Oil and Gas News Briefs
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Saudi news of peak oil capacity could present a problem

(Bloomberg analysis; July 20) - During President Joseph Biden's trip to Saudi Arabia, the world was so focused on how Crown Prince Mohammed bin Salman would respond to Biden's plea to pump more oil immediately that it missed a bombshell — the level at which Saudi oil production will peak. It's a lot lower than many had anticipated. And with the world still hungry for fossil fuels, it spells long-term trouble for the global economy.

Prince Mohammed broke the news on July 17, revealing that the ultimate maximum capacity is 13 million barrels a day. He framed his answer emphasizing that the world — and not just countries like Saudi Arabia — needs to invest in fossil-fuels production over the next two decades to meet growing global demand and avoid energy shortages.

One reason for the production ceiling may be related to climate change. Unsure about future oil-demand growth, Riyadh may calculate that it's foolish to spend billions of dollars on new capacity that may not be needed. Oil-demand forecasting is as much art as science — and the kingdom is conservative by nature. If global demand proves stronger in the coming years than the Saudis currently anticipate, the kingdom may simply revise its investment plans and announce it's able to boost output further.

But if the obstacle to boosting production is geology, the world faces a rocky period if consumption turns to be stronger than expected. Which means that if global oil supply cannot meet demand, there are two routes: Shift to low-carbon sources of energy such as nuclear power or wind; or cut demand with much higher oil prices, faster inflation and slower economic growth. If we don't take the first, we'll be forced to follow the second.

Europe's need for oil and gas could bring investment to Africa

(Reuters analysis; July 22) - Europe's thirst for oil and gas to replace sanctioned Russian supply is reviving interest in African energy projects that were shunned due to costs and climate change concerns, industry executives and African officials said. Energy firms are considering projects worth a total of $100 billion on the continent, according to Reuters calculations based on public and private company estimates.

African countries that currently have little or no oil and gas output could see billions in energy investments in the coming years, including Namibia, South Africa, Uganda, Kenya, Mozambique and Tanzania. Namibia alone could provide around half a million

barrels per day in new oil production, following promising exploratory wells in recent months, according to unpublished estimates by two industry consultants.

Africa as a whole could replace as much as one-fifth of Russian gas exports to Europe by 2030, based on estimates by the International Energy Agency. The agency said an additional 1 trillion cubic feet of African gas a year could flow to Europe by then. Companies and countries eyeing oil and gas investments in Africa are aware they must move fast to profit from untapped reserves before the global transition to low-carbon technology renders many fossil fuel projects unviable, the executives and officials said.

Shell CEO says demand drives energy supply, not government

(Financial Times; London; July 20) - For the first time in almost a decade running Europe's biggest oil and gas company, Shell CEO Ben van Beurden reckons he is being listened to. The commodity shock sparked by the war in Ukraine has sent European officials scrambling to better understand the global energy system and secure new supplies. Some of them have come to Shell's door. "On energy security matters, energy balances, investment levels, I've never had as good a set of discussions with governments as we are having today," van Beurden told the Financial Times.

In the U.K., Shell is being asked to produce more gas in the North Sea. In Germany, it is in talks to help operate and supply one of the country's most important refineries should it be cut off from Russian oil. The renewed engagement with previously shunned supermajors represents a major change from last year when Shell was ordered by a court in the Netherlands to slash its emissions, and oil and gas companies were excluded from the climate meeting in Glasgow. Shell has appealed the court ruling.

In an interview at Shell headquarters in London, van Beurden argued that governments had too often set emissions goals without a plan of how to achieve them, and pushed for cuts in oil and gas production without taking measures to curb consumer demand. "As long as society believes that by starving (fossil fuel) supply you will somehow force demand to come down as well, that is not a sustainable way of tackling the energy transition," he said. "Supply needs to adjust, but it needs to adjust to less demand."

Permian output grows as producers work to avoid boom and bust

(Houston Chronicle; July 21) - In the heart of the country's most productive oil basin, Jeff Sparks' family company, Discovery Operating, is behind on completing six wells. "But we're drilling right now, I'm hoping to get finished on this horizontal pad by the end of the week," Sparks said while answering calls at the Midland, Texas, office of the 30-person company his dad started in 1973. "And then we will get lined up and frac it."

