Oil and Gas News Briefs
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High oil prices may speed up 'demand destruction'

(The Wall Street Journal; March 21) - For oil producers, the flip side of today's high prices is concern about "demand destruction" as buyers find ways to cut their needs. They are right to worry: The hit this time to demand could go faster and further than the one that followed the 1970s shocks. The International Energy Agency sees lower consumption ahead. Last week it cut its oil demand forecast by 1.3 million barrels a day — about 1% of the 2021 average — for the rest of the year.

The process might already have started, given the availability of alternatives to oil. Cars and trucks can be replaced with more fuel-efficient or fully electric models. Energy use can be cut with LED lights, smart heating and cooling systems, insulation and better windows. Solar panels paired with a battery can provide power. Most substitutes these days are cost-competitive, so higher energy prices only accelerate their payback. Once people have switched to technologies that cut consumption, the effects can be lasting.

Despite recent requests for more drilling, most governments' efforts to halt climate change mean the long-term direction of travel will likely remain toward lower oil consumption, even if crude prices return to more historically normal levels. Even fast-growing Asian economies plan to decarbonize by deploying energy-efficiency technologies and renewable power. New oil wells will take months or years to come online and risk delivering extra supply just as demand destruction starts adding up. For independent oil companies, big new investments now could be a costly mistake.

Chevron making oil pitch for U.S. to ease sanctions on Venezuela

(Wall Street Journal; March 22) - For months, Biden administration officials snubbed top executives for Chevron who had pressed to ease sanctions so the company could boost production in Venezuela, where the U.S. has banned such activities since 2019. Then Vladimir Putin launched his war on Ukraine. Now the Biden administration is listening closely to Chevron, say people familiar with the conversations, which says it can help double Venezuela's 800,000 barrels-a-day output within months. That could replace the 700,000 barrels a day the U.S. was importing from Russia before it attacked Ukraine.

"Chevron came in November, they pitched it around, but got laughed out of town," said Juan Cruz, a former National Security Council official in charge of the Western Hemisphere. "But what was really funny in November is a plan today." Since the Russians invaded and President Joe Biden canceled Russian oil imports, Chevron CEO

Mike Wirth has offered the company’s help in shoring up U.S. energy supplies by ramping up production in Venezuela, according to people briefed on the talks.

Chevron is the only major U.S. producer to retain assets in Venezuela following nationalizations by the Socialist government and, much later, U.S. sanctions. Granting the company and other U.S. producers permits to operate could boost Venezuelan production while keeping other sanctions in effect. But easing sanctions on Venezuela faces stiff opposition in the U.S. over concerns it would prop up the country’s autocratic regime. U.S. officials are divided over the issue, say people familiar with the situation.

Shortly after Wirth talked with the U.S. Energy secretary, three senior U.S. officials flew to Caracas on March 5 and met with President Nicolás Maduro and top Venezuelan officials. Venezuela claims to have the world’s largest proven oil reserves. But years of mismanagement, corruption and nationalization of oil ventures led production to fall from 3.2 million barrels a day in the 1990s to about one-tenth of that in 2020.

Sanctions could set back Russian energy industry ‘many years’

(The Wall Street Journal; March 23) – Russia’s war in Ukraine, and the wave of Western sanctions in response, is starting to hit the country’s economic engine: Its prodigious oil and gas industry. The U.S. and Canada have barred what little Russian oil they import, while the European Union is considering a ban. But for the most part, sanctions have so far avoided directly limiting most of Russia’s energy exports. U.S. and EU restrictions, however, have cut off Russia’s access to funding to develop and maintain its aging fields and advanced technology, with potential long-term impacts.

An exodus of Western energy companies is disrupting projects from the Arctic to the Pacific Ocean. Traders and banks have been shunning Russian oil cargoes in recent weeks. All that is threatening Russian oil production, which represents one in every 10 barrels pumped globally. “This will set back the industry many years,” said Mikhail Krutikhin, a partner at independent consulting firm RusEnergy who advises Russian oil companies. “It means loss of competitiveness.”

