Oil and Gas News Briefs
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High prices not necessarily good long term for oil industry

(Bloomberg; July 26) - Big Oil is poised for a record-breaking $50 billion profit in the second quarter, but the industry's stellar performance could contain the seeds of its own decline. The soaring earnings are a direct result of the high energy prices that have stoked inflation, piled pressure on consumers, raised the risk of recession and prompted calls for windfall taxes. ExxonMobil, Chevron, Shell, TotalEnergies and BP — collectively known as the supermajors — are set to make even more money than they did in 2008, when international oil prices jumped as high as $147 a barrel.

It's not just crude that has soared during the crisis created by Russia's invasion of Ukraine — natural gas prices and refining margins have also broken records. Refining costs now make up 26% of the price of a gallon of gasoline in the U.S., up from an average of 14% in the previous decade, according to the federal Energy Information Administration. These "eye-watering" refining margins probably won't last, said Matt Murphy, a Calgary-based analyst at Tudor Pickering Holt & Co.

High fuel prices, coupled with a surging cost of living, are hurting consumers. "We're seeing a degree of demand destruction," Murphy said. Weakened demand could drive prices back down. Meanwhile, oil companies are being conservative despite soaring profits. The supermajors are spending much less than the last time oil was above $100. Capital expenditures are creeping toward $80 billion this year, half the level of 2013. Executives are cautious about how long high prices will persist and wary of committing to large projects that may become redundant as the world transitions to cleaner energy.

Fears of tightening supply drive up LNG prices in Asia

(Bloomberg; July 25) – Asian LNG prices are climbing on fears that Russia will slash supply again and worsen a global shortage. The North Asia LNG benchmark jumped 12% on July 22 and is trading near the highest level since Russia's war in Ukraine upended markets, according to data from S&P Global. Prices have room to rally further as several Asian buyers are desperate for gas through the rest of the year. Prices rose back into the $40s per million Btu after staying in the $20s for much of May and June.

LNG buyers in Japan and South Korea need to secure supply to refill inventories before winter, and are starting to outbid rivals in Europe. Russian President Vladimir Putin has warned shipments via the Nord Stream line into Europe could drop to 20% of capacity from a current rate of about 40%.

Buyers aren’t convinced that even reduced gas flows through Nord Stream — Russia’s biggest pipeline to Europe — are guaranteed. In response, Asian consumers are accelerating spot purchases of LNG for fall and winter delivery, according to traders with knowledge of the plans. Asia and Europe are in hot competition for a dwindling pool of LNG shipments. Gas prices in both regions are trading at a seasonal record high, and could climb higher if Moscow further limits gas supply to Europe.

Cutback to Russian gas supply adds to global competition for LNG

(Bloomberg; July 26) - Russia’s latest move to cut natural gas supply to Europe is intensifying global competition for seaborne shipments of the fuel, threatening higher prices and shortages from Asia to South America. Utilities in South Korea and Japan are accelerating plans to purchase more liquefied natural gas cargoes for winter out of fear that Europe will also hoard supply, according to traders with knowledge of the matter. Even some price-sensitive buyers in countries such as India and Thailand are looking to procure cargoes and avoid a shortage, traders said.

Russia’s Gazprom said it will reduce flows through the Nord Stream pipeline to Europe again this week, forcing the region’s buyers to find replacements such as imported LNG. Spot prices of the fuel, already trading at a seasonal high, are at risk of surging further as buyers in Europe and Asia move to outbid each other. Traders estimate that North Asia spot LNG prices will rally to the mid-$40s per million Btu level this week, the highest since early March shortly after Russia invaded Ukraine.

Natural gas is a key fuel for power generation and heating, and the price rally threatens higher inflation around the world. At high prices, buyers in some emerging nations — such as Pakistan, Bangladesh and Argentina — cannot afford spot-market cargoes of the fuel and are struggling with power shortages. South Korea is currently working on securing LNG cargoes from the spot market on wider supply concerns over geopolitical uncertainties, the energy ministry said.

U.S. sent 68% of its LNG to Europe in first 6 months of year

(Reuters analysis; July 26) - When President Joe Biden promised European leaders in March that he would help secure new supplies of liquefied natural gas to offset gas shortages from Russia’s invasion of Ukraine, his pledge was greeted with skepticism. After all, the U.S. LNG industry was already hitting its export limits and the global market is dominated by long-term contracts that can dictate deliveries for 20 years at a time. It turns out, however, that Biden's promise may have been far too modest.