Like other producers in the Permian Basin, Discovery has more work than it can handle as rising demand for oil has pushed crude past $100 a barrel this year. In the past, such soaring prices turned Midland into a boomtown: Wildcatters move in to search for oil, snapping up houses and apartments, and the town becomes flush with new wealth. When the inevitable bust slashes prices, companies cut workers and families move out.

The current boom, according to longtime residents, Midland officials and companies in the region, is more muted, with incremental advancements in drilling technology and a view toward long-term investments. Experts say that could lead to more stability in rural communities accustomed to boom or bust. The Permian is set to boost daily output this year by 1 million barrels to an average 5.6 million barrels, according to Norwegian firm Rystad Energy, making it the world's No. 3 producer behind Russia and Saudi Arabia.

Meanwhile, analysts say, companies are more efficient at drilling than ever. Operators are able to drill deeper, more productive wells, with fewer workers. More so, companies have driven down fracking costs. Economists say when fracking first became feasible, drillers could break even with oil at about $80 a barrel. Today, it's closer to $40.

U.S. imports more fuel oil from Mexico to help replace Russian supply

(S&P Global; July 22) – U.S. imports of fuel oil from Mexico increased in the first half of 2022, with strong demand in the U.S. soaking up a surplus from across the border and replacing Russian barrels, an analysis of U.S. Customs data showed July 22. The U.S. imported 31.68 million barrels of fuel oil from Mexico in the first half of 2022, averaging 5.28 million barrels a month, exceeding first half 2021 imports by 11 million barrels.

The U.S. is on track to import far more residual fuel oil from Mexico by year-end than it did in 2021, when imports hit a record high 47.26 million barrels. And that was up from 34.22 million barrels in 2019. The U.S. imported 4.2 million barrels of fuel oil from Mexico in the first 18 days of July, data shows. The bulk of fuel oil imports flows to the U.S. Gulf Coast, home of nearly half of the country's total refinery capacity. The fuel oil feedstocks are crucial for processing in the secondary units of complex refineries.

U.S. refinery runs have increased as demand has recovered following the pandemic. Gulf Coast refiners were operating at 98% of capacity the week ending July 15, up from 81.2% at the end of 2020, U.S. Energy Information Administration data shows. Also, after the U.S. imposed sanctions against Russian oil in March, Gulf Coast refiners have had to look for alternative sources of hihj-sulfur fuel oil. Mexico became an obvious choice due to its production and close proximity to Texas and Louisiana refineries.

Russia largest oil supplier to China for second month in a row

(Reuters; July 20) - Russia held its spot as China's top oil supplier for a second month in June as Chinese buyers cashed in on lower-priced supplies, slashing more costly shipments from Saudi Arabia, data showed on July 20. Imports of Russian oil, including supplies pumped via the East Siberia Pacific Ocean pipeline and seaborne shipments from Russia's European and Far Eastern ports, totaled 7.29 million tonnes, almost 55 million barrels, up nearly 10% from a year ago, according to data from the Chinese General Administration of Customs.

Still, Russian supplies in June, equivalent to about 1.77 million barrels per day, were below May's record of almost 2 million. China in June imported 5.06 million tonnes from Saudi Arabia, or 1.23 million barrels per day, down from 1.84 million in May and 30% below June of last year. Year-to-date Chinese imports from Russia totaled 41.3 million tonnes (1.67 million barrels per day), up 4% on the year but still trailing Saudi Arabia, which supplied 43.3 million tonnes (1.75 million barrels per day), 1% below a year ago.

Despite U.S. sanctions on Iran, China has kept taking Iranian oil, usually passed off as supplies from other countries. These supplies, roughly 7% of China's total crude oil imports, are facing competition from the growing Russian flows. Customs reported zero imports from Venezuela. China's state oil firms have shunned purchases of Venezuelan crude since late 2019 for fear of falling foul of secondary U.S. sanctions.

China's imports of Russian gas up substantially this year

(South China Morning Post; July 21) - Despite a suppressed appetite for energy amid its economic downturn, China has been buying more Russian natural gas this year, while imports from most other sources declined. In the first six months of the year, China imported a total of 2.35 million tonnes of liquefied natural gas, valued at US$2.16 billion, detailed Chinese customs data released on July 20 showed.