Any decline could blunt one of Moscow’s most potent geopolitical weapons, long used to squeeze customers and pressure governments. It is also a further blow for Russia’s beleaguered economy: The sector supplies about 40% of its budget revenue. Some 1.5 million people working in the industry might lose their jobs by next year, analysts say.

Cracks are starting to show. Earlier this week, Russia said oil exports via a pipeline from Kazakhstan to the Black Sea may temporarily fall by about 1 million barrels a day due to storm damage. Repairs could take up to two months, officials said. Russian oil output, including crude and condensates, is expected to fall 15% this year to its lowest level since 2003, according to the International Energy Agency. Rystad Energy consultants say production may never return to its prewar peak if sanctions last for several years.

U.S. shale producers drill more just to maintain output

(The Wall Street Journal; March 21) – U.S. frackers are raising the number of drilling rigs in oil fields by more than 20%, but don’t expect a similar increase in production. Though the number of active U.S. oil-directed rigs has grown in the past six months, much of the new activity is to make up for a depleted inventory of wells drilled before the pandemic, executives said. Frackers brought the best of those online in 2021 instead of drilling new ones and will have to drill more than usual this year to offset that loss.

Following calls to raise output and help quell rising oil prices following Russia’s invasion of Ukraine, shale executives have pointed to a number of bottlenecks that limit their ability to boost production quickly, including supply-chain issues, wary investors and limits to their drilling inventory. Another major constraint is the loss of thousands of ready-to-go wells, known as drilled but uncompleted wells, or DUCs, which companies amassed last decade but then used up to survive the pandemic.

Diamondback Energy, one of the largest producers in the Permian Basin of West Texas and New Mexico, has added seven drilling rigs to the five it had working during the pandemic — not to increase production but because it needed to drill more to maintain output. “The industry has now worked off all of the voluntary DUCs,” said Diamondback President Kaes Van’t Hof, referring to wells companies intentionally left dormant.

The DUC backlog, which peaked at more than 8,800 wells in June 2020, was down to fewer than 4,400 wells in February, less than at the end of 2013, according to the U.S. Energy Information Administration. Vicki Hollub, CEO of Occidental Petroleum, one of the largest producers in the Permian, said the region’s best DUCs are gone and that it will require companies drilling more just to offset wells’ steep production declines.

Sharp movements in oil prices strain consumers, businesses

(CNBC; March 21) - Oil prices are racing higher again and are expected to see more sharp spikes and sudden dips as the world deals with potential supply shortages. For consumers, that means a longer period of expensive gasoline — with prices at the pump staying above $4 per gallon. For the economy, that means more inflation. Besides the strain on consumers, there will be higher costs for any business relying on petroleum — from airlines and truckers to chemical companies and plastics producers.

Russia’s invasion of Ukraine came at a time when prices were already moving higher on tight supplies and growing demand from reopening economies. The loss of a big chunk of Russia’s almost 5 million barrels a day of exports has put further pressure on prices. Analysts acknowledge, however, there could be sudden collapses in the price, particularly if there were some resolution of Russia’s war on Ukraine.

“The range of outcomes in any given two-week period is wide. We went from $90 to $130 per barrel in a month. We went from $125 to $95 in a week, and that is going to be the normal type of volatility. $10 a week is nothing, 10% moves nothing,” said Daniel Pickering, chief investment officer of Pickering Energy Partners. He said the market was back to trading fear March 21. Pickering estimates that 2 million to 3 million barrels a day of waterborne Russian oil has been frozen out of the market, without immediate buyers, while China and India are continuing to buy Russian crude. He said he’s not forecasting a return to $130 per barrel oil, but adds it could happen.

