

Oil and Gas News Briefs

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U.S. imported 200,000 barrels a day of Russian crude last year

(The Wall Street Journal; March 3) - The fracking boom made America the world's biggest oil producer a few years ago, but the U.S. still imports millions of barrels each day from other parts of the world, including Russia. In the wake of Russia's invasion of Ukraine, some in Congress have urged the Biden administration to come down swiftly on U.S. imports of Russian crude, going so far as to recommend banning the cargoes.

The U.S. still consumes more oil than it produces, requiring import imports. America gets most of its oil imports from Canada, Mexico and Saudi Arabia. Smaller countries in Latin America and West Africa also typically send more crude to the U.S. than Russia does. About 8% of U.S. imports of oil and refined products, or about 672,000 barrels a day, came from Russia last year, said Andy Lipow, president of Lipow Oil Associates in Houston. Of that, about 200,000 barrels a day came in as crude.

The century-old Jones Act has left buyers on the West and East coasts unable to get enough U.S. crude from the production and transport hub of the Gulf Coast. Refiners along the West Coast in particular lack pipeline connections from the mid-Continent and the Permian, the nation's most productive basin, and must import what they need. Roughly half of the oil that the U.S. imports from Russia goes to the West Coast, where refiners can get Russian crude that is shipped out of the Pacific Ocean port of Kozmino.

The U.S. buys Russian oil in part to feed refineries that need different grades of crude with a higher sulfur content to make fuel at top capacities. U.S. refineries were designed decades ago to use heavier grades of crude, often with higher levels of sulfur, before domestic supplies boomed with lighter shale oil. In recent years, Russian oil has filled some of the supply gap left behind by sanctions on Venezuela and Iran, which crippled the flow of that type of crude from those two countries to U.S. refiners, Lipow said.

Bank says oil prices at mercy of disruption in Russian crude supply

(Bloomberg; March 3) - Brent crude could end the year at \$185 a barrel if Russian supply continues to be disrupted, JPMorgan Chase wrote in a note March 4. Oil prices have skyrocketed, with Brent crude approaching \$120 earlier March 4 as traders shun Russian oil after Moscow invaded Ukraine. Currently, 66% of Russian oil is struggling to find buyers, JP Morgan analysts including Natasha Kaneva said in the note.

In the short term, the scale of the supply shock is so large that oil prices need to reach and stay at \$120 a barrel for months to prompt demand destruction, the analysts said, assuming there will be no immediate return of Iranian crude to market. "As sanctions have widened and the shift to energy security takes on an urgent priority, there will likely be ramifications for Russian oil sales into Europe and the U.S., potentially impacting up to 4.3 million barrels per day," the analysts wrote.

The bank maintained its price forecast, which calls for Brent to average \$110 a barrel in the second quarter, \$100 in the third quarter and \$90 in the fourth quarter. But if Iranian barrels do not return to the market, the bank expects oil prices to average \$115 in the second quarter, \$105 in the third quarter and \$95 by the fourth quarter.

High oil prices could once again lead to oversupply and low prices

(Reuters; March 3) - The surge in oil prices past \$100 a barrel raises a big question: Will this latest spike in the notoriously volatile oil market hasten the global transition from fossil fuels to cleaner energy sources to fight climate change? The answer is probably not. On the one hand, energy analysts say, soaring prices for gasoline, diesel and other products made from crude will drive cost-conscious consumers more quickly into electric vehicles and boost investment in competing clean technologies like hydrogen.

But high prices will also drive more drilling of oil and gas around the globe, as fossil fuel companies rush to cash in, sowing the seeds for the boom to turn to bust. That will make oil abundant and affordable again. That is a pattern that the world has seen repeatedly in the oil age, and one that has punished clean-energy investors in the past. There is another dynamic. For decades oil has been caught in a boom-and-bust cycle: High prices spur investment in drilling which, in turn, leads to lower prices that increase demand for oil. There is little reason to think this time would be any different.