The import volume increased by 28.7% year-on-year, with the value surging by 182% amid high prices, according to calculations based on customs data. Russia surpassed Indonesia and the U.S. to become China's fourth-largest LNG supplier so far this year. Overall, China's LNG demand is expected to decline by about 20% in 2022 compared to 2021, while pipeline imports are expected to grow 10%, mostly with higher volumes from Russia, said Jeffrey Moore, LNG analyst at S&P Global Commodity Insights.

For pipeline gas, Gazprom announced that its daily supplies to China via the Power of Siberia pipeline had reached an all-time high July 19, breaking the record set just two days earlier. The state producer, which delivers gas under a long-term contract with China National Petroleum Corp., said earlier that the supply of Russian pipeline gas to China had increased by 63.4% in the first half of 2022. Chinese customs data showed that the value of pipeline gas from Russia almost tripled in the first half of the year to

US$1.66 billion. Imports from Russia will be further enhanced with the construction of Power of Siberia 2 gas pipeline via Mongolia, which is expected to begin in 2024.

Air conditioning demand pushes up U.S. natural gas prices to $8

(The Wall Street Journal; July 21) - Some of the hottest weather on record is lifting U.S. natural gas prices, reversing last month's plunge and reviving a key driver of inflation. Gas futures have jumped 48% this month — including 10% on July 20 — to $8.007 per million Btu. That's still more than $1 off the 14-year high hit just before a Texas liquefied natural gas export facility caught fire in early June and sent prices tumbling, along with the outlook for exports. Yet the power plant and manufacturing fuel has bounced back to more than twice the price of a year ago, adding cost pressure across the economy.

Coal, like gas, is in high demand from power producers struggling to generate enough electricity to run air conditioners. Pricier gas adds not just to the cost of cooling down but also to making fertilizer, steel, cement, plastic and glass. Gas prices have surged as demand from utilities, manufacturers and foreign buyers, especially in Europe, outpaced supply and kept inventories below normal. "The weather has been so hot that all this demand that we thought would be lost from Freeport (the Texas LNG plant that shut down), we haven't lost it at all," said Eli Rubin, senior analyst at the energy consultant EBW Analytics. "The entire country is running their air conditioners."

In the past, coal kept a lid on summer gas demand and prices. If prices rose too high, utilities would turn to their coal plants. But the U.S. power sector has retired about a third of its coal-fired generating capacity since 2010, which means that switching is no longer an option for some. In addition, the drought in the West has reduced hydropower output this year, adding to the power strain and gas demand.

Europe looks to U.S. for more LNG, but there are limits

(The Wall Street Journal; July 22) - Shrinking flows of Russian natural gas to Europe have triggered a global race among U.S. allies to secure American gas exports, testing the country's ability to meet growing demand. Europe's imports of liquefied natural gas from the U.S. more than doubled between March and June from a year prior, according to analysts at Rystad Energy. That demand is reshaping global LNG markets, as U.S. gas headed to Asia and other regions is redirected to Europe for a higher price.

Meanwhile, some developing nations that planned to shift from coal and oil to gas are getting priced out of the LNG market. For the U.S., the growing LNG trade has elevated energy exports as a geopolitical and economic tool, resetting trade balances and giving it a freer hand to confront adversaries, say energy executives and government officials.

But there are limits to how much gas the U.S. can provide: U.S. exporters have maxed out their capacity and it will take years to add new, multibillion-dollar export terminals.

Because most U.S. exports are tied up in contracts with long-term buyers, there is only so much spare fuel that exporters can ship to Europe. U.S. companies have approved new export plants that will come online in 2024 and beyond, but construction of additional capacity beyond that is uncertain. Foreign buyers' reluctance to commit to buying fossil fuels for decades to come, in order to meet carbon-reduction targets, could dampen financiers' enthusiasm for expensive export terminals. Large economies such as Germany, France and the U.K. want to speed up the transition to renewable energy.

Record prices for natural gas as New England prepares for winter

(S&P Global; July 22) - Winter gas prices in New England are hitting record highs as the import-reliant region prepares to compete for LNG cargoes in a global market under pressure from strong demand in Europe. At Boston's Algonquin Gas Transmission city-gates hub, peak-winter prices for the upcoming season have more than doubled since the start of this year. In recent trading, the December contract settled at a new high over $34 per million Btu, with the January 2023 contract priced at a record high of over $40.

