Oil and Gas News Briefs
Compiled by Larry Persily
April 25, 2022

Russia sending more oil to Europe, but masking destination

(The Wall Street Journal; April 21) - Russia has ramped up oil shipments to key customers in recent weeks, defying its pariah status. One increasingly popular method for delivery is marking tankers "destination unknown." Exports bound for European Union states, which historically have been the top buyers of Russian oil, have risen to an average of 1.6 million barrels a day so far in April, according to TankerTrackers.com. Exports had dropped to 1.3 million a day in March following the invasion of Ukraine.

But an opaque market is forming to obscure the origin of that oil. Unlike before Russia's invasion, buyers are worried about the reputational risk of trading crude that is financing a government that Western leaders accuse of war crimes. Oil from Russian ports is increasingly being shipped with its destination unknown. In April so far, over 11.1 million barrels were loaded into tankers without a planned route, more than to any country, according to TankerTrackers.com. That is up from almost none before the invasion.

The use of the destination unknown label is a sign that the oil is being taken to larger ships at sea and transferred, analysts and traders said. Russian crude is then mixed with the ship's cargo, blurring where it came from. It's an old ruse that has enabled exports from sanctioned countries such as Iran and Venezuela. The Elandra Denali was off the coast of Gibraltar last week when it received three loads of oil from tankers that left from Russian ports, according to the vessel operators and other sources. The ship records show it is planning to arrive in Rotterdam, a key refining port in the Netherlands.

Oil field service firms join appeal to restart work in Venezuela

(Reuters; April 21) - Some U.S. oil field firms whose Venezuelan operations were frozen by sanctions are joining an appeal to Washington for authorizations to restart oil drilling in the South American country, according to eight sources with knowledge of the talks. If they are allowed to resume work, Venezuela could quickly ramp up production capacity beyond 1 million barrels per day, analysts said.

The new supply could also fill a void left by U.S. ban on Russian energy imports over its invasion of Ukraine that has contributed to prices above $100 per barrel. Schlumberger, Halliburton, Baker Hughes and Weatherford have been barred since 2019 from helping Venezuelan state-run PDVSA and its joint ventures produce oil. Any easing by the U.S. Treasury Department of a restricted license the four companies share with Chevron could let them expand operations.

Since the U.S. imposed oil sanctions on Venezuela, many firms removed equipment and staff and wrote off hundreds of millions dollars of assets. But over a dozen rigs remain stored near the nation's largest oil fields. A high-level meeting between U.S. and Venezuelan officials last month opened the door to a possible return of Venezuelan oil. Sanctions were imposed in 2019 to choke oil exports and deprive Caracas of its main source of revenue in its bid to see the ouster of Venezuelan President Nicolas Maduro.

Oil companies that still have a presence in Venezuela could promptly reactivate equipment in the country, the sources said, potentially reviving output that remains at 40% of pre-sanction levels. Chevron has requested authorization from President Joe Biden's administration to take operating control of its projects with PDVSA. The oil major also has begun readying a team for returning Venezuelan crude to the United States.

Virus lockdowns prompt drop in China's fuel demand

(Bloomberg; April 22) - China is heading for the largest oil demand shock since the early days of the pandemic as the nation's efforts to tame a rapidly spreading virus hobbles vast swathes of the economy. Demand for gasoline, diesel and aviation fuel in April is expected to slide 20% from a year earlier, according to people with inside knowledge of the country's energy industry. That's equivalent to a drop in crude oil consumption of 1.2 million barrels a day, they said. It will be the largest hit to demand since the lockdown more than two years ago of Wuhan, the epicenter for the coronavirus pandemic.

The decline equates to about 9% of China's daily oil demand when compared with the average for all of 2021. Gasoline will register the biggest hit, while jet fuel is coming off an already low base, said the Chinese oil executives who spoke on the condition of anonymity. Though demand for diesel from the trucking industry has plunged, the agricultural and industrial sectors are offering some support, they added.

China — the world's biggest crude importer — has been struggling to contain its latest outbreak that's led to a series of lockdowns across the country, most notably in the financial hub of Shanghai. The nation's pursuit of its "COVID Zero" strategy has resulted in a web of quarantine rules that's crimped mobility and industrial output, snarling supply chains and weighing on fuel consumption. Gasoline demand in eastern China has tumbled by about 40% this month, mainly due to the lockdown in Shanghai.