This tendency to meet high prices with increased supply leads to another problem for clean energy: volatility. Rapid swings in prices make it hard for investors to plan and can even kill some alternative-energy projects, said Deborah Gordon, who leads the oil and gas solutions initiative at RMI, a Colorado-based research group on energy innovation and efficiency. "The much bigger risk for the energy transition is volatility," Gordon said. "It's not high prices or low prices, it's this ongoing shift."

Help needed to ease oil market turmoil at its worst since Gulf War

(Bloomberg opinion; March 1) - The global oil market is suffering what's starting to look like the biggest disruption since the 1990-91 Gulf War. A large chunk of Russian crude and refined products exports are not finding buyers and signs point to even more trouble by next week. The price gap between a costly barrel of Brent delivered now and

a less expensive barrel in one year has widened to a record of more than \$23.50 a barrel, surpassing the level after Saddam Hussein invaded Kuwait almost 32 years ago.

The situation calls for emergency measures, akin to those deployed by central banks during the 2008-09 global financial crisis, to overcome the supply shock. One problem is that market participants are simply refusing to deal in Russian oil, even if Western governments allow it within the sanctions they have imposed on Russia for its invasion of Ukraine. The reasons include confusion about what's legally permitted, fears about reputational damage, or moral objections. This will keep maybe 2 million of barrels a day of crude and refined products off the market, creating more problems.

The U.S., Japan and Europe should use diplomatic pressure to convince Saudi Arabia and the United Arab Emirates to increase production well above their current OPEC+ quotas. But so far, Saudi Arabia and the UAE appear to be siding with Russia. If they do so, they will be on the wrong side of history. Meanwhile, a nuclear deal with Iran would help to alleviate the crisis, guaranteeing the return of about 500,000 barrels a day in a relatively short time frame, and an additional 500,000 barrels a day in six months or so. Without an Iran deal, the outlook for the oil market would be even more perilous.

[Saudi crown prince not willing to do a favor to help Biden](#)

(Reuters column; March 3) - Saudi Arabia's crown prince says he simply doesn't care whether President Joe Biden misunderstands him. The prince is instead looking to his oil power to deliver his goals, according to sources familiar with Riyadh's thinking. Importantly, the crown prince wants recognition from the president that he's the real ruler of the kingdom and he wants a stronger hand in the costly Yemen war.

Those are the reasons why Crown Prince Mohammed bin Salman is resisting U.S. pressure to pump more crude to lower the price of oil that has surged since Russia attacked Ukraine, besides keeping Riyadh's oil-production pact with Moscow alive, the sources said. "The Saudis have demands too, before they meet any of the U.S. requests. The Yemen file and the recognition of the crown prince as the de facto ruler are on top of these," one of the sources familiar with Saudi government thinking said.

Traditionally strong ties between Riyadh and Washington were shaken when Biden released a U.S. intelligence report implicating Prince Mohammed in the 2018 murder of journalist Jamal Khashoggi and ended U.S. support for offensive operations in Riyadh's war against Iran-aligned Houthis in Yemen. So far, Biden has refused to speak to Prince Mohammed directly, saying 86-year-old King Salman is his counterpart, even though the young prince effectively runs the kingdom.

"The feedback that we got from the Saudis is that they see the OPEC+ agreement with Russia as a long-term commitment and they are not ready yet to endanger that cooperation," said a Western diplomat in Riyadh. "They are trying to stay neutral."

Shell buys cargo of Russian crude at steep discount

(The Wall Street Journal; March 4) - Shell has snapped up a cargo of Russian crude at a bargain price, ending a self-imposed embargo on Russian oil by the international energy industry. Shell bought about 725,000 barrels of Russia's flagship Urals crude on March 4, according to people familiar with the transaction. It paid \$28.50 a barrel below the price of international benchmark Brent crude, the widest discount on record.

Shell bought the crude from Trafigura, one of the biggest commodity traders and largest exporters of Russian oil. Trafigura had failed to sell the cargo before drawing a bid from Shell after dropping the price to a massive discount. As Western oil and gas companies this week raced to distance themselves from Russia in the wake of the invasion of Ukraine, Shell said it would exit its joint ventures with Russian energy giant Gazprom. A person familiar with the company's trading strategy said Shell was still buying Russian oil to plug into refiners and petrochemical plants while it looks for alternative sources.