The U.S. is on track to triple that commitment of an additional 530 billion cubic feet of gas for Europe this year, according to a Reuters analysis of export data compiled by

Refinitiv. The No. 1 natural gas producer became the top LNG exporter in the world in the first half of 2022, the U.S. Energy Information Administration said on July 25.

Through June of this year, the U.S exported about 2 trillion cubic feet of gas as LNG with 68%, going to Europe, Refinitiv data shows. That compares to 1.2 tcf of gas as LNG, with about one-third of it to Europe for all of 2021. That means the U.S. has sent more gas to Europe during the first six months of 2022 than it did in all of 2021.

The unexpected shift is happening because shippers are willing to pay contractual penalties for failing to deliver to countries like Pakistan and diverting cargoes to Europe, where the high price covers the penalties and profit, analysts said. Benchmark gas prices in Europe have averaged $34.06 per million Btu in 2022 compared with $29.99 in Asia. That compares with average 2021 prices of $16.04 in Europe and $18 in Asia.

U.S. claims title as world's leading LNG exporter in first half of year

(Reuters; July 25) - The U.S. became the top liquefied natural gas exporter in the first half of 2022, the Energy Information Administration said, citing data from CEDIGAZ (International Association for Natural Gas), as the country increased supply to Europe amid the Ukraine crisis. U.S. LNG exports rose 12% to average 11.2 billion cubic feet per day in the first half of the year compared with the second half 2021. Increased LNG capacity, higher prices and demand, particularly from Europe, helped boost exports.

U.S. LNG export capacity has expanded by about 1.9 bcf per day since November 2021. The country has rapidly built capacity since the first export terminal in the Lower 48 states opened in 2016. LNG exports have been growing dramatically over the past several years as countries worldwide seek to diversify away from dirtier coal plants. However, it takes several years to build new facilities. The U.S. is not expected to add substantial new capacity until 2024, with two more liquefaction plants under construction and several more of the multibillion-dollar projects under development.

About 71% of U.S. LNG exports went to the European Union and Britain during the first five months of this year, EIA said. Europe is struggling to sock away enough gas into storage prior to winter because Russia has severely curtailed gas shipments via pipelines to the continent after the United States and allies put sanctions on Moscow.

China apparently betting it will not need so much LNG this winter

(Bloomberg; July 26) - At a time when natural gas buyers are fighting over every last molecule, China — the world's top importer — is noticeably quiet. In stark contrast to rivals across the region, China's liquefied natural gas importers aren't procuring additional shipments for winter, gambling that the nation's COVID-zero policy will continue to temper demand for the fuel, said traders. A global supply crunch has made LNG very expensive, and traders don't want to pay if the fuel won't be needed.

It's a risky bet that could quickly backfire if the weather turns unusually cold or China's economy rebounds, upending a global gas market that's already reeling from supply cuts from Russia and outages at key LNG export facilities. A sudden rebound in Chinese demand for gas would force importers back into the cutthroat competition to procure LNG, exacerbating a worldwide shortage and sending prices — already at a seasonal high — to stratospheric levels.

It's "an anomaly" for Chinese companies not to be buying LNG on the spot market as winter purchases ramp up, said Toby Copson, global head of trading at Trident LNG. "It means China isn't stressed about supply. What they have available via gas pipeline and their domestic coal production seems to be sufficient for the time being." That comfort level led to a roughly 20% drop in LNG imports for the first six months of the year. China became the world's top LNG importer in 2021, but is expected to lose the title this year.

European nations agree to voluntary cuts in gas consumption

(The Wall Street Journal; July 26) - European countries agreed to sweeping cuts to natural gas consumption, prompted by the threat of a Russian supply cutoff, opting for a controlled hit of economic pain now in the hope of avoiding a much deeper contraction later. The deal calls for nations to voluntarily reduce their gas use by 15% from August, and marks a major intervention in European Union gas markets. The target, proposed by the EU's executive arm last week, could become mandatory in an emergency.

