Oil and Gas News Briefs
Compiled by Larry Persily
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China's state-owned firms may invest in Russian energy companies

(Bloomberg; March 8) - China is considering buying or increasing stakes in Russian energy and commodities companies, such as gas giant Gazprom and aluminum producer United Co. Rusal International, according to people familiar with the matter. Beijing is in talks with its state-owned firms, including China National Petroleum Corp., China Petrochemical Corp., Aluminum Corp. of China and China Minmetals, on any opportunities for potential investments in Russian companies or assets, sources said.

Any deal would be to bolster China's imports as it intensifies its focus on energy and food security — not as a show of support for Russia's invasion in Ukraine — sources said. The discussions are at an early stage and won't necessarily succeed, they said, requesting anonymity as the discussions aren't public. The talks between Chinese and Russian energy companies have started to take place, according to separate sources.

Russia's war in Ukraine has increased the pressure on Beijing to secure imports as the cost of energy, metals and food skyrocket to unprecedented levels. Worried about the impact surging prices will have on the economy, China's top government officials issued orders to prioritize commodities supply security, Bloomberg reported last week. Meanwhile, China has vowed to continue normal trade relations with Russia.

Any investment in Russia is fraught with risks that go beyond the geopolitical balancing act that Beijing faces. Russia has become a nearly un-investable market for global firms as the nation's economy rapidly deteriorates. Sanctions have wiped billions of dollars from Russian assets, and bonds have plummeted as default risks intensify.

UAE calls for more oil production, then backtracks a bit

(Bloomberg; March 9) - The United Arab Emirates said it will call on its fellow OPEC+ members to boost oil output faster, a dramatic U-turn that could set the country against fellow members of the alliance led by Saudi Arabia and Russia. "We favor production increases and will be encouraging OPEC to consider higher production levels," Yousef al-Otaiba, the UAE's ambassador to Washington, said in a statement on March 9.

Hours later, Energy Minister Suhail Al-Mazrouei tempered the message, saying the UAE is committed to the OPEC+ agreement. Already signs had emerged that the ambassador's proposal would run into opposition, as Iraq's oil minister said the group is pumping enough crude — and producing more could hurt the market. The UAE had not consulted OPEC+ members before the ambassador made his statement, sources said.

Oil prices fell about 12% on the news March 9. The UAE statement looks likely to revive tensions between the country and Saudi Arabia, traditional allies that nevertheless fell into a bitter dispute last year. The Organization of Petroleum Exporting Countries and its allies have so far resisted calls from oil-consuming nations to ramp up production faster, arguing that high prices are driven by geopolitical tensions rather than short supplies.

OPEC+ meets March 31. Any proposal to increase production, especially if it were seen to be helping Western nations in their efforts to wean themselves off Russian crude, has the potential to create tensions within OPEC+. The UAE is "saying what Washington wants to hear, but Riyadh and Moscow will call the shots on March 31," said Scott Modell, managing director of Rapidan Energy Group, a Washington-based consultant.

Western oil companies first resisted before deciding to leave Russia

(The Wall Street Journal; March 7) - Western oil giants spent decades building inroads to Russia's fossil-fuel wealth. Those collaborations collapsed in days following Russia's invasion of Ukraine, leaving them with no clear path to recoup billions of dollars. Even as Russian troops were amassing on Ukraine's border last month, executives at BP, Shell and ExxonMobil believed they could weather the fallout, said people close to the companies. But in less than 60 hours last week, all announced they were exiting Russian operations under pressure from the U.S. and U.K. governments.

"We've effectively walked away from our business in Russia," said BP nonexecutive director John Sawers at a Wall Street Journal event last week. Sawers, former head of Britain's foreign-intelligence service, added that the value of BP's Rosneft stake, which carried a $14 billion book value last year, is currently "close to zero."

The companies have not spelled out how they will pull out of their Russian holdings or how much they might lose, though some have provided ranges. That's because they still don't fully know, given that escalating economic sanctions against Russia make it difficult, if not impossible, to find buyers for the assets, said the people close to the companies. The assets at stake cumulatively were recently valued at over $20 billion.

The pullout by the oil companies — which have cultivated relationships with despots for decades to extract fossil fuels in the Mideast, Africa and other dangerous regions — shows how fast legal, political and moral concerns have united to make doing business with Russia a perilous prospect. "It shows you what a breaking point this is," said Nikos Tsafos, an energy expert with the Center for Strategic & International Studies in D.C.