The U.S. and its allies left energy out of the sanctions imposed on Moscow in response to the invasion. However, many refiners went further, shunning Russian crude as they struggled to get funding and ships to carry the oil. Self-sanctioning has taken a chunk out of global supplies, pushing prices for benchmark Brent up to \$113.80 a barrel.

Shell will donate profits from Russian oil purchase to Ukrainian aid

(Reuters; March 5) - Shell will put profits from any Russian oil it purchases into a fund that will go toward humanitarian aid to Ukraine, the company said on March 5. Shell on March 4 bought a cargo of Russian crude oil at a record low discount, the first such trade since Russia invaded Ukraine last week. The deal, which did not violate Western sanctions on Moscow, was criticized by Ukraine's Foreign Minister Dmytro Kuleba.

In a statement published shortly afterward, Shell defended the purchase and said it would choose alternatives to Russian oil wherever possible, but this could not happen overnight because of how significant Russia is to global supply. It added: "We didn't take this decision lightly and we understand the strength of feeling around it." Shell said it would give any profits from the limited amount of Russian oil it has to purchase to a dedicated fund, and together with aid agencies would determine where those funds would best be used to help alleviate hardships suffered by the people of Ukraine.

German government helps energy companies build LNG terminal

(Bloomberg; March 5) - Germany is partnering with Nederlandse Gasunie and RWE to build a liquefied natural gas terminal in the country as Europe's biggest economy tries to wean itself off Russian energy imports. The country's state-owned KfW bank has signed

a memorandum of understanding with the two energy firms to build an LNG terminal in the northern port city of Brunsbuettel, the German economy ministry said March 5. Gasunie will operate the facility, and the German government will own half of it via KfW.

“It’s necessary to reduce dependence on Russian imports as soon as possible,” Economy Minister Robert Habeck said in an emailed statement. The move signals that Europe sees the invasion of Ukraine as a turning point and wants to finally address its longstanding addiction to Russian energy. Germany relies on the country for more than half its gas, and a decision to phase out nuclear power before enough renewable capacity has been built to replace it has left the country particularly vulnerable.

German Chancellor Olaf Scholz vowed last month to expand the country’s LNG infrastructure, just days after shelving a \$11 billion pipeline project to bring Russian gas to Europe. Berlin is also bolstering gas and coal storage, and pushing for a faster rollout of renewables. The Brunsbuettel terminal will have an average daily regasification capacity of about 780 million cubic feet of natural gas. The goal is to set up the terminal as “quickly as possible,” according to the Economy Ministry’s statement.

Japan not ready to exit oil and gas deals with Russia

(The Wall Street Journal; March 4) - The Japanese government and the nation’s companies are sticking with their Russian energy deals, defying a pullout led by Western companies. Shutting off the flow of billions of dollars to Russia for oil and gas would be one of the biggest steps Tokyo could take to hurt Moscow. But officials say it could raise prices for consumers and increase Japan’s dependence on the Mideast.

Tokyo has sanctioned some Russian banks and President Vladimir Putin, while offering \$100 million in aid to Ukraine. But when asked if Tokyo would withdraw its investments in Russian government-led oil and gas projects, Prime Minister Fumio Kishida said: “A stable supply of energy ... (is) a part of the national interest that we have to protect to the maximum extent possible.” He said Japan would wait to see what other nations do. Even the U.S., while imposing heavy sanctions on Moscow, still permits some business dealings with Russian government-controlled energy companies.

The centerpiece of Japan-Russia energy cooperation is a pair of projects on the Russian Far East island of Sakhalin. Sakhalin-1 produces oil, at about 220,000 barrels a day. Shareholders include Rosneft and a Japanese government-led consortium with a 30% stake. Sakhalin-2 produces liquefied natural gas and Japan buys about 60% of the output. The project is led by Gazprom. Japan’s Mitsui owns 12.5% and Mitsubishi owns 10%. Several other Russian energy projects have received investments or loans from Japanese entities. Japanese engineering firms are also frequently involved.

