Oil and Gas News Briefs
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Fire at Texas LNG plant comes at a bad time for the market

(Bloomberg; July 5) - One morning in early June, a fire broke out at a facility in Texas that takes natural gas from U.S. shale basins, super-chills it into a liquid and ships it overseas. The fire was extinguished in 40 minutes. No one was injured. It sounds like a story for the local press, at most — except that more than three weeks later, financial and political shockwaves are still reverberating across Europe, Asia and beyond.

That's because gas is the hottest commodity in the world right now. It's a key driver of global inflation, posting price jumps that are extreme even by the standards of today's turbulent markets — some 700% in Europe since the start of last year, pushing the continent to the brink of recession. It's at the heart of a dawning era between the great powers as plans to fight climate change are getting relegated to the back-burner.

In short, gas now rivals oil as the fuel that shapes geopolitics. And there isn't enough of it to go around. It's the war in Ukraine that catalyzed the gas crisis to a new level, by taking out a crucial chunk of supply. Russia is cutting back on pipeline gas deliveries to Europe — which says it wants to stop buying from Moscow anyway, if not quite yet. The scramble to fill that supply gap is turning into a worldwide stampede, as countries race to secure scarce cargoes of LNG ahead of the Northern Hemisphere winter.

And that's why a minor explosion at the Texas facility had such an outsized impact. Gas prices in Europe and Asia surged more than 60% in the weeks since Freeport LNG was forced to temporarily shut down, a period that's also seen further supply cuts by Russia. In the U.S., by contrast, prices for natural gas plunged almost 40% — because the outage of several months means more of the gas will remain available for domestic use.

World returns to coal amid oil and gas shortages

(The Wall Street Journal; July 5) - An energy-starved world is turning to coal as oil and gas shortages exacerbated by Russia's war against Ukraine lead countries back to the dirtiest fossil fuel. From the U.S. to Europe to China, many of the largest economies are increasing short-term coal buys to ensure sufficient supplies of electricity, despite prior pledges by many countries to reduce their coal consumption to combat climate change.

The competition for coal — now in short supply after years of lower investment in new mines — has driven prices to new records this year. The push is being led by Europe, which is boosting coal purchases to ensure it can keep power flowing to homes and factories after Russia cut gas flows to the continent. Germany, which has promised to eliminate coal as a power source by 2030, is among the nations now importing more. Economy Minister Robert Habeck called the increased use of coal bitter but necessary.

“Right now the sentiment is that more coal is better than more Russia,” said Alex Msimang, a London-based partner at law firm Vinson & Elkins specializing in the energy sector. Parts of the U.S. also are boosting use of coal power, as high demand for electricity amid unusually hot temperatures pushes regional power grids to the brink of blackouts this summer. China, the world’s biggest coal consumer, is expanding production of the fuel and its use in power generation, spooked by shortages last year that caused electricity cuts and outages throughout the country, energy experts say.

The resurgence of coal, which emits around double the carbon dioxide as burning natural gas, further threatens to set back international efforts to flight climate change.

U.K. backing away from 2024 deadline to close coal power plants

(Bloomberg; July 6) - The U.K. is set to water down one of its key climate change policies as it battles soaring energy prices that have contributed to a cost-of-living crisis for millions of consumers. Last year the government pledged to close all of Britain’s unabated coal-fired power plants by October 2024 — and said it would enshrine that in law as soon as possible. But in an energy bill published on July 6, there’s no mention of the date, according to fact sheets and a ministry statement detailing its contents.

The U.K., which hosted international climate talks last year, is grappling with a once-in-a-generation energy crunch, caused in part by Russia’s invasion of Ukraine. Soaring natural gas prices have led to a revival in coal — the dirtiest fossil fuel — as energy companies look for cheaper alternatives. The government had previously planned to close all unabated coal-fired plants — those without a mechanism to curb emissions — by 2025. Last year, in the run-up to the COP26 climate talks, it moved forward the closure date by a year, with the aim of legislating “at the earliest opportunity.”

The move was designed to prove the U.K. was showing leadership on climate, as it tried to convince other countries to “consign coal to history.” The full energy bill, which will be presented to Parliament on July 6, is designed to marry the goals of boosting energy security while tackling climate change. Business and Energy Secretary Kwasi Kwarteng, under growing pressure to keep the lights on, previously agreed to extend operations for at least one coal power plant that would have otherwise closed this year.

Europe working on plan to ration natural gas if supplies run short

(The Wall Street Journal; July 6) - Europe's energy-intensive industries are jockeying for first dibs on the continent's scarce natural gas, pressing European authorities for access to supplies as Russia cuts deliveries. Fertilizer producers are telling officials that their product is necessary for food security, that they need gas both as a raw material and a source of energy. Chemical makers say they can't shut down without incurring huge costs. Aluminum producers say even a short power cut risks destroying their equipment.