Reaching an agreement was difficult, according to EU diplomats. The deal contains significant carve-outs for several countries, agreed in a bid to reach a compromise, which some analysts say could make the agreement less effective. It is also unclear whether it can be enforced. An EU official said July 26 that country representatives didn't discuss possible sanctions for members that don't abide by the cuts.

The agreement came one day before exports of natural gas through the Nord Stream pipeline to Germany by Russian state-owned producer Gazprom were due to fall to about one-fifth of the line's capacity. The fresh reduction means Europe faces an even taller order to fill storage sites close to the brim in time for winter, when gas supplies will start to drain as colder temperatures boost demand. Analysts said a deal based on voluntary curbs, with exemptions, doesn't inspire confidence in the bloc's ability to meet its targets. Member states said they would prioritize supplies to households.

Europe seeks additional gas from Nigeria

(Reuters; July 23) - The European Union is seeking additional gas supplies from Nigeria as the bloc prepares for potential Russian supply cuts, Matthew Baldwin, deputy director general of the European Commission's energy department, said on July 23. Baldwin was speaking in Nigeria, where he held meetings with officials from Africa's largest oil producer this week. He was told that Nigeria is improving security in the Niger Delta and planned to reopen the Trans Niger pipeline after August, which would yield more gas exports to Europe.

The EU imports 14% of its LNG supplies from Nigeria and there is potential to more than double that, Baldwin told Reuters. Oil and gas output in Nigeria is being throttled by theft and vandalism of pipelines, leaving Nigeria LNG's terminal at Bonny Island operating at 60% capacity. "If we can get up to beyond 80%, at that point, there might be additional LNG that could be available for spot cargoes to Europe," Baldwin said.

"They (Nigerian officials) said to us, 'Come and talk to us again at the end of August because we think we can deliver real progress on this,'" Baldwin said. Nigeria LNG is owned by state company NNPC, Shell, TotalEnergies and Eni. Nigeria exported 8.12 trillion cubic feet of gas to the EU last year, but that has been declining over the years.

Congo will auction oil and gas blocks in tropical peatland forest

(Associated Press; July 28) - Sections of a renowned peatland tropical forest in the Congo Basin that plays a crucial role in Africa's climate system go up for oil and gas auction in Kinshasa in the Democratic Republic of the Congo on July 28. The government will auction 30 oil and gas blocks in the Cuvette-Centrale Peatlands in the Congo Basin forest — the world's largest tropical peatland. Peatland soils are known as "carbon sinks" because packed into them are immense stores of carbon that get released into the atmosphere when the ecosystem is disturbed.

Some of the areas marked for oil leasing lie within Africa's iconic first conservation area, the Virunga National Park, created in 1925 and a UNESCO World Heritage Site, home to the last bastion of mountain gorillas. The Congo Basin covers 1.3 billion acres and represents 70% of the continent's forested land. It hosts over 1,000 bird species and more primates than any other place in the world, including the great apes: gorillas and chimpanzees. Members of the Mbuti and Baka people could be displaced or evicted.

The move by the Congo-Kinshasa Ministry of Hydrocarbons has angered environmentalists and climate activists who say that oil drilling will pose significant risks to a continent already inundated by harsh climate effects. The auction of part of the Congo Basin rainforest, which represents 5% of the global tropical forests, comes barely a week after the International Union for the Conservation of Nature hosted the inaugural Africa Protected Areas Congress in Kigali, Rwanda.

Texas LNG project developer signs up Exxon as customer

(Reuters; July 27) – NextDecade said on July 27 it will supply 1 million tonnes per year of liquefied natural gas to a unit of ExxonMobil for 20 years from its proposed Rio Grande LNG export project in Brownsville, Texas. NextDecade said the LNG will come from the first two liquefaction trains at Rio Grande, with the first train expected to start commercial operations as early as 2026.

Based on current expected demand for LNG and assuming contracting and financing issues are resolved, NextDecade said it anticipates making a positive final investment decision on up to three trains at Rio Grande in the second half of 2022, with FIDs of its remaining trains to follow thereafter. The Rio Grande project is designed to produce about 27 million tonnes of LNG per year through five liquefaction trains.