Shell apologizes, pledges to ‘withdraw’ from Russian oil and gas

(Washington Post; March 8) - Global energy giant Shell said in a statement March 8 that it intends to “withdraw from its involvement in all Russian hydrocarbons, including crude oil, petroleum products, gas and liquefied natural gas in a phased manner. As an immediate first step, the company will stop all spot purchases of Russian crude oil,” the British multinational’s statement said. “It will also shut its service stations, aviation fuels and lubricants operations in Russia.”

Shell CEO Ben van Beurden apologized for buying Russian crude oil last week and said that any profits would be donated to provide humanitarian support during the Ukraine crisis. “We are acutely aware that our decision last week to purchase a cargo of Russian crude oil to be refined into products like petrol and diesel … was not the right one and we are sorry,” van Beurden said in a statement. He pledged to “commit profits from the limited, remaining amounts of Russian oil we will process to a dedicated fund,” and promised to aid humanitarian agencies over the coming weeks.

Shell had earlier announced that it will exit its partnership with Gazprom at the Sakhalin-2 LNG project in the Russian Far East. Shell holds a 27.5% stake in the gas project, which can produce about 10 million tonnes of LNG per year. Dozens of global businesses from energy to vodka brands to sports teams have stated their intention to stop selling Russian products or pull out of the Russian market over the Ukraine conflict.

So far, France’s TotalEnergies staying in Russia

(Reuters; March 5) - France's TotalEnergies cuts a lonely figure hanging onto its Russian investments during a mass exodus of western oil majors from the country after its invasion of Ukraine, even though no sanctions have forced such divestments. "For existing assets, the company says it will respect European sanctions whatever the consequences. But for the moment, there are no sanctions on energy," said a source familiar with the thinking inside TotalEnergies.

TotalEnergies has a future-oriented position in Russia, weighted toward liquefied natural gas, with stakes in the $21 billion Arctic LNG-2 project which is under construction as well as in the Yamal LNG export project which started producing in 2017. With the world trying to cut carbon emissions, oil majors are betting on LNG to replace more-polluting coal and oil. TotalEnergies first bought a stake in Russian gas producer Novatek in 2011 for $4 billion and gradually increased its stake to just under 20% by 2018.

The French government has declined to comment on specific companies and Russia. French President Emmanuel Macron, who convened members of a Franco-Russian forum on March 1, did not urge Total or other French companies to leave Russia, two participants told Reuters. Among those present was Total CEO Patrick Pouyanne. Billions of dollars of impending write-downs are piling up for the companies that have said they would exit their Russian assets: BP, Shell, Equinor and ExxonMobil. For now, there are few potential buyers for the operations the companies are leaving in Russia.

U.S. LNG exporters profiting from high prices in Europe

(Reuters; March 9) - U.S. LNG exporters are emerging as big winners of Europe's supply crisis as they ship record volumes to the European Union for the third consecutive month at prices that have rallied since Russia's war on Ukraine. European gas prices have hit all-time highs just as U.S. exporters completed projects that had been under development for years to export abundant shale gas supplies.

Cheniere Energy, the largest U.S. exporter, is among the top beneficiaries after having signed multiple long-term deals to sell LNG in recent months, traders said. Commodities traders such as Trafigura and Gunvor as well as some Japanese trading houses that have positions in the U.S. liquefaction terminals are also seen as major winners, after having diverted cargoes meant for other regions to higher-paying European markets.

"The U.S. and its LNG producers profit from the gas shortage in Europe and will further profit if Russian volumes are sanctioned," a European trader said. LNG spot prices jumped to a record high near $60 per million Btu late last week, putting them about 10 times their value a year ago. They are currently around $51. U.S. LNG exports are projected to average 11.4 billion cubic feet per day in 2022. That would account for roughly 22% of expected world LNG demand, according to analysts at Goldman Sachs.

Prices have risen so much in Europe that LNG traders would rather pay millions of dollars in penalties for non-delivery to other countries for the opportunity to sell the gas at a premium in Europe, said Oystein Kalleklev, CEO of shipowner FLEX LNG.

Europe will find it hard to replace Russian natural gas

(Bloomberg; March 8) - Europe is rushing to find alternatives to Russian gas, a move that's become more urgent as Moscow threatens to cut off supplies from the key Nord Stream 1 pipeline. The European Union reckons it can cut its import needs from Russia by almost 80% this year by tapping new supplies, boosting energy efficiency and using more renewables. But doing that won't be easy.