Rising construction costs challenge new U.S. LNG projects

(Reuters; April 21) - Soaring demand for U.S. liquefied natural gas as buyers steer clear of Russian fuel is putting some long-stalled U.S. export projects back on track. But rising material and labor costs threaten to snarl the plants once again. Two developers with Louisiana projects sidelined due to the U.S.-China trade war — Energy Transfer, with Lake Charles LNG, and Tellurian, with Driftwood LNG — have begun talks with contractor Bechtel over costs, according to a spokesperson and regulatory filing.

Materials prices have shot up 20% in the past two years while gas compressors are 30% costlier, construction and energy experts said. Metals required for LNG projects are in short supply due to Russia's invasion of Ukraine and could add another 10% to costs, they added. Higher costs mean lower returns and could give an edge to rivals with newer, modular designs that rely on off-the-shelf components and, in one case, speedier construction using oil platforms for offshore production sites.

"Who knows what LNG terminals are going to cost now," warned Michael Smith, CEO of Freeport LNG, which started exports from its Texas terminal in 2019. A large portion of material costs are steel and nickel-alloy piping, Smith said at an energy conference last month. "Fifty percent of nickel comes from Russia." Steel used to build LNG storage tanks is up about 10% this year and nickel has gained 40% since February, according to Black & Veatch, which designs and builds LNG terminals.

Rising costs make it "more expensive for a developer to move forward," said Kenneth Medlock III, a fellow in Energy and Resource Economics at Baker Institute for Public Policy. The cost hikes are not likely to halt new projects. Analysts expect four plants to be approved this year in the U.S., versus earlier projections of two or three. But soaring prices may lead to revisions in contracts and financing, weakening potential returns.

LNG suppliers raise their asking price for long-term deals

(Bloomberg; April 21) - Liquefied natural gas suppliers are asking clients to pay much higher rates for new long-term contracts, as a global effort to cut Russian imports is expected to keep the market tight for the next decade. The industry’s top suppliers are offering 10-year contracts that start in 2023 at rates about 75% above prices of similar deals signed last year, according to traders. Volatile spot prices and a worsening supply deficit have triggered a rush by buyers to find more stable long-term deals.

LNG spot rates from Asia to Europe surged to records last month as the war in Ukraine exacerbated an already tight market. Prices are expected to remain elevated for years as Europe boosts LNG imports to curb dependence on Russian pipeline gas, outpacing additional supplies. Contracted LNG supply linked to the price of oil — a practice dating back to the 1970s — is currently much lower than the cost of buying a shipment from the spot market. But that discount is shrinking as available supplies dwindle.

The global market could be short nearly 100 million tonnes per year by the middle of the decade if the world moves to cut Russian gas, according to a Credit Suisse report last month. Pricier long-term LNG contracts threaten to boost electricity and heating rates, and could make the fuel unattainable for some cash-strapped nations, like Pakistan.

Suppliers including major producers and portfolio players are offering 10-year LNG deals at 16% to 18% of the price of a barrel of Brent crude. For comparison, Qatar was signing supply deals with Chinese customers in the low-10% range early last year. Beijing Gas inked a deal just below 13% in January. While no deal has been signed at 18%, such a rate would likely be among the most expensive ever signed.

Novatek says sanctions could push change in Arctic LNG-2 schedule

(Reuters; April 21) - Leonid Mikhelson, head of Russian gas producer and liquefied natural gas plant operator Novatek, said on April 21 that the launch of its under-construction Arctic LNG-2 project might have to be changed due to challenges, the Interfax news agency reported. The $21 billion project is key for Russia's plans to raise its share on global liquefied natural gas market to 20% by 2035, expanding its annual LNG output to 120 million to 140 million tonnes from about 30 million tonnes now.

Arctic LNG-2, on the Gydan Peninsula, was expected to start operations at its first of three liquefaction trains in 2023, reaching almost 20 million tonnes annual capacity at full build-out in 2025. However, the plans have been under threat following Western sanctions introduced since February over Moscow's invasion of Ukraine. Interfax quoted Mikhelson as saying it was hard to confirm the project schedule. He also said the first liquefaction line is 85% complete, while the entire project is at 65% completion.