Europe has promised to wean itself from Russian gas. But it is so reliant on the energy source that a complete decoupling would take years. Meanwhile, Russia has remained one of Europe's top gas suppliers. There is no gas shortage now, but officials worry that if Russia continues to restrict its sales or cut them off, shortages could arise when it gets colder and consumers turn to gas to heat their homes. If that happens, Europe has yet to devise a plan for how to share the limited supplies.

Officials have said that households, hospitals, schools and a few other users would get priority access to gas. They are weighing how to distribute the rest to manufacturers based on several criteria, such as how hard it would be to restart factories that are forced to shut and whether they can adapt by using other fuels. The European Commission, the European Union's executive arm, is expected to publish guidance later this month for the bloc's 27 member states on how to ration scarce supplies.

Western sanctions likely to delay massive Russian oil project

(The Wall Street Journal; July 5) - These are boom times for the Russian oil and gas industry. High energy prices are keeping the country's economy afloat and funding the war in Ukraine. How long it lasts will depend in part on a massive Arctic oil project that Russia promises will save the world from an energy crunch. Vostok Oil, a vast oil patch spread across Siberian terrain, is supposed to produce a premium, easier-to-refine crude that would account for as much as 2% of global output at the end of the decade.

But the venture relies on Western cash and imported technology. At least two financial backers are planning to quit the $180 billion project, while sanctions have delayed or restricted everything from drilling equipment and software to ice-class ships, according to people familiar with the matter, firms involved in Vostok and energy consultants.

Because of the Western sanctions, consulting firm Rystad Energy now expects Vostok Oil's key asset, known as the Payyakhskoye field, to launch by 2029 compared with Rosneft's plan for 2024. "Any delays in one part of the huge supply chain involved in the project will lead to the delay of the whole project," said Daria Melnik, senior analyst at Rystad Energy. Vostok Oil has been the Kremlin's big hope to boost production.

A cluster of fields near Russia's Arctic coast in the central region of Krasnoyarsk Krai, the project is important to President Vladimir Putin, who wants to improve infrastructure in the remote region and develop the Northern Sea shipping route to Asia. The project would deliver a highly desirable grade of light crude that is easier to refine and would compete with some U.S. and Mideast grades. Russia's flagship Urals blend typically has a higher sulfur content, which makes it more technically challenging for refiners.

High energy prices start to cut into demand

(Bloomberg; July 3) - The global surge in the cost of fuel is starting to weigh on demand, according to the world's biggest independent oil trader. Consumers are being hit by the price run-up in gasoline, diesel and other oil products, Mike Muller, head of Asia at Vitol Group, said July 3 on a podcast produced by Dubai-based Gulf Intelligence. "There's very clear evidence out there of economic stress being caused by the high prices, what some people refer to as demand destruction," said Muller, who's based in Singapore.

It's "not just oil, but also liquefied natural gas," he added. Prices for refined fuel have reached record highs in the U.S. and surged in most other countries, contributing to a rise in inflation. They've climbed even more than crude — which is up almost 45% to $110 barrel — in large part because of the disruption to Russian flows after Moscow's invasion of Ukraine and the imposition of Western sanctions. That exacerbated a global shortage of spare capacity caused by years of under-investment in refineries.

The so-called crack spread that refiners get from turning West Texas Intermediate crude into gasoline and diesel has reached $50 a barrel, more than three times the average for this century. "Refining margins are at levels that nobody would've predicted," Muller said. "The consensus … seems to be that they cannot possibly go even higher than this." Yet there is a chance fuel prices stay at today's levels if demand in China continues recovering as the government eases COVID restrictions, he said.

Iran discounts crude to hold on to market share in China

(Bloomberg; July 3) - Iran is being forced to discount its already cheap crude even more as a top ally gains a bigger foothold in the key Chinese market. China has become an important destination for Russian oil as Moscow seeks to maintain flows following the fallout from its invasion of Ukraine. That's led to increased competition with Iran in one of the few remaining markets for Russia's crude shipments, which have been significantly curtailed by U.S. sanctions.

Russian exports to China surged to a record in May, with the OPEC+ producer overtaking its cartel ally Saudi Arabia as the top supplier to the world's biggest importer. Iran has cut its oil prices to remain competitive in the Chinese market and it's still maintaining robust flows, likely in part due to rising demand as China eases strict virus restrictions that had crushed consumption. “The only competition between Iranian and Russian barrels may end up being in China, which would work entirely to Beijing’s advantage,” said Vandana Hari, founder of Vanda Insights in Singapore.