Japan starts looking at how it could replace Russian LNG

(Nikkei Asia; March 4) - Expecting Moscow's invasion of Ukraine to disrupt global energy supplies, Japanese utilities and trading companies are seeking alternative ways to procure liquefied natural gas to make up for an interruption in shipments from Russia. Japan, the world's second-biggest LNG buyer after China, imported 74.5 million tonnes in 2020, with about 8.2% coming from Russia, data from the domestic Agency for Natural Resources and Energy shows. Russia was the fourth-largest supplier to Japan.

But finding another source is difficult because Japanese utilities procure LNG under long-term contracts. Hiroshima Gas buys 400,000 tonnes annually, with half the LNG purchases coming from Russia under long-term deals. Russia provides about 10% of supply for Tohoku Electric, Tokyo Gas and JERA, a joint venture between Tokyo Electric and Chubu Electric. The spot market is one alternative. But supply could become tight depending on weather-related demand and changes in LNG output, so relying on spot transactions for a big chunk of procurement is impractical.

Japanese buyers often trade some of their LNG to other countries, but now look to keep this portion in the country. Leading gas utilities such as JERA and Tokyo Gas along with trading companies, sell abroad a combined 10 million tonnes of their yearly purchases — a figure that exceeds their imports from Russia. "If we give priority to Japan, it's not impossible to replace part of Russian LNG," said an electric utility official.

Western banking sanctions could affect Russia's Arctic LNG-2

(The Barents Observer; Norway; March 3) - Following Western sanctions against Russian banks, Novatek might have to put development of the Arctic LNG-2 project on hold. Financial institutions Sberbank, Gazprombank, Bank GPB International, VEB and Otkritie were to provide a total of \$5 billion in project financing. That money will not come any time soon. The U.S. and U.K. this week decided to cut off Sberbank from their financial systems, including dollar and pound transactions, and the EU has introduced a SWIFT ban on seven Russian banks — among them Otkritie and VEB.

Novatek is fully dependent on investments and technology from its foreign partners, and the company might now ultimately have to halt development of Arctic LNG-2, its second Siberian liquefied gas export project that would deliver 19.8 million tonnes of LNG per year to world markets. The first phase of the project was to be ready by late 2023. That time schedule is now up in the air if financing is stalled or delayed.

In addition, Novatek is unlikely to get ready the fleet of 15 Arctic carriers that it needs to shuttle between the LNG plant and markets in Asia and Europe. After South Korea imposed sanctions on VEB, the Zvezda Yard in Vladivostok is unlikely to be able to build the ships, the Russian newspaper Kommersant reported. South Korea's Samsung Heavy Industries is key partner in the shipbuilding. And there is also growing uncertainty

about Total's partnership with Novatek. The French company owns 20% of Yamal LNG and 10% of Arctic LNG-2. But Total might now seek a way out. This week it said that Russia's war in Ukraine has made it impossible to continue cooperation as before.

Proposed Nova Scotia LNG may be reborn as floating project

(CBC News; Canada; March 3) - The company that abandoned plans for a land-based liquefied natural gas export facility in Nova Scotia is looking at an alternative option amid demands in Europe for gas from sources other than Russia. Last summer, the CEO of Calgary-based Pieridae Energy said a proposed C\$13 billion LNG project in Goldboro, N.S., would not proceed due to costs and problems getting financing. The board has since turned its attention to a floating LNG facility as an alternative.

Pieridae spokesperson James Millar said the company favors leasing a liquefaction vessel as opposed to owning one. In January, as tensions increased around Ukraine, Millar said the company started getting calls about the status of the project and how quickly it could be ready. Those inquiries have since "ramped up significantly," he said. The land-based project fell through in part because the federal government would not provide an investment of almost \$1 billion. Millar said the company still requires a financial partner, but Pieridae is focusing on the private sector to find that support.