Novatek holds a 60% stake in the project, while 10% stakes are held by France's TotalEnergies, Japan Arctic LNG (a consortium of Mitsui and JOGMEC), and Chinese firms CNPC and CNOOC.

Satellite images show Russia flaring less gas as production declines

(Bloomberg; April 20) - The lights are dimming over the Russian oil industry — literally. The Kremlin is doing its best to conceal the full impact of formal and informal energy sanctions after its invasion of Ukraine. But Moscow can’t hide from the satellites above Siberia that measure the amount of light its oil fields emit as unwanted gas is burned, or flared: The lower the production, the less flaring and the less light seen from above.

The flaring data, combined with anecdotal information from traders and leaks of official Russian statistics, suggest that eight weeks into the war Moscow is finally succumbing to the impact of government-imposed penalties and companies’ self-sanctions. On average, Russian oil output is down 10% from its pre-war level. More production losses are likely as Western refiners and traders walk away from Russia upon the expiration of supply contracts in the coming weeks.

For consumers, declining Russian production signals the beginning of a second, and likely longer lasting, wave of oil-price increases. For Vladimir Putin, the stakes are even higher: Revenue from oil and gas sales has helped cushion the blow of international sanctions. A lasting production decline would be a long-term headwind for its economy. Russia's oil flow is likely to drop further in coming months, judging by statistics from OilX, a consultancy that uses imaging data from NASA satellites to measure flaring.

Russian oil sales to India and China up substantially from year ago

(Nikkei Asia; April 21) - Nearly two months after Russia invaded Ukraine, much Russian oil continues to flow to Japan, South Korea, China and India, the latest tanker-tracking data shows. Since the start of the war on Feb. 24 until April 18, a total of 380 oil tankers departed Russia, according to a Nikkei Asia analysis of data from Refinitiv. That is up slightly from 357 during the same period last year.

The number rose even after massive civilian killings in Bucha, Ukraine, came to light on April 2. From that date through April 18, 119 tankers departed from Russia, compared to 109 last year. Of the 380 tankers that departed since Feb. 24, 115 are or were headed to Asia: 52 to China, 28 to South Korea, 25 to India, nine to Japan and one to Malaysia. That represents an eightfold increase for India and a 33% increase for China over the same period last year. The numbers for the other countries were down 16%.

Bloomberg News recently reported that Moscow is offering oil to India at a discount of as much as $35 a barrel below prewar prices. Vandana Hari, founder and CEO of Singapore-based Vanda Insights, which provides global oil market macro analysis, said Russian oil is "an attractive option" for buyers not facing public scrutiny over their purchases. Major Western economies, such as the U.S. and the U.K., have announced they will stop importing Russian oil as part of their response to the war in Ukraine.

Chinese companies in talks to buy Shell's Russian LNG assets

(Bloomberg; April 21) - China's key state-run energy companies are in talks with Shell to buy its stake in a major Russian Far East gas export project, according to people with knowledge of the matter. CNOOC, CNPC and Sinopec are in joint discussions with Shell over the company's 27.5% holding in the Sakhalin-2 liquefied natural gas venture after the European firm said it would exit Russian operations following the Ukraine invasion, said the people, who requested anonymity to discuss private details.

Discussions are at an early stage and it remains possible no deal will be agreed with the firms, the people said. Shell is also open to talks with other potential buyers outside of China, one of the people said. The talks include a potential sale of the stake to one of the Chinese companies, to two of them, or to a consortium of all three. Shell declined to comment. Representatives for China National Offshore Oil Corp., China National Petroleum Corp. and China Petrochemical Corp. — as the three Chinese companies are formally known — didn't immediately respond to requests for comment.

Shell, as well as rivals including ExxonMobil, took the energy industry by surprise by signaling plans to walk away from Russian assets worth billions of dollars after war erupted in Ukraine in February. Earlier this month, Shell said its withdrawal from Russia will result in as much as $5 billion of impairments. Dozens of Shell employees on temporary assignment at the Sakhalin-2 project were removed over the weekend to be relocated back to other offices as the company moves forward with an exit.

Japan wants to retain its stake in Russian LNG project

(Bloomberg; April 22) - China's interest in acquiring Shell's 27.5% stake in a 13-year-old Russian Far East liquefied natural gas export project is providing further justification for Japan to continue its joint venture with Gazprom, which holds a 50% share in the project. "If Japan leaves a project, then a third-party can acquire it," Trade Minister Koichi Hagiuda said in Tokyo on April 22. "Exiting energy projects in Russia would push up prices even further, and would not be an effective sanction strategy."