Another bank decides to stop financing new oil and gas projects

(Reuters; March 23) - ING Groep will no longer finance new oil and gas projects, its energy chief said, becoming the biggest bank yet to commit to such a step in the fight against climate change. The move by the Dutch financial services firm raises pressure on peers to heed a call by the International Energy Agency for a halt to funding for new fossil fuel projects to help cap global warming.

Michiel de Haan told Reuters that ING would not finance projects approved after Dec. 31, 2021, but would still fund energy firms, although ING is phasing down its financing to the oil and gas industry and scaling up lending for renewables. De Haan said the bank would target a 50% increase in lending for renewable energy by 2025, building on strong growth in 2021, when financing grew 26% to 7.3 billion euros ($8.05 billion).

ING's plan to reduce funding for oil and gas clients and projects is more gradual, with a target to cut it by 12% to about 3.5 billion euros by 2025. "Decarbonization of the energy system ... is of almost existential importance, but so is affordable energy and reliable supply of energy," de Haan said. "We can make the decision to discontinue our involvement in new greenfields, but we (will) continue our existing involvement in oil and gas across the world because we need to meet those other two targets."

European Union divided whether to ban Russian oil

(Reuters; March 22) - Australia, Britain, Canada and the United States have imposed outright bans on Russian oil purchases following Moscow's invasion of Ukraine, but members of the European Union are split. EU foreign ministers failed to agree March 21 on sanctioning Russian natural gas and oil supplies, which account for 40% and 27% of the bloc's total use of those commodities, respectively.

Germany, the EU's top user of Russian crude oil and the Netherlands, a key trading hub, argue that the EU cannot cut its dependence on Russian supplies overnight. Hungary opposed a ban on Russian energy imports, while Bulgaria said it may seek an exemption if such a ban is approved. Some landlocked refineries in Eastern Europe and Germany are almost completely dependent on Russian crude supplies via pipelines.

Other buyers in Europe and elsewhere, however, shunned Russian crude voluntarily to avoid reputational damage or possible legal difficulty, with traders warning about potential supply shortages. The chief executives of three of the biggest energy traders — Vitol, Gunvor and Trafigura — said their companies have halted spot purchases of Russian oil, but were seeing out their existing longer-term contracts.

France's Total will stop buying Russian oil by end of year

(Bloomberg; March 22) - TotalEnergies said it will stop buying Russian crude and diesel by the end of the year, becoming the latest energy giant to shun the country's oil in protest against the invasion of Ukraine. The announcement marks a further effort to reduce financial flows to the regime of President Vladimir Putin as punishment for the attack on his neighbor.

"Given the worsening situation in Ukraine and the existence of alternative sources for supplying Europe, TotalEnergies has unilaterally decided to no longer enter into or renew contracts to purchase Russian oil and petroleum products," the French company said in a statement March 22. However, unlike peers including Shell and BP that plan to quit Russia altogether, Total said it would keep its stakes in Russian companies and hydrocarbon projects, rejecting criticisms from Greenpeace and the Church of England. It would be impossible to find a non-Russian buyer for the properties, Total said.

The company owns 19.4% of Novatek, Russia's top producer of liquefied natural gas. It also has stakes in Novatek's Yamal LNG plant, the Arctic LNG-2 project that's under construction, as well as stakes in other oil and gas fields. After earlier saying it wouldn't invest in new projects in Russia, TotalEnergies said it will no longer account for proved reserves from Arctic LNG-2 and will not provide any more capital for the venture. In accordance with the European Union's decision to keep buying Russian gas, Total said it will continue to supply the region with Yamal cargoes within long-term contracts.

Leading global energy trader says no new business with Russia

(Bloomberg; March 21) - Energy trading house Gunvor has stopped conducting new business in Russia, the company said. It's the first public statement on the matter from Gunvor, which is one of the world's top independent traders of liquefied natural gas and other energy products. Since the invasion of Ukraine, international sanctions on Russia and self-imposed restrictions from banks, shipping companies and others have made it difficult for traders and other buyers of Russian commodities to get cargoes.