China’s imports of Iranian crude were over 700,000 barrels a day in May and June, according to Kpler, but Iranian oil has been priced at nearly $10 a barrel below Brent futures to put it on par with Russia’s Urals cargoes that are scheduled to arrive in China during August, traders said. That compares with a discount of about $4 to $5 before the invasion. Iran’s Light and Heavy grades are most comparable to Urals crude. China’s independent refiners are major buyers of Russian and Iranian crudes.

Canadian oil and gas producers invest just 40% of cash flow in capital

(Financial Post; Canada; July 4) - The steep decline in capital spending by Canadian oil and gas companies continues. Canada’s central bank used its latest quarterly business survey to consult energy companies about how they intended to spend the windfall from triple-digit oil prices, and found that producers are setting aside just 40% of estimated cash flow for capital expenditures, compared with an average above 100% in the years before the pandemic.

Crude and gasoline prices soared as the global economy recovered from the COVID recession, and then jumped again after Russia invaded Ukraine. But Canadian energy companies have not been using that bonanza to invest in new projects to the same extent as during previous booms. Instead, they are using cash flows to shore up balance sheets and reward shareholders. The curtailment in capital spending follows last year’s decline that saw the sector’s capital expenditures drop to 60% of cash flow.

“Financial discipline remains a top priority for firms,” the central bank said in the Business Outlook Survey, released July 4. “After many years of financial stress, most producers are using the current revenue windfall to improve their balance sheets, reduce their debt and pay dividends to shareholders.” Where companies reported they were investing in production, it was largely at the margins of existing projects. “Many conventional oil and natural gas producers are focusing on expanding drilling in areas where supporting infrastructure is readily available,” the report said.

South Korea plans to build 4 new nuclear reactors by 2030

(Bloomberg; July 5) - South Korea will build four nuclear reactors by 2030 and extend the life of 10 older units as the new government backs atomic power as a key tool to zero out emissions. Atomic energy will provide more than 30% of the nation’s electricity generation by the end of the decade, up from 27.4% last year, the energy ministry said July 5. The ministry didn't break down targets for the rest of the energy mix.

President Yoon Suk Yeol, who took office in May, was a staunch supporter of nuclear energy throughout his presidential campaign, claiming it should be utilized along with renewable sources to achieve emissions-reduction targets. While the country is maintaining the emissions goal set by the previous government, the ministry said renewable energy's share will be "adjusted" from 30% under the old roadmap and that a detailed plan will be formed in the fourth quarter.

"The fact that the new government is saying renewable energy will be adjusted at a 'reasonable level' basically means it will be lowering the renewable electricity target," said Jang Daul, a government relations specialist at Greenpeace East Asia. Under former President Moon Jae-in, decarbonization policies were set out along with plans to phase out nuclear, a policy that Yoon's office in April said could see electricity costs jump fivefold by 2050. Construction of the Shin Hanul No. 3 and 4 reactors, which were dropped under the previous government, will be resumed, the energy ministry said.

Shell joins international lineup in Qatari LNG expansion

(Bloomberg; July 5) - Shell has become the latest international energy company to invest in Qatar's $29 billion project to boost exports of liquefied natural gas, as Europe races to shore up new supplies of the fuel. The London-based firm follows TotalEnergies, ExxonMobil, ConocoPhillips and Eni in buying a stake in the North Field East plan. Shell will get a 6.25% holding in the first-phase project, which will increase Qatar's LNG production capacity to 110 million tons annually by 2026 from 77 million.

Shell CEO Ben van Beurden announced the deal alongside Qatar's Energy Minister Saad al-Kaabi in Doha on July 5. The first phase of the expansion will add four liquefaction trains to Qatar's LNG production capacity. A second phase of two more trains will boost output to 126 million tonnes per year.

June exports of Russian crude down 7.6% from April

(Bloomberg; July 4) - Russia's seaborne crude exports in the seven days to July 1 rebounded from the previous week's plunge, but shipments to Asia are slipping, even as flows are diverted to the country's Black Sea terminal to cut the voyage distance to India. Aggregate crude flows from Russian ports were up week-on-week by 23%, recovering most of the volume lost over the previous seven days during a brief halt in shipments from the Baltic port of Primorsk.

Still, cargoes bound for Asia — a crucial market where China and India have stepped in to prop up Russian exports others have shunned in response to its invasion of Ukraine — were down by more than 15% on both a weekly and four-week average basis from the highs seen at the end of May.

Russia's overall shipments in the four weeks to July 1 averaged 3.46 million barrels a day, their lowest since the period ending April 15. The drop from a peak of 3.75 million barrels a day in the four weeks to April 29 isn't huge, but at 7.6% it isn't insignificant either. Asian countries, dominated by China and India, are still taking more than half of all the crude shipped from Russia, but that share is also slipping. In the most recent four-week period, flows to Asia accounted for 52% of Russia's total seaborne exports.