The region bought about 5.3 trillion cubic feet of Russian gas last year — about a third of its needs — and it will be a tough task to replace most of that volume in the short term. Output in the EU and piped imports from countries such as Azerbaijan and Norway and could climb by as much as 350 billion cubic feet in the next year, according to the International Energy Agency. European producers have some start-ups planned for this year, and Norway's gas liquefaction and export plant is set to return in May.

But European volumes can only expand so much. Norwegian officials have said the country is already pumping close to capacity, while U.K. fields are stretched following a ramp-up in production in the second half of last year. Azerbaijan aims to boost shipments to Europe by about 11% to 320 bcf this year and then to 385 bcf in 2023. The Spanish gas network operator said it's working with Algeria on expansion of pipeline capacity to Europe by 30% to 380 bcf a year.

But those plans could be challenged by the fact that most exports are already tied to long-term contracts with buyers, particularly from Azerbaijan. The IEA says the EU has a greater potential to boost liquefied natural gas imports, given its spare regasification capacity, and the bloc said as much as 1.8 tcf a year will come from new LNG sources. Regions such as the U.S., Middle East and North Africa already send supplies.

Europe still too reliant on Russian gas, even after earlier supply crisis

(Bloomberg; March 6) - On a cold winter day, Europe woke up to a shock. Russia had cut off gas to Ukraine. Companies started reporting drops in supplies via the transit line. Calls to reduce energy dependence on Moscow resonated across Europe. That was in 2006. Sixteen years on, through another supply crisis and then Russia's annexation of Crimea, the European Union is in the same place: Plotting ways to cut reliance on its single biggest supplier and bracing for a gas stoppage as Russia invades Ukraine.

The reality for Western Europe is that however much the writing was put on the wall, energy policy came from a different script. Europe's ambition is to lead the global fight against climate change by shifting away from fossil fuels, but it's so far failed to translate that into a weaker role for gas — Russian gas — in the economy. Dwindling domestic gas production means that the EU is more dependent on foreign suppliers than ever. Russia's export company, Gazprom, provides at least 40% of gas imports into the bloc. The figure was more than 60% for Germany, Europe's largest economy, in 2020.

EU Energy Commissioner Kadri Simson said in an interview on March 3 that the situation right now isn't comparable with the disruption 16 years ago because the EU is better prepared and has closer cooperation. She acknowledged that Russian companies "still have extraordinary market share in our natural gas market." From Simson's predecessor at the time to Austria's economy minister, though, the political messages back in January 2006 were clear: Europe must diversify its energy sources.

Germany tells utility to meet demand, even if it requires Russian gas

(Bloomberg; March 8) - Uniper has been told by the German government to boost natural gas imports even if it's from Russia as it looks to meet demand, a sign of the tough choice for governments as they look to keep the lights on while also punishing

Moscow for its war. Germany is asking the utility to keep energy flowing and guarantee supply, and there are no signals it should stop getting gas from Russia, CEO Klaus-Dieter Maubach said. The stance highlights the difficulties Europe faces in reducing its deep reliance on Russian energy, for which there are very few immediate alternatives.

“There is a political decision to reduce dependence on Russian energy supplies, but the government is supporting our business’s attempt to bring more LNG to the market,” said Maubach in an interview on March 8. “Germany is asking us to do everything we can to help to avoid a supply crisis.” The position for Uniper, whose shares have slumped because it’s one of the biggest European buyers of Russia’s gas, comes even as energy purchases from the increasingly isolated country is attracting intense attention.

Uniper, which relies on Russia for more than half of its gas under long-term contracts, said March 7 it will no longer sign such agreements with Russia, but would maintain existing contracts. The company plans to restart divesting its Russian power generation unit Unipro, which accounted for almost a fifth of its earnings last year. Germany is in a race to tap all available sources to ensure it has enough energy in the event Moscow cuts off the gas lines. Uniper is trying to secure as much LNG as it can and is also looking to increase inventories at its storage facilities that are less than 30% full.

Germany decides against extending use of nuclear power

(Reuters; March 8) - Germany on March 8 decided against extending the life of its nuclear plants to help cut its reliance on Russian gas, saying it needed instead to build up alternative energy sources at "Tesla speed.” Economy Minister Robert Habeck said the country's first liquefied natural gas import terminal, announced last weekend, should be ready within two years.