Shell moves ahead with North Sea natural gas project

(The Wall Street Journal; July 25) – Shell on July 25 said it is moving forward with its Jackdaw natural gas development in the North Sea, saying the project — which has been opposed by environmental groups — could produce more than 6% of expected U.K. North Sea gas by mid-decade. The U.K. government gave Jackdaw the regulatory go-ahead in June, reversing a decision to block the project on environmental grounds.

Shell and U.K. officials have stressed the need to expand new oil and gas projects in the North Sea to boost the region's energy security following Russia's invasion of Ukraine. The war has contributed to soaring energy prices and set off a race by governments across Europe to secure gas supplies. Shell's Jackdaw plans also have factored into U.K. political discussions this year about a new 25% so-called windfall tax on oil and gas producers, as government officials try to cushion the pain of high energy prices while also encouraging domestic investment.

Shell, which is expected to be affected by the temporary tax, has said it needs a stable tax environment to make long-term investment decisions. Companies such as Shell will get investment allowances for qualifying spending on new projects, helping them lower the amount of windfall tax they pay, according to government outlines of the levy. Shell said the Jackdaw project is expected to produce around 40,000 barrels of oil equivalent a day at peak, which, if it were all gas, would be about 240 million cubic a day.

Russia's oil exports down 480,000 barrels a day since mid-June

(Bloomberg; July 25) - Another week, another sign that Russia is struggling to get its oil to market. The nation's shipments to buyers have declined for five consecutive weeks, taking them down by 480,000 barrels a day, or 13%, since mid-June. That's based on a rolling four-week average that helps to provide a better picture of the trend than the observation of weekly flows. Traders and investors are monitoring Russia's crude flows closely, since what happens is central to the global oil market and how tight it gets.

In the aftermath of the invasion of Ukraine, large numbers of European companies stepped back from buying Russian crude, with Asia — specifically China and India — filling the void. But there are tentative signs the two nations' appetite is decreasing. Shipments to China and India are down by somewhere between 15% and almost 40% from their post-invasion peak, according to the ship tracking data. The final scale of the drop will depend on where almost 4 million barrels of crude on tankers that are yet to show final destinations is discharged. Much may eventually go to Asia.

There's still a long way to go before a drop in shipments hits the Kremlin's war chest hard enough to give President Vladimir Putin second thoughts about his war on Ukraine. Rising crude prices have boosted Russia's export duty revenues this month, offsetting some of the reduction in volume. Asia is still taking more than half of all the crude shipped from Russia, up from about one-third before the invasion.

Libya oil production back up to 1 million barrels per day

(Bloomberg; July 25) - Libya has boosted oil production to more than 1 million barrels a day, a milestone for the North African country where output had more than halved since mid-April. The OPEC member, home to Africa's largest crude reserves, ramped up its production to a "little over" a million barrels a day, Oil Minister Mohamed Oun said. The increase follows an agreement with protesters and tribal heads reached more than a week ago to reopen fields and export terminals that had been largely shut since mid-April. Before the restart, production was down to 560,000 barrels a day.

Libya has seen production plummet by about 50% in recent months due to a power struggle between rival governments, while chronic underinvestment in infrastructure also has curtailed output. Higher Libyan production could offer some relief for undersupplied oil markets and high prices that have stoked inflation across the globe.

Part of the deal to reopen oil production was the government's move on July 14 to overhaul the board of the state oil firm National Oil Corp. and the appointment of Farhat Bengdara as head of the group. He replaced Mustafa Sanalla, who had frequently been at odds with the oil ministry. Libya's energy facilities have been at the heart of the North African nation's conflicts over the past decade, with various groups shutting down oil output to press their political and economic demands.

U.S. plans to sell 20 million barrels from oil reserves

(Reuters; July 26) - The Biden administration on July 26 said it will sell an additional 20 million barrels of oil from the Strategic Petroleum Reserve as part of its previous plan to tap the facility to calm oil prices boosted by Russia's invasion of Ukraine and as demand recovers from the pandemic. The administration said in late March it would release a record 1 million barrels of per day of oil for six months from the SPR, held in hollowed-out salt caverns on the coasts of Louisiana and Texas.

The U.S. has already sold 125 million barrels from the reserve, with nearly 70 million barrels already delivered to purchasers, a senior administration official told reporters. The U.S. Energy Information Administration, the statistics arm of the Energy Department, said this month that U.S. oil output will rise to more than 11.9 million barrels per day in 2022 and to nearly 12.8 million in 2023, from about 11.2 million in 2021. That compares with a record near 12.3 million barrels per day in 2019.