The scope of a project using a floating barge would be substantially different from the original concept. The liquefaction plant would be built offsite and brought to its working location. Gas would be liquefied onboard the floating facility and transferred to tankers that would come alongside. The barge would handle about 400 million cubic feet of gas each day, about half of what the land-based site would have processed, Millar said.

Canada has itself to blame for missing LNG export opportunity

(Financial Post opinion column; Canada; March 4) - Europe is currently suffering its worst energy crisis since the 1970s. European natural gas prices have risen more than 600% over the past year, including 30% since Russia invaded Ukraine. While the U.S., Australia and other countries have already started to boost shipments of liquefied natural gas to Europe, Canada remains on the sidelines. Despite being the world's fifth-largest producer of gas, we have missed the chance to supply LNG to overseas markets.

Our problem is a lack of export infrastructure. The reason for that is regulatory barriers and environmental activism. In January, in response to high energy prices, the U.S. exported a record amount of LNG to Europe and became the world's largest exporter for two months in a row. According to the U.S. Energy Information Administration, by the

end of this year the U.S. will have the world's largest LNG export capacity. Exports have become an engine of economic growth and a tool to achieve U.S. foreign policy goals.

Despite Canada's world-class reserves, producers have not stepped up to export gas to Europe. The answer is simple but astonishing: Though it produces 16.1 billion cubic feet of gas a day — 5% of the world's total — Canada doesn't have LNG export facilities. Though 18 projects have been proposed since 2011, only one is under construction in British Columbia. Between 2014-2020, the U.S. built seven export facilities and approved 20 more. The culprit? Canada's arduous regulatory system and fierce opposition from interest groups have led to the cancellation of several LNG projects.

Agency forecasts U.S. will export 35% of increased gas production

(Natural Gas Intelligence; March 4) - Even with growth in renewables, natural gas and petroleum are expected to supply most of the energy consumed in the United States through 2050, according to updated long-term forecasting from the Energy Information Administration. In its Annual Energy Outlook 2022 report, published March 3, the agency said renewables would represent the fastest-growing U.S. energy source in all of the scenarios considered.

“We project that consumption of natural gas will keep growing as well, maintaining the second-largest market share overall” behind petroleum and other liquids, researchers said, referring to total U.S. energy consumption by fuel. In the reference case baseline scenario, EIA expects the largest share of gas demand from the industrial sector by the early 2020s. That would be the result of increased gas use as a chemicals feedstock and “increased heat-and-power consumption across multiple industries.”

Amid growing demand for exports as well as industrial uses, the reference case predicted rising gas production through 2050, with “more than 35% of gross additions” exported. Increased liquefied natural gas capacity and growing global consumption are expected to drive higher U.S. exports. “Beyond 2025, we project that gas production will ramp up to meet growing export demand, the majority of which will be LNG,” the report said. “Therefore, additional LNG export facilities will be economical to build.”

London landlord decides to kick out Gazprom offices

(Bloomberg; March 3) – Gazprom's energy-trading arm is being kicked out of its central London offices in the wake of Russia's invasion of Ukraine, piling more pressure on the company that's already being shunned by many U.K. trading partners and scrutinized by the government. British Land Co. plans to end its rental contract for Gazprom Marketing & Trading's offices as soon as possible, the landlord said in an emailed statement to Bloomberg News on March 2. The lease was scheduled to end in 2025.

“This is a fast-moving, complex situation, and we will continue to review all measures that are available to us, while remaining fully compliant with sanctions requirements,” British Land said. Gazprom is one of British Land’s top 10 clients by rents paid for office properties, according to a company filing last year. The trading unit of the state-controlled Russian energy giant currently occupies the top floors of the building at 20 Triton St., across from a park bordered by rows of houses owned by rich Russians.

The Gazprom unit trades gas, power and emissions in the European market and supplied more than a fifth of the U.K.’s industrial and commercial gas in 2020. Gazprom M&T has more than 450 employees in London, and the building’s location allows it to form “excellent relationships” with major energy players throughout Europe, according to the company’s website. The firm, which is wholly owned by a German subsidiary of Gazprom, opened its first office in London in 1999 with two workers.