In response to Russia's invasion of Ukraine, Europe's largest economy late last month floated the idea of keeping nuclear plants as part of its energy mix to diversify away from Russia, which delivers most of Germany's gas. But the economy and environment ministries said on March 8 that after looking at both short- and mid-term scenarios, they had decided that the costs and risks of keeping nuclear facilities open outweighed limited benefits. Germany's last remaining nuclear plants are due to close this year.

"As a result of weighing up the benefits and risks, an extension of the operating lives of the three remaining nuclear power plants is not recommended, also in view of the current gas crisis," the ministries said in a joint statement. Since Russia's invasion of Ukraine, Germany has mapped out changes to its energy system to cut dependence on Russian gas, which accounts for two-thirds of Germany's natural gas imports.

Italy’s biggest utility looks at adding LNG import terminal

(Reuters; March 8) - Italy's biggest utility Enel is ready to dust off plans to build a liquefied natural gas import terminal in southern Italy as the country steps up efforts to find alternative supplies to replace Russian gas. Enel said March 8 it would be useful for Italy to have two additional LNG terminals so as to be less tied to gas pipelines.

"For this reason, Enel has given availability to resume the Porto Empedocle LNG plant project, that is fully permitted," an Enel spokesperson said. Since Russia invaded Ukraine, Italy has ramped up efforts to secure alternative sources of gas, with LNG-rich Qatar a particular focus of attention. Italy aims to become independent of Russian gas imports within 24 to 30 months, Energy Transition Minister Roberto Cingolani said.

Italy, which burns gas to generate some 40% of electricity, imports more than 90% of its gas needs, with Russian flows accounting for almost half. Italy also has pipeline links to Algeria, Azerbaijan, Libya and the North Sea but only three LNG import terminals.

Japanese business leader says it’d be hard to replace Russian oil

(Reuters; March 7) - The head of Japan's largest business lobby said March 7 that the country's imports of Russian crude could not be replaced immediately, even as global discussions gathered pace about the possibility of cutting Moscow's oil from markets. Russia is Japan's fifth-biggest supplier of oil and liquefied natural gas.

Japan is in talks with the United States and European countries over a potential embargo on Russian oil, Kyodo News reported earlier on March 7. Masakazu Tokura, chairman of the Japan Business Federation, told a regular press conference it would be difficult to replace Russian crude right away. Tokura added that European countries were still importing Russian LNG, despite imposing sanctions on Moscow.

Japanese firms are facing deepening pressure over ties to Russia and are scrambling to assess their operations, company and government insiders say, after Western rivals halted businesses and condemned Moscow for invading Ukraine. The Japanese government and companies own stakes in oil and LNG projects in Russia. Russia accounted for 3.63% of Japan's imports of oil and 8.84% of its LNG imports last year.

Senior politician says Japan needs to be practical about Russian gas

(Nikkei Asia; March 6) - Japan needs to be pragmatic about its energy procurement and think twice about leaving a Russian natural gas project, a senior politician in the ruling Liberal Democratic Party said on March 6. Hiroshige Seko, the party's upper house secretary general and a longtime minister for economy, trade and industry, said Japan has been investing for years in the Sakhalin-1 and Sakhalin-2 offshore oil and gas developments in Russia's Far East, "even before we knew if there was gas or not."

"If we leave now, there are countries like China who desperately want liquified natural gas. Those countries will take the gas for cheap. We need to be pragmatic," he said on a morning program on NHK, Japan's public broadcaster. Seko's words come after Shell said it will exit all oil and gas projects involving Russian state-owned energy giant Gazprom in response to the invasion of Ukraine. This includes Sakhalin-2, which Shell has been working with Japanese trading houses Mitsui and Mitsubishi.

Shell has a 27.5% stake in Sakhalin-2, while Gazprom owns 50%. Mitsubishi and Mitsui control 12.5% and 10%, respectively. All eyes are on whether the Japanese companies will follow Shell in severing their Russian ties. A source at Mitsui said the issue is too big for a private company to decide on its own, and the call will have to come from the government. LNG is Japan's biggest import from Russia. Sakhalin-2 can produce about 10 million tonnes of LNG per year, equivalent to more than 10% of Japan's imports.