Shell is in discussions with several Chinese state-owned oil giants to sell its stake in Sakhalin-2 LNG, which Shell said it would exit after war erupted in Ukraine, Bloomberg reported on April 21. Japanese trading houses Mitsubishi and Mitsui own a combined 22.5% of the project, and a majority of the gas produced there goes to Japan. Exiting from Russian LNG projects would force Japan to source replacement fuel from the already tight spot market, threatening to boost prices that are trading near record highs.

Japan is grappling with how to put pressure on Moscow, while also continuing to import gas and oil from Russia amid a global supply crunch. Sakhalin-2 is the closest LNG export project to Japan, and Prime Minister Fumio Kishida said last month that the nation shouldn't withdraw due to its strategic importance for the resource-poor nation.

Mozambique plans to use LNG revenues for sovereign wealth fund

(Bloomberg; April 24) - Mozambique plans to establish a sovereign wealth fund later this year as it prepares to start natural gas exports that the government says may over years generate $96 billion of revenue for the world's third-poorest nation. Authorities are finalizing draft legislation that will govern fund management, Finance Minister Max Tonela said April 21. He expects the fund to be operational before the first liquefied natural gas exports begin in October from an offshore project that Eni is developing.

The southeast African nation's central bank in 2020 published a proposed model for the fund, which it said would build up savings and contribute to fiscal stability when commodity prices fluctuate. Under that plan, half of the state's revenue should go to the fund and the rest to the government's budget during the first two decades of LNG production. Since then, the two biggest export projects being developed by TotalEnergies and ExxonMobil have stalled because of an Islamic State-affiliated insurgency, while prices for the fuel have surged since Russia invaded Ukraine.

Total should resume its $20 billion project to produce 13.1 million tonnes of LNG annually by the end of the year as the security situation has improved in Cabo Delgado province where it's based, Tonela said. ExxonMobil should be ready to make a final investment decision on its even bigger project once TotalEnergies lifts the force majeure on its work, he said. Tonela said he met representatives from Exxon while attending the International Monetary Fund and World Bank spring meetings in Washington this week.

Guyana wants to ensure its newfound oil wealth is not squandered

(Bloomberg; April 19) - The world's fastest-growing economy, Guyana, is trying to stop a wave of oil wealth from bringing unwanted side effects, said Vice President Bharrat Jagdeo. The government wants to protect the country from so-called Dutch disease, whereby a resource boom leads to economic imbalances and a decline in other sectors, Jagdeo said. "We're determined not to go down that route," Jagdeo said April 19 on Bloomberg TV. "That is why diversification of economy is so crucial at this point in time."

Guyana's economy will grow 47% this year, according to an International Monetary Fund forecast. That's on top of 20% growth in 2021 and 43% in 2020. The country of 800,000 people, which borders Brazil and Venezuela, is being transformed by vast offshore oil deposits discovered in 2015 by ExxonMobil. The government passed laws last year to set up a sovereign wealth fund, and is boosting spending on education, health and infrastructure, to ensure the resources aren't squandered, Jagdeo said.

South America's only English-speaking nation is also considering channeling resources into a national oil company, for which it would seek a strategic partner as it weighs granting new exploration licenses, Jagdeo said. Oil output will rise to about 800,000 barrels per day by 2025, Jagdeo said. That means it could overtake Kuwait to become the world's largest producer per capita. Until recently, the country didn't produce any crude at all, even though its neighbor Venezuela holds the world's largest reserves.

Analyst skeptical Canada can meet challenge of new energy projects

(The Canadian Press; April 18) - From carbon capture and hydrogen development to an acceleration of wind and solar power and rapid electrification of transportation systems, the federal government has set an ambitious map to get Canada to its climate target of cutting emissions by 40% below 2005 levels by 2030 and net-zero emissions by 2050. But overhauling energy infrastructure in a short timeframe represents an unprecedented challenge. And pessimists point out that Canada doesn't have a good track record recently of getting ambitious, expensive infrastructure projects over the finish line.

In Alberta in particular — where the ghosts of cancelled oil and gas pipeline projects still haunt the public consciousness — some observers believe this country has lost the political will and spirit of national unity that's required to get big things done. "We've spent a decade making building anything extremely difficult, if not impossible," said Calgary-based energy analyst David Yager. "Canada's recent history suggests these targets are aspirational, to say the least."