“Gunvor is obliged to fulfill existing contracts, which are not sanctioned,” but no new business is being done, it said in the statement on the Irish Stock Exchange on March 21. Russia-origin products constitute a relatively small portion of Gunvor’s activity, making up 6% to 11% of its trading book over the past five years, it said.

Saudis say it’s not their fault if oil supplies come up short

(The Associated Press; March 21) - Saudi Arabia said on March 21 that it “won't bear any responsibility" for a shortage in global oil supplies after a fierce barrage of attacks by Yemen's Houthi rebels affected production in the kingdom, the world's largest oil exporter. The unusually stark warning marked a departure from the giant oil producer's typically cautious statements, as Saudi officials remain aware that even their smallest comments can swing the price of oil and rattle global markets.

The salvo of rebel attacks on Saudi Arabia's oil facilities marked a serious escalation in the war, which erupted in 2014 when the Iran-backed Houthis seized Yemen’s capital, Sanaa, and much of the country's north. Saudi Arabia and its allies responded with a devastating air campaign to dislodge the Houthis and restore the internationally recognized government. Seven years later, the conflict has turned into a bloody stalemate and spawned the worst humanitarian disaster in the world.

The state-run Saudi Press Agency quoted the Saudi Foreign Ministry as saying that the kingdom “declares that it will not bear any responsibility for any shortage in oil supplies to global markets in light of the attacks on its oil facilities.” The announcement comes as the kingdom remains in lockstep with OPEC and other oil-producing countries in a deal limiting production increases. The producers have so far resisted pressure from the U.S. to pump more oil to bring down prices that have soared since Russia's war on Ukraine.

Most European energy traders avoid business with Gazprom

(Bloomberg; March 21) - Only a few large European energy firms are still striking deals with the trading arm of Gazprom, as companies shun Russian business in response to the attack on Ukraine, according to people familiar with the matter. Nearly all of the big companies that buy and sell gas have told their traders not to execute over-the-counter deals with Gazprom Marketing & Trading, according to the people.

Among those still trading are France’s TotalEnergies and Engie, and Austria’s OMV, said the people, who asked not to be identified. Some smaller players are still making transactions. Traders have sought to cut ties with Russia as Europe seeks to diversify its gas supplies to punish President Vladimir Putin for the war in Ukraine. BP and Shell are moving to dump their stakes in Russian energy ventures. While German utilities RWE and Uniper are sticking with existing contracts, they aren’t signing new ones.

While the European Union and the U.K. have implemented wide sanctions against Russia, energy has so far been left out. But traders are concerned that Gazprom's trading arm, which also owns one of the U.K.'s top retail gas suppliers, could eventually be hit with restrictions. Already Gazprom M&T's central-London landlord, British Land Co., is planning to cut short its rental agreement, and the U.K. government is pressing public bodies that buy gas from Gazprom to find alternative suppliers.

China increases LNG imports from Russia

(Bloomberg; March 21) - China imported twice as much liquefied natural gas from Russia last month than a year earlier, despite weakened appetite for spot purchases because of high prices. The world's second-biggest buyer of the fuel bought almost 401,000 tons from Russia in February, according to official customs data released March 20. The increase came as China's total LNG imports fell 12% from a year earlier, with Russia's share rising to 8%.

Buyers have been seeking to diversify their supplies in line with efforts to trim China's dependence on any one source, such as the Mideast. The drop in imports came as spot prices were rising because of tight supply in Europe but before they hit a record earlier this month following Russia's invasion of Ukraine. High prices saw China's LNG imports decline in the first two months of 2022 as buyers turned to cheaper domestic coal. The worst coronavirus outbreak in two years and warmer weather also have hurt demand.

The war in Ukraine has complicated Russia's role in supplying commodities to China, and led to deals being put on hold as buyers wait for clearer political signals. It is not yet clear if Chinese importers will be tempted by discounts as others shun Russian fuel.