Record winter prices in New England's gas market come as the supply-constrained region looks to purchase LNG cargoes for the upcoming season. This winter, attracting cargoes in the Atlantic Basin market could prove more challenging as jittery buyers in Western Europe move aggressively to fill storage inventories ahead of next winter amid growing uncertainty over gas supply from Russia.

Historically, New England's gas market has faced exposure to global LNG prices during the peak winter heating season as the region relies on cargo imports to help overcome pipeline constraints and deliverability limitations that make it challenging for piped North American gas to reach end-users. Last winter, New England imported six LNG cargoes from November to March, carrying the regasified equivalent of about 17.8 billion cubic feet of gas, Platts Analytics data shows. In the past five years, New England at times has imported significantly more — upward of 30 bcf during a single heating season.

Opponents will challenge wetlands permit for Louisiana LNG project

(The Acadiana Advocate; Louisiana; July 21) - A pair of environmental advocacy groups are challenging a U.S. Army Corps of Engineers permit issued to Driftwood LNG, a $25 billion liquefied natural gas export terminal under construction near Lake Charles, Louisiana. Sierra Club and Healthy Gulf intend to file a lawsuit asking for review of the permit, known as a dredge-and-fill permit regulated by the Clean Water Act, according

to a filing with the Federal Energy Regulatory Commission. The permits dictate how companies can dredge or put fill material into U.S. waters, including wetlands.

The permit for Driftwood LNG says construction crews can “clear, grade, excavate and place fill material” to build the plant, which is being built on a 1,000-acre site on the west bank of the Calcasieu River, south of Lake Charles. The FERC filing from Sierra Club and Healthy Gulf does not outline which parts of the Driftwood LNG permit they will challenge. However, Sierra Club officials indicated more information will come to light when the suit is filed with the U.S. 5th Circuit Court of Appeals in New Orleans.

In a statement, the organizations said the Corps permit “falls short of legal requirements to avoid and compensate for impacts to wetlands.” The statement said the Driftwood LNG plant would impact 718 acres of land and “permanently destroy” more than 319 acres of sensitive wetlands, all of which serve as natural barriers to storms and floods. Construction on the LNG terminal began in April, despite a lack of finalized financing. Tellurian’s latest quarterly report indicates the company is still trying to secure financing. The plant is expected to produce 27.6 million tonnes of LNG annually starting in 2026.

Vancouver city council votes to fund lawsuit against oil companies

(Toronto Star; July 23) - A motion passed by the Vancouver city council to earmark cash for a potential class-action lawsuit against big oil companies has opponents questioning if the municipal government has overstepped its mandate. The council voted 6-5 on July 22 to set aside up to $1 for every city resident — which could reach about $660,000 — in next year’s budget to help fund a potential lawsuit with other British Columbia municipalities against oil companies over their role in climate change.

No other communities have yet joined Vancouver in the proposed suit. “The burning of fossil fuels has led to increasing GHGs (greenhouse gases) within the atmosphere,” said Green Party City Councillor Adriane Carr, who was behind the motion. While Carr insists many Vancouver residents support the move and welcome the chance to win money in a legal judgment to pay for climate-change damage, others accuse the council of using public funds to pursue an aspirational and idealistic campaign.

The motion is in response to the Sue Big Oil campaign launched by local groups — West Coast Environmental Law and Georgia Strait Alliance. They claim oil companies knew their products were harmful to the planet and hid the knowledge from the public while making profits. The Sue Big Oil campaign asks local governments to join together in a lawsuit against the likes of Shell and Chevron for the toll that fossil fuels have taken on the environment. Sue Big Oil argues oil companies need to “pay their fair share.”

Opposition grows against EU plan to conserve natural gas

(Bloomberg; July 22) - Opposition is growing to a European Union plan to cut natural gas consumption, raising questions about how prepared the bloc will be for winter if Russia further halts energy supplies. Spain and Greece may send a letter to the European Commission, the EU's executive arm, ahead of an emergency meeting of energy ministers to protest the proposal, according to people familiar with the matter.

Italy, Poland and Hungary have also raised objections to the plan, which would require approval from member states. The EU plan would seek a 15% reduction in gas use over the next eight months, a move that would affect all households, power producers and industry. The measures would initially be voluntary, but the proposal includes a mandatory trigger should the supply situation deteriorate significantly.