The U.S. will take bids in autumn to begin buying 60 million barrels of crude to start replenishing the reserve. In addition, the department will soon propose a rule to help put oil back into the SPR, where levels have shrunk to 475 million barrels, the lowest since June 1985, by allowing it to enter forward contracts to purchase oil in future years at fixed, preset prices. Oil purchases to refill the SPR will not be competing with demand for oil in the near term as they will likely take place after fiscal year 2023, an official said.

Texas oil industry fights over rights to brand name of crude

(Houston Chronicle; July 25) - When it comes to oil, not all barrels are created equal. Some crude is lighter and easier to move around, others are more sour (higher in sulfur) and require extra processing. And for the refineries that line the Houston Ship Channel, few types of crude are more sought after than Magellan East Houston. Piped in from one of the most desirable regions of West Texas's Permian Basin, it's a particularly light and sweet crude that yields large volumes of gasoline and other fuels.

"Since the shale boom began, a lot of the refineries along the Gulf have adapted themselves to this type of crude," said Ramanan Krishnamoorti, a petroleum engineering professor at the University of Houston. But how oil is designated as Magellan East Houston, which sells at a premium to other grades of crude, is a source of increasing tension among Texas oil companies.

For years, companies along the ship channel have challenged Oklahoma-based Magellan Midstream Partners' strategy of only allowing oil that moves through its terminal, as well as facilities owned by certain partners, to retain the brand. Those outside that network must downgrade their crude, even though it might have come from the same exact well as other Magellan East Houston barrels.

The latest salvo came earlier this year when Converge Midstream, a small oil storage company, filed suit in Harris County District Court claiming Magellan had created a virtual monopoly, driving up prices on customers and pushing their competitors out of business. “When pipelines control the last mile, they have all kinds of opportunities to block you from the market,” Dana Grams, CEO of Converge, said in an interview.

China’s move to nationwide power market could help renewables

(S&P Global; July 26) - The start of power trading in China's southern region has accelerated and is another step toward creation of a nationwide power market that will underpin the next phase of Beijing's decarbonization agenda. China's southern regional power market started trial operations in the week of July 18. Grid operator China Southern Power Grid said on its social media platform that the launch marked the first implementation of the national power market system in the southern provinces.

A unified power market that cuts across the country is deemed critical to unlocking further renewable energy growth as the addition of solar and wind power capacity to the existing grid infrastructure has maxed out. Nationwide power trading will allow large utility-scale renewable projects in remote northern and northwestern provinces to feed low-carbon electricity to high-demand provinces, and help balance intermittency issues.

China aims to build a preliminary uniform power market system by 2025 and have it operational. By 2030, it aims to optimize allocation of power resources and improve the stability and flexibility of the power system. A uniform power market is expected to promote renewable energy, as renewable power generation is more volatile and requires a modernized grid to be effective.

Heat wave stresses power supplies in China

(Bloomberg; July 27) - Scorching temperatures across China are straining power grids as the country tries to ramp up industrial activity to support the economy, while farmers are scrambling to save crops such as rice and cotton from searing heat. Several regions have already posted record power demand and have cut electricity to factories at peak hours to make sure enough is available to keep air conditioners running. Rice crops and fruit and vegetables in Southern China are at risk of being damaged by the heat, and melting glaciers are causing floods in the cotton-growing regions of Xinjiang.

The disruptions in the world’s No. 2 economy are yet another sign of the risk posed by increasingly frequent extreme weather events caused by climate change. India, Europe and the U.S. have also been ravaged by heat waves this summer. The heat is testing China’s ability to keep its factories running, from the eastern manufacturing center of Zhejiang that borders Shanghai to the technology hub of Shenzhen in the south.

Several regions have enacted so called “orderly consumption” that calls for low-priority factories to reduce use during peak hours to ensure supply for residents. China has so far avoided the widespread power curtailments that hit the country last fall when there was a nationwide shortage of coal. Authorities have expressed confidence that the current situation is manageable, not least because the supply of domestic coal is much higher after miners were ordered to raise production to record levels.