is strong," said one executive at a German energy company. "They're just being opportunistic."

Several industry participants said Gazprom's moves appeared designed to support prices and may be aimed at pressuring European Union governments to approve the controversial Nord Stream 2 pipeline to Europe, which would allow Russia to bypass gas lines through Ukraine. "Gazprom is effectively saying to the EU: 'Give us the green light for Nord Stream 2 and we will send you all the gas you need'," said Tom Marzec-Manser, lead European gas analyst at ICIS. "'Don't, and we won't."

Natural gas shortages help drive coal to highest price since 2011

(The Wall Street Journal; June 25) - Coal prices have climbed to their highest level in a decade, even as governments are pledging to reduce carbon emissions. A shortfall of natural gas, rebounding electricity use, and scanty rainfall in China have lifted demand for coal. Supplies have been crimped by flooding in Indonesia and Australia, a closed mine in Colombia, and distorted trade flows caused by China's ban on Australian coal.

Prices for thermal coal — which power plants burn to boil water into steam, spin turbines and generate electricity — have more than doubled over the past year as a result. Coal delivered into northwest Europe earlier this month hit its highest price since November 2011, having climbed 64% in 2021. Prices for coal exported from Newcastle in Australia, most of which heads to Asia, have risen 56%, according to Argus Media.

The rally is a reminder that efforts to wean power plants off coal to limit planet-warming emissions are in the early stages, and may prove halting while coal competes on price. The world's use of coal peaked in 2014, but analysts say spurts of demand, coupled with a dearth of investment in new supply, could inflict spells of higher prices. Prices are expected to stay high for several months. In theory, high prices should cool demand for coal, which produces more than twice the carbon per unit of electricity as gas. Instead, consumption has risen because gas has also jumped in price, boosting coal's appeal.

Era of Australia's LNG mega-projects appears over

(Australian Broadcasting Corp.; June 22) – Over the past 15 years, the story of Australia's liquefied natural gas industry has been one of monumental growth and investment. More than $300 billion has been spent on several giant LNG plants, propelling Australia to the top of the pile among global producers of the fuel. But barely two years after the last of the country's mega-projects entered production, there are growing doubts about whether another LNG export terminal will ever be built.

Driving the shift in fortune is an equally monumental change in the global economy, while the push to decarbonize clouds the case for new LNG projects. Dan Gocher, from the Australian Centre for Corporate Responsibility, an ethical investment firm, said the industry is in flux, and players face the prospect of their assets becoming stranded. "What you're finding … is that a lot of those LNG terminals are struggling for feedstock."

Wood Mackenzie LNG analyst Daniel Toleman agreed that the era of mega-LNG projects appears to be over in Australia. He said the industry's future is likely to be much more modest, and would involve keeping existing plants operating rather than building new ones. "We might see some expansion," Toleman said. "I don't think there is any more appetite among Australian producers to invest in a greenfield LNG project at the moment. … It's just not really cost competitive when the opportunity is there to fill existing infrastructure or bolt on another (liquefaction) train to an existing site."

Qatar will respond to markets and offer more flexible LNG pricing

(S&P Global Platts; June 23) - As Qatar Petroleum readies its long-awaited expansion of the world's largest offshore gas field, it is likely to face pressure from LNG buyers for more flexible contract terms in an increasingly competitive market. QP has historically relied almost solely on oil-indexed prices in its long-term contracts, but as global LNG markets increasingly commoditize and the use of gas-price benchmarks grows, Qatar's commercial strategy has shifted, including greater use of the Japan-Korea Marker.

Further market-based pricing changes can be expected, especially when QP brings more LNG production online, analysts and traders said. "Due to market uncertainties, there is a likelihood we are transitioning from a place where Qatar was very much focused on achieving the best price for its LNG, to a place where they are thought to be more flexible on the pricing, if it means they can maximize the placement of their additional output," said Jean-Michel Saliba, a Middle East and North Africa economist and director with Bank of America Merrill Lynch. "This reflects the market reality."

The two-phase North Field expansion is projected to boost Qatar's LNG exports by 64%, with capacity rising from 77 million tonnes per year to 126 million by 2027. QP Chairman Saad al-Kaabi has hinted the company will be moving away from the more rigid and long-term contracts it has used in the past, adding that its pricing will seek to reflect fundamentals in each market. "It is supply and demand. When there are ample supplies, prices do come down," Kaabi said June 22 at the Qatar Economic Forum.

Critic calls Australia’s high-CO^2 gas development ‘atrocious’

(Australian Broadcasting Corp.; June 23) - Iron ore magnate Andrew Forrest has attacked Santos over its plans to develop a new gas field in the Timor Sea. "Santos is about to kick off one of the most polluting projects in the world," Forrest said. "It needs to be called for what it is. It is an atrocious project." The Barossa project is a $4.7 billion investment — one of the largest Australian oil and gas investments in almost a decade — which will extract gas from under the Timor Sea, 200 miles north of Darwin.