The commission may seek approval for the plan as soon as July 26 during a meeting of energy ministers. Greece doesn't agree, in principle, with the measure, government spokesman Ioannis Oikonomou said July 21, adding that the country will stick to its proposals on how to address the situation. Spain and Portugal have also gone public against the measure, with Spain's Deputy Minister Teresa Ribera saying that the plan ignores key economic and social consequences of Europe-wide rationing.

Libya oil minister predicts return to 'normal' production

(S&P Global; July 21) - Libya's oil and gas minister in the U.N.-backed Government of National Unity expects oil production to return to "normal" levels of 1.2 million barrels per day within a week to 10 days as the OPEC member begins pumping crude after lifting of force majeure on exports and oil field operations. "Production has reached today around 600,000 barrels per day. Production, maybe, I expect in a week to 10 days to return to normal levels ... of around 1.2 million," Mohamed Oun said in an interview with Al Ahrar TV posted on the ministry's Facebook page July 20.

Oil in storage is being exported and pumping from oil fields has started, which will allow Libya to boost exports, the minister added. Under its new management, state-owned National Oil Corp. announced July 15 the lifting of force majeure on all oil terminals and oil fields, a day after the Tripoli-based government replaced long-serving chairman Mustafa Sanalla with ex-central bank governor Farhat Bengdara. The oil company said July 19 it expected five tankers to load crude from its terminals July 19-21.

Libya's oil sector has been under severe political turmoil for months, exacerbating a tight global market, with various groups seeking control of the national company and its revenues. Crude production reached a two-year low of 650,000 barrels per day in June, according to the latest Platts survey of OPEC+ output by S&P Global Commodity Insights, against a capacity of 1.2 million barrels per day.

Tankers switch from carrying Iranian crude to moving Russian oil

(Bloomberg; July 22) – Oil tankers that previously carried Iranian oil are switching to haul Russian crude, according to shipping analytics company Vortexa. Eleven of the tracked ships that previously carried Iranian crude have loaded Russian oil and products since April, accounting for 16 loadings in that period, according to a research note dated July 21. Most of the vessels are smaller Aframaxes, which can typically haul 730,000 barrels, the analytics company said.

“As more companies scale back from carrying Russian crude and products, those familiar with the sanctioned crude trade will continue using their tankers to assist Russia in exporting oil East of Suez,” Armen Azizian, a crude market analyst at Vortexa, said in the note. Russian shipments climbed to 250,000 barrels a day in the first half of July, an increase of 170,000 barrels a day from April, Vortexa said. Vessels also include very-large crude carriers, which can haul about 2 million barrels, it added.

There’s a growing number of oil tankers turning off their satellite transponders and carrying out ship-to-ship transfers of Russian Urals in the Atlantic, Vortexa said. Known as “going dark,” the method is often used to mask the loading or unloading of cargoes. Of the 14 VLCCs and Aframaxes that have gone dark in recent weeks, five of them have previously moved Iranian crude. As more shippers and insurers turn away from handling Russian oil after its invasion of Ukraine, the remaining tankers still willing to handle such sensitive deals are able to charge higher prices.

Global oil tanker fleet shrinking under lack of orders for new ships

(gCaptain; July 23) - A dwindling oil tanker fleet could deepen the global energy crisis over the next three years as energy companies try to increase production to meet demand. Although some maritime industry insiders thought the long decline in the tanker market might have finally hit bottom, tanker owners are still being cautious and have not ordered many new ships this year. “The tanker order book is now the smallest it has been in 25 years,” the firm Clarksons Research wrote in their mid-year review.

Bimco’s chief shipping analyst, Niels Rasmussen, said last week that the crude and product tanker fleet is shrinking. This is partially due to newbuilding contracts in 2022 being the lowest on record. “If contracting doesn’t improve, we may see both crude and product tanker fleets shrinking in the next few years,” Rasmussen said.

Only 23 tankers were contracted to be built in the first six months of 2022. The total tonnage of these ships is barely half of the previous six-month record low of the past 26 years. Rasmussen believes that unless contracting picks up, both the crude and product tanker fleets will further reduce in size in the coming years. In addition to newbuild numbers, the global fleet is determined by the ships scrapped each year. According to Rasmussen, the demolition rate for ships could increase due to the aging fleet.