It isn't just oil and gas projects that are becoming increasingly difficult to build, he said. In Ontario, wind farms have been canceled because they pose threats to bats. In Quebec, a proposed hydroelectric power line that would have served Massachusetts was scrapped after residents of Maine refused to allow transmission through their state. "You can't even build a cellphone tower anymore without running into opposition," Yager said. "Where do you think you could put a new hydro dam nowadays? Nowhere."

New research shows marginal oil wells leak 10% of their gas

(Bloomberg; April 20) - Environmentalists are calling on the Biden administration to crack down on methane leaks from low-producing oil wells, after new research shows they are releasing a disproportionate share of the potent greenhouse gas. According to the study in Nature Communications, such marginal wells are gushing some 4 million tonnes of methane annually — at a rate 6 to 12 times higher than the national average.

Yet low-producing oil and gas wells would be largely exempted from regular monitoring requirements the Environmental Protection Agency proposed last year. The analysis underscores the potential pitfalls of the Biden administration's plan to target new methane mandates toward bigger wells — and is stoking calls for changes in the final regulation the EPA is set to impose by the end of the year. Some oil and gas industry officials have encouraged the EPA to focus its attention on larger wells that make up the vast share of U.S. production, arguing the approach would be more cost-effective.

According to the research, which relies on earlier measurements newly integrated with production data, wells that produce fewer than 15 barrels of oil equivalent a day are allowing about 10% of their gas to leak into the atmosphere. Together, these marginal wells are responsible for about half of the methane emitted from all well sites in the U.S. — even though they represent just 6% of the oil and gas production, the study said.

[U.S. refiners boost diesel, jet fuel production over gasoline]

(Reuters; April 21) - Refiners are planning to spend the summer increasing jet fuel and diesel production instead of gasoline, traders and analysts said, favoring what have historically been the least profitable parts of the barrel instead of the most profitable. That is unusual and exemplifies the topsy-turvy nature of the global oil markets. Refining crude oil into diesel or jet fuel is currently more profitable than making gasoline due to an inventory squeeze in Europe following sanctions on Russia.

Normally, U.S. refiners ramp up gasoline output in the spring and summer to meet driving-season demand, while profitability for distillates like diesel or jet ebbs. However, sanctions on Russian because of the war in Ukraine, pandemic-related refinery shutdowns that have reduced capacity, and an unexpected surge in natural gas prices have curtailed the volume of fuel refiners can produce, particularly in Europe, which relies on diesel as its primary motor fuel.

"The U.S. is now acting as the barrel of last resort for an Atlantic Basin that scrambles to find alternatives to shunned Russian crude oil and petroleum products," said Edward Morse, global head of commodities research at Citi in an April 20 note. In the past two weeks, U.S. distillate exports have averaged more than 1.6 million barrels a day, the most since mid-2019, according to U.S. Energy Information Administration figures.

[Kerry says gas industry has less than 10 years to control emissions]

(Bloomberg; April 21) - U.S. climate envoy John Kerry on April 21 put natural gas on notice, saying the world's reliance on the fossil fuel should be limited to potentially a decade, unless its greenhouse gas emissions are fully captured. Though gas burns cleaner than coal when used to generate electricity, it should not be part of a long-term climate strategy without emission-control technology, Kerry said in an interview.

"If you can capture the emissions — literally, genuinely — then you're reducing the problem," said Kerry, the U.S. special presidential envoy for climate. "We have to put the industry on notice: You've got six years, eight years, no more than 10 years or so, within which you've got to come up with a means by which you're going to capture, and if you're not capturing, then we have to deploy alternative sources of energy," Kerry said. "No one should make it easy for the gas interests to be building out 30- or 40-year infrastructure, which we're then stuck with and you know the fight will be 'well we can't close these because of the employment, because of the investors, et cetera."

Kerry's comments come as the world's climate goals are overshadowed by a short-term push to steer gas to Europe to help wean it off Russian energy. Inside the U.S., many policy initiatives that are meant to help fulfill the nation's Paris agreement pledge to halve greenhouse gas emissions by 2030 remain stalled in Congress, months before an election that could cost President Joe Biden's party control of the House and Senate.