Santos bought the Barossa project from ConocoPhillips in May 2020. Santos CEO told a news conference last week the company's plans for Barossa would reduce its estimated carbon emissions 25% from ConocoPhillips' estimates. Taking into account that reduction, the project would still produce about 1.1 tonnes of carbon dioxide equivalent for every tonne of LNG, according to John Robert, a chemical engineer and industrial economist with extensive experience in the industry.

"It's a carbon-dioxide emissions factory, with an LNG by-product," Robert said. Barossa gas has a very high level (18%) of carbon dioxide, a much higher CO2 percentage than any other gas project in Australia, Robert said. It’s much more than the 6% volume that Santos' Darwin LNG-processing plant can handle. The company plans to send Barossa gas into the Darwin plant, which needs new feed gas to maintain operations at the facility, which started up in 2006. Before the gas can be piped to Darwin, a portion of the CO2 will need to be separated and vented offshore in the Timor Sea.

Louisiana LNG developer plans carbon capture for export plants

(Reuters; June 23) - U.S. liquefied natural gas company Venture Global LNG will be ready to build a proposed carbon-capture and storage (CCS) facility for its LNG export plants in Louisiana as soon as the permits are ready, CEO Michael Sabel told Reuters on June 23. "We don't need any new technology to do it. We don't need any additional outside funds to do it. We're able to do it as soon as the permitting process allows us to go forward," Sabel said of the proposed CCS project.

Venture Global said last month that it plans to build the CCS project at its Calcasieu Pass and Plaquemines export plants in Louisiana. It's part of a growing trend among energy companies to trim greenhouse gas emissions and meet increased customer and government demand for cleaner energy to reduce damaging climate change.

The liquefaction plant at Calcasieu Pass is under construction, and could start producing in test mode as soon as late 2021, with commercial service planned for 2022. The first phase is set for 10 million tonnes annual capacity. Venture Global has said it expects to make a final investment decision on its Plaquemines LNG project later this year with the plant entering commercial service in 2024.

LNG buyers moving toward shorter contracts

(S&P Global Platts; June 25) - Asian LNG buyers are showing an increasing preference for shorter tenures in term contracts, but long-term contracting remains a necessity for some buyers despite increased spot-market liquidity, according to executives at the 7th China LNG & Gas International Summit this week.

"In the earliest stage of the LNG market, we've seen more of 20- to 25-year long-term contracts, but now requirements have changed, and some are saying they prefer 3- to 5-year contracts. Of course, there are still some Chinese buyers requesting 5- to 10-year tenures to ensure stability in supplies for their basic domestic demand," said Ma Shenyuan, a senior adviser to U.S. LNG project developer Tellurian.

"We used to call long term 20 years, now long term is 10 years, and indeed soon it will be five years," TotalEnergies China's vice president for LNG, Denis Bonhomme, said on a separate panel. Ma also highlighted the importance of the use of spot LNG market pricing — the Platts Japan Korea Marker — in long-term contracts to reflect fundamentals in the Asian market and to improve risk management needs of customers.

Bonhomme said long-term contracts remain a necessity to Chinese LNG buyers for the stability of supplies. "We're all seeing the return of long-term contracts ... having a very diversified portfolio both of sources and of indexations makes a lot of sense, and the best way for this is to have long-term contracts," he said.

[Camera records methane leaks across Europe]

(Reuters; June 24) - The potent greenhouse gas methane is spewing out of natural gas infrastructure across the European Union because of leaks and venting, video footage made available to Reuters shows. Using a $119,000 infrared camera, nonprofit Clean Air Task Force found methane leaking into the air at 123 oil and gas sites in Austria, Czech Republic, Germany, Hungary, Italy, Poland, and Romania this year. Methane, the biggest cause of climate change after carbon dioxide, is the main component of natural gas and over 80 times more potent than CO_2 in its first 20 years in the air.

Currently, the EU does not regulate methane emissions in the energy sector, meaning companies running the sites surveyed by the nonprofit are not breaking laws because of leaks or venting. While some nations require firms to report emissions, there is no overarching framework forcing them to monitor smaller leaks or fix them. That's set to change. The EU is proposing laws this year that will force oil and gas companies to monitor and report methane leaks, as well as improve the detection and repair of leaks.