Russian tanker loaded with U.S. LNG arrives in France

(Reuters; March 7) - A Russian-owned tanker carrying U.S. liquefied natural gas arrived on March 7 at anchorage outside the French port of Nantes Saint-Nazaire, according to vessel tracking data from Refinitiv. The Sovcomflot vessel SCF La Perouse was carrying LNG from Sempra Energy's Cameron LNG facility in Louisiana. France has not barred Russian vessels from arriving at its ports.

The Elengy terminal in Montoir, where the tanker is scheduled to unload, is operating normally and has not changed its plan to handle the gas, a spokeswoman said. The LNG terminal is owned by energy and services firm Engie. The United States in February blacklisted Sovcomflot vessels over Russia's invasion of Ukraine. Two of the Russian maritime and freight shipping company's oil tankers last week were turned away from Canadian ports. Britain and Canada have closed their port to Russian ships.

Australia could gain LNG export sales to Europe

(Financial Review; Australia; March 8) - Australian exporters could secure liquefied natural gas export contracts for existing and new projects over the next few years as Europe seeks to avoid a long-term gas crunch. While analysts see little ability to immediately expand sales to Europe, Australian sales could climb in the next few years.

"Demand for Australian LNG is likely now to be even greater, which is an opportunity to win more contracts for new projects. Woodside should be able to contract more of (the output from) Scarborough and Santos more of Barossa," consultancy EnergyQuest said in a report published on March 8. “The second priority would be to keep existing plants full, particularly the North West Shelf in the face of its looming decline” as its original gas resources are dwindling.

Woodside late last year gave the go-ahead to the $16.4 billion Scarborough project, set to be the biggest fossil fuel development in Australia for almost a decade. Scarborough — with about 11 trillion cubic feet of gas — would lock in 30 years of LNG exports starting in 2026. Santos last year gave the go-ahead for the $4.7 billion development of the Barossa gas field off Australia’s northern coast. The project, which will supply 20 more years of gas for the Darwin LNG project, is Santos’ first major growth investment since the oil price crash a year ago that brought major development projects to a halt.

Proposed oill rail line out of Utah runs into opposition in Colorado

(NBC Dallas-Fort Worth; March 5) - Dozens of Colorado counties and cities are opposing a Utah-based railroad project that would bring as many as 10 two-mile-long oil trains through Denver each day. The proposed 85-mile rail line connection has federal approval but opponents say there is no clear picture of the environmental damage it might cause. The railroad line would allow oil operations in Utah’s northeastern Uinta Basin to send their production through Colorado to refineries in Texas and Louisiana.

Work on the line could begin next year, but Colorado’s Eagle County and several conservation groups sued last month to require a deeper environmental investigation of the project. Several cities and counties have also asked Colorado’s U.S. senators to intervene. Glenwood Springs Mayor Jonathan Godes said drilling for more fossil fuels is the wrong move as the region deals with a megadrought, record-setting wildfires and other climate change damage. “It’s potentially catastrophic on a number of levels.”

Drilling operations in the Utah area extract about 80,000 barrels a day of a type of oil called “waxy crude,” said Deeda Seed with the Center for Biological Diversity. The crude solidifies at room temperature and must be heated to remain liquid. The Seven County Infrastructure Coalition in Utah proposed the rail line in 2019 to help companies move the crude out of the basin and expand drilling operations. If the project advances, drilling companies could quadruple output up to 350,000 barrels of waxy crude a day.

Hackers gain access to computers at U.S. gas suppliers, exporters

(Bloomberg; March 7) - In mid-February, hackers gained access to computers belonging to current and former employees at nearly two dozen major natural gas suppliers and exporters, including Chevron, Cheniere Energy and Kinder Morgan, according to research shared exclusively with Bloomberg News.

The attacks targeted companies involved with the production of liquefied natural gas, and they were the first stage in an effort to infiltrate an increasingly critical sector of the energy industry, according to Gene Yoo, chief executive officer of Los Angeles-based Resecurity, which discovered the operation. The hacks occurred on the eve of Russia's invasion of Ukraine, when energy markets were already roiled by tight supplies.

Resecurity's investigation began last month when the firm's researchers spotted a small number of hackers attributed to Strontium, the nickname for a hacking group associated with Russia's military intelligence service. The hackers were looking to pay top dollar on the dark web for access to personal computers belonging to workers at large U.S. gas companies, which were used as a back door into company networks, Yoo said. The motive of the operation isn't known, but the timing coincides with broader changes in the energy industry that have been accelerated by Russia's war.