Analyst sees need for more U.S. LNG projects to meet demand

(Bloomberg; March 21) - Europe's shift away from Russian gas means significantly more U.S. export projects need a quick go-ahead from investors, according to Sanford C. Bernstein & Co. The U.S. will need to make final investment decisions on as much as 80 million tonnes per year of new liquefied natural gas export capacity in the next year or two to help fill up the supply gap. Before Russia's invasion of Ukraine, the U.S. was expected to sanction no more than 40 million tonnes per year in the next two or three years to meet global demand, analyst Jean Ann Salisbury said in a March 21 note.

There are signs that European utilities, which have vowed to reduce gas use by the next decade, may be more open to signing the 15-year supply contracts American LNG exporters typically need to obtain funding for new projects, according to Salisbury. That's the case for France's Engie, which recently agreed to extend its commitment with

Cheniere Energy to 20 years. Still, it will take at least five years until most of the new capacity needed in the U.S. to replace Russian gas is up and running, Salisbury said.

German LNG import terminal developer is in a hurry

(Bloomberg; March 21) - Developers of a planned German liquefied natural gas terminal are pushing to fast-track the project as part of efforts to reduce dependence on Russian gas. The facility near Hamburg has been planned for several years, though it recently faced setbacks and permitting delays. But following the invasion of Ukraine, the German government this month stepped in as a partner for the terminal as Europe looks to wean itself off Russian energy, such as importing LNG from countries like the U.S. and Qatar.

That could mean speeding up the permitting process so construction can start next year and raising the terminal regasification capacity, according to German LNG Terminal GmbH, the company developing the project. “They are in a hurry, they are pushing, they want the terminal to be built as soon as possible,” Marcel Tijhuis, senior business developer at German LNG Terminal, said at a conference in Vienna. “With the entry of the German government, we hope the permitting process will get a really big push.”

German state-owned lender KfW will own half of the project, with Nederlandse Gasunie owning 40% and acting as the operator, and utility RWE holding a 10% stake, Tijhuis said. While permits could take a year without the recent shareholder changes, construction could begin in 2023 and operations in 2025 if they’re secured this year, he said in an interview on the sidelines of the event.

Shell books capacity at Germany’s planned LNG import terminal

(Reuters; March 23) – Shell and German LNG Terminal GmbH on March 23 said Shell has committed to booking a substantial part of the capacity at a yet-to-be built import terminal for liquefied natural gas at the North Sea port of Brunsbuettel, as companies strive to lower their dependence on Russian pipeline gas. A joint statement said the two parties have signed a memorandum of understanding on Shell's import and distribution through the Gasunie-operated terminal that would have an annual capacity of 300 billion cubic feet and should start operating in 2026 at the latest.

Gasunie, utility RWE and German state lender KfW banded together earlier this month to redraw the terminal's shareholder structure, combining finance requirements and operational expertise. They said they will aim to allow the terminal to function on gas at first, but strive for a conversion to carbon-free hydrogen in the long term. Germany has no LNG import terminals but in the wake of Russia's invasion of Ukraine turned around its energy policy to replace pipeline flows from Russia with other sources and LNG.

Italy considers floating LNG import units to cut out Russian gas

(Reuters; March 22) - Italy is looking to install two floating storage and regasification units (FSRUs) to boost liquefied natural gas imports as part of plans to cut reliance on Russian gas, three sources familiar with the matter said on March 22. The units, which are expected to have a combined capacity of about 1 billion cubic feet per day of gas, will be located in the Tyrrhenian Sea and, possibly, in the Adriatic Sea, one of the sources said. The vessels will be located close to existing pipelines, the source said.

Italy imports an average of about 1 trillion cubic feet of gas from Russia every year — some 40% of its total gas imports — and is looking to diversify its energy supplies in response to Moscow's invasion of Ukraine. Ecological Transition Minister Roberto Cingolani said this month it would take at least three years to fully replace Russian imports but said two-thirds could be replaced in the "near to medium term" through measures including using more imported LNG.