In the energy sector, methane is emitted intentionally through venting and by accident from sites such as gas storage tanks, liquefied natural gas terminals, pipeline compressor stations, and oil and gas processing sites. CATF visited over 200 sites in seven EU countries and filmed emissions with the infrared camera in public vantage points to detect hydrocarbons invisible to the naked eye, such as methane. "Once you see it, you can't unsee it," said CATF's James Turitto, who filmed the emissions.

[China targets further reduction in coal consumption]

(Reuters; June 23) - China National Petroleum Corp. expects China to cut its coal use to 44% of energy consumption by 2030 and then to 8% by 2060 as the country aims to use more natural gas to achieve its climate-change goals. China, the world's biggest coal consumer, is expected to increase the use of natural gas in its primary energy mix to 12% in 2030 from 8.7% in 2020, said Zhu Xingshan, senior director at CNPC’s planning department, said at a conference June 24.

China, the world's largest energy consumer and biggest emitter of climate warming greenhouse gases, has vowed to bring its total carbon emissions to a peak before 2030 and to be carbon neutral by 2060. Gas is expected to be a key bridge fuel over the next two decades, CNPC has said. China lowered the share of coal use in its primary energy mix to 56.8% in 2020, from around 68% at the beginning of the previous decade and expects this share to fall to below 56% in 2021, before declining to 44% by 2030.

China's Silk Road Fund takes stake in Saudi oil pipelines

(Bloomberg; June 20) – China's Silk Road Fund and Hassana Investment Co., controlled by the Saudi Arabian government, joined a group investing $12.4 billion in Saudi Aramco's oil pipelines. The consortium, led by U.S. firm EIG Global Energy Partners, has closed the deal to acquire a 49% equity stake in Aramco Oil Pipelines, a new Aramco subsidiary, according to an emailed statement.

The consortium includes Abu Dhabi sovereign wealth fund Mubadala Investment Co. and Samsung Asset Management. Abu Dhabi is the capital of the United Arab Emirates and, along with Saudi Arabia, a key member of the Organization of the Petroleum Exporting Countries cartel. The new Saudi subsidiary will have rights for 25 years to tariff payments for oil transported through Aramco's crude pipeline network. Aramco, the world's biggest oil producer, will retain ownership of the other 51% of the shares.

Aramco may look to raise money from a similarly structured deal for its natural gas pipelines as part of its plan to sell non-core assets, people familiar with the matter have told Bloomberg. The proceeds will help Aramco maintain its $75 billion annual cash dividend, almost all of which goes to the Saudi government.

Iran expected to export oil from stockpiles if sanctions are lifted

(Reuters; June 20) – Iran could quickly export millions of barrels of oil it is holding in storage if it reaches a deal with the United States on its nuclear program, and has been moving oil into place to prepare for an eventual restart, four traders and industrial sources said. The U.S. and Iran begun in mid-June their sixth round of indirect talks on reviving a 2015 nuclear deal that then-President Donald Trump pulled out of in 2018.

Trump's sanctions on Iran's energy sector led refineries in many countries to shut out Iranian crude, forcing Iran to pump well below capacity. Iran sits on the world's fourth-largest oil reserves, and relies heavily on oil revenues. If and when the administration of President Joe Biden and the Iranian government reach a deal that results in the lifting of sanctions, Iran plans to increase its output to 3.8 million barrels per day, up from the current production of 2.1 million barrels, according to oil ministry officials.

That would return Iran's production to where it was before the sanctions, but would take time because years of low investment in mature oil fields heavily reduced their output. As a stopgap measure while it works to boost production, the National Iranian Oil Co. is expected to export from onshore and offshore storage that hold as much as 200 million barrels, according to energy consultancy and monitoring firms. That would allow Iran to export an additional 1 million barrels per day, adding about 1% to global supply, for more than six months, putting downward pressure on benchmark global oil prices.

Japan pledges $10 billion toward decarbonization in Asia

(Reuters; June 21) – Japan on June 21 pledged to offer $10 billion in financial aid for decarbonization projects in Asia, such as renewable energy, energy-saving efforts and conversion to gas-fired from coal-fired electrical generation to help with the global energy transition. In a virtual meeting with the Association of Southeast Asian Nations' energy ministers, Japan's Minister of Economy, Trade and Industry Hiroshi Kajiyama proposed several support measures for the region, including helping each country set a realistic path toward carbon neutrality and developing a road map to reach it.

"We propose the Asia Energy Transition Initiative as a package of Japanese support for realistic transitions in Asia toward carbon neutrality," Kajiyama said. The financial support, including lending and investments from Japan's public and private sectors, will target projects to help cut carbon emissions and contribute to each country's carbon-neutral targets, said Takeshi Soda, director for international affairs at the ministry. The projects will include building gas-fired power stations and liquefied natural gas import terminals, as gas is considered a cleaner alternative to coal, Soda said.