Energy group Eni, which has its own extensive LNG portfolio, and gas company Snam, which runs Italy's gas pipeline grid, are assisting the government. Anchoring and connecting FSRUs is quicker than building onshore terminals, but demand for such vessels has risen sharply as governments across Europe scramble to find quick ways to bring in more LNG cargoes.

European Union headed toward joint natural gas purchases

(Reuters; March 22) - Leaders from European Union countries will agree at a summit this week to jointly purchase gas, liquefied natural gas and hydrogen ahead of next winter, according to a draft of their summit statement. The invasion of Ukraine by Russia, Europe's top gas supplier, has caused energy prices to soar to record highs and put the EU on a mission to cut Russian gas use this year — a move that will require a jump in imports from other suppliers, such as Qatar and the United States.

"With a view to next winter, member states and the commission will urgently ... work together on the joint purchase of gas, LNG and hydrogen," EU leaders will say following a summit on March 24-25, according to a draft summit statement seen by Reuters. The European Commission last year proposed a system for EU countries to jointly buy strategic stocks of gas which some members, including Spain, had called for as a way to provide a buffer against potential supply disruptions.

Brussels has said it will help kick-start joint gas buying this year, and is expected to propose rules requiring countries to fill gas storage to 90% ahead of winter each year. EU storage is currently at 26% of capacity. The draft statement said countries agreed to coordinate measures to fill storage and start doing so "as soon as possible". Finding a joint EU response, however, has proved difficult. EU countries are largely responsible for their energy policies, and disagree whether EU-wide action is needed to tame prices.

[Developer of Pennsylvania LNG project agrees to give up permit]

(The Associated Press; March 21) - The future of a major liquefied natural gas production facility proposed for northeastern Pennsylvania was thrown into question March 21 after its developer settled a legal challenge brought by environmental activists. A subsidiary of New Fortress Energy agreed to pull the plug on its proposed LNG plant in Wyalusing — at least for now — in an agreement with a coalition of environmental groups that sued to overturn the company's air emissions permit.

The $800 million plant was intended to liquefy gas from the Marcellus shale basin, with the LNG to be moved by rail or truck more than 175 miles to a proposed New Fortress export terminal in Gibbstown, New Jersey, along the Delaware River near Philadelphia. From there, the LNG would have been loaded onto ships for overseas delivery. PennFuture, the Clean Air Council and Sierra Club took legal action to block the project.

Under the settlement, New Fortress agreed to halt construction and allow its air emissions permit from the Pennsylvania Department of Environmental Protection to lapse. If it wants to restart the project, the company will need to begin the permitting process over again, according to settlement documents. Environmental groups had raised concern about air and water pollution near the proposed Wyalusing facility, as well as the risk of a catastrophe during transport to New Jersey by either truck or train.

[Indonesian tycoon plans to spend $500 million on B.C. LNG project]

(Bloomberg; March 22) - An energy company backed by Indonesian tycoon Sukanto Tanoto plans to spend $500 million this year on a long-planned liquefied natural gas project in British Columbia, the clearest signal yet that it may move ahead with the project just north of Vancouver. Woodfibre LNG, backed by Tanoto's Pacific Energy, has yet to formally announce an investment decision, but Woodfibre President Christine Kennedy gave the spending details to local officials in Squamish, British Columbia, on March 22. The $500 million figure is 31% of the expected $1.6 billion cost of the project.

A copy of Kennedy's presentation was obtained by Bloomberg. "While we have not yet issued our final notice to proceed, this confirmed investment is indicative of our intent to start pre-construction work this year, and complete this critical low-emission energy project in 2027," Kennedy said in an emailed statement. Woodfibre is licensed to export 2.1 million tonnes a year of LNG from the terminal, which would be constructed at the site of a former pulp mill. BP has signed long-term contracts to take most of the project's output, according to past statements by Woodfibre.