Oil and Gas News Briefs
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More Russian oil tankers sail without reported destinations

(Nikkei Asia; May 12) - Nearly a third of the oil tankers operated by Russia's largest maritime transport company have been sailing without reported destinations at times since the invasion of Ukraine, in what analysts say shows the difficulty of enforcing Western sanctions on Moscow's energy exports. State-run Sovcomflot lacked destination information for up to 24 of its 76 tankers at the same time in March and April, shows a Nikkei analysis of public data provided by MarineTraffic.

This is nearly five times its peak number of ships with unknown destinations in the past year and far higher than competing shippers, which peaked at 10% or so at most over the same period. The tightening sanctions net has made it harder for Russian vessels to find friendly ports of call. But it has also put Russian crude at a deep discount to international benchmarks, making it attractive to big energy buyers.

In one case, a tanker off the Scottish coast that had been set to dock in Orkney abruptly changed course when the U.K. banned Russian vessels from its ports, effective March 1. The ship headed to Denmark but did not unload. After nearly a month of loitering at sea, it switched its destination to "awaiting orders" for over two weeks before heading to India in late April. With Urals crude now around 30% cheaper than benchmark Brent crude, demand for Russian oil is relatively high. Exports to China and India jumped 15% and 22% on the month by barrels per day, respectively, as of April 24.

Western pressure cut Russian oil output by 9% in April; more to come

(The Wall Street Journal; May 12) - Western pressure on Russia over the invasion of Ukraine lowered the country's crude oil output by 9% in April and reshaped the global oil market as Russia sought new buyers for its production outside the West, the International Energy Agency said. Russia's lost supplies amounted to 900,000 barrels a day in April and are expected to grow by a further 600,000 barrels a day this month — totaling around 1.5% of the world's oil output when the invasion began.

An oil embargo being considered by the European Union, the biggest destination for Russian crude, would likely push those losses to as much as 3 million barrels a day by July, bringing Russian output to its lowest level in nearly two decades, the IEA said in its monthly report May 12. The West's response to Russia has scrambled the market and hit Russia hard. European energy buyers have turned away from Russian diesel and other refined products, forcing Russian refineries to cut output and purchases of crude.

India and Turkey have become big buyers of Russian crude. But it hasn't been enough to offset the drop in Russia's domestic demand for crude and the end of exports to the U.S. and the U.K., which have imposed sanctions on Russian oil. "I think this is not a story that gets better for Russia. It is going to get worse," said Rebecca Babin, a senior energy trader at CIBC Private Wealth. Europe's decision to cut purchases of Russian petroleum products poses a bigger challenge for the country's oil industry, said Toril Bosoni, head of IEA's oil markets division. "The Russians are struggling to find buyers."

IEA says slowing demand growth helps make up for less Russian oil

(Reuters; May 13) - The world will not be left short of oil even with lower output from sanctions-hit Russia, the International Energy Agency said on May 12, after it cut its predictions for supply losses from the world's No. 2 exporter for the second straight month. The IEA is now forecasting that about 1 million barrels per day was lost in April, compared to 1.5 million predicted last month. However, the IEA sees the volume of lost Russian crude rising to 1.6 million barrels per day in May, then 2 million in June and to nearly 3 million from July onward if sanctions deter further buying or expand.

Production ramping up elsewhere and slower demand growth due to China's COVID-19 lockdowns will forestall a bigger deficit, the IEA said. "Over time, steadily rising volumes from Middle East OPEC+ and the U.S., along with a slowdown in demand growth, is expected to fend off an acute supply deficit amid a worsening Russian supply disruption," the IEA said in its monthly report. The assessment suggests the economic impact from further sanctions on Russia mulled by the European Union could be limited.

"Soaring pump prices and slowing economic growth are expected to significantly curb the demand recovery through the remainder of the year and into 2023," the IEA said, adding that curbs aimed at containing COVID-19 in China were driving an extended economic slowdown there. Russian exports rebounded in April as supply was rerouted away from the United States and Europe, primarily to India.

West African nations helping to replace Russian crude in Europe

(Bloomberg; May 12) - The OPEC nations that have stepped up to replace Russian oil flows to Europe aren't the giants of the Middle East. Instead, some of the group's minor players are helping to fill the gap. Within the cartel, West African producers are showing the biggest uptick in shipments to European ports, where refiners are snubbing Russian supplies following the invasion of Ukraine.

Meanwhile, Saudi Arabia and the United Arab Emirates — two of the biggest producers in the Organization of the Petroleum Exporting Countries — have largely refrained from additional shipments to Europe, despite their abundant spare production capacity.

Average shipments of West African crude to Europe reached 1.23 million barrels a day in March and April, up by 40% from the same period last year and the highest level since February 2020, according to tanker-tracking data compiled by Bloomberg.

That jump comes despite Nigeria and Angola, the region's main producers, struggling to increase production as they wrestle with diminished capacity, reduced investment and operational outages. With output under strain, the increase in sales to Europe has come at the expense of a 20% drop in the region's traffic to Asia. If the European Union goes ahead with plans for a full ban on Russian oil, the African nations may not have much more to give. That could present OPEC's heavyweights — apparently unwilling to reach into Moscow's European customer base — with an opportunity too tempting to resist.

Economists warn loss of Russian gas could tip Germany to recession

(Bloomberg; May 14) - If the worst-case scenario for Germany hits, BMW, Mercedes-Benz and Volkswagen would struggle to paint their cars and the air across the country would get dirtier from more coal. Europe's largest economy is bracing for the prospect that Russian gas is cut off suddenly, a shock that would trigger a form of martial law for energy and affect 80 million people and businesses from bakers to chemical producers.

Auto factories may be forced to switch to more expensive propane or butane to generate the steam and heat for paint shops. Utilities will likely generate more electricity from lignite — an even dirtier form of coal that's dug up by giant excavators in open-pit mines from Dusseldorf to the Polish border. Economists have forecast the damage at 220 billion euros ($230 billion), more than enough to tip the country into recession.

That possibility moved a step closer this week after Moscow curbed gas deliveries to Germany. While the action was a mere warning — hitting about 3% of the country's Russian gas imports, or roughly 1% of overall supplies — the Kremlin showed it's prepared to squeeze its largest customer in the back-and-forth economic retaliation over the war in Ukraine. European gas prices jumped 22% on May 14 on the supply jitters.

Gas is a crucial part of Germany's energy mix and harder to replace than Russian coal and oil, which are being phased out by the end of the year. Some 15% of the nation's electricity is generated from gas, as it winds down its use of coal and nuclear power. It is critical for heating homes and for industrial uses in the chemicals, pharmaceuticals and metals sectors. It's also widely used in the ovens of bakers and for making glass.

Russia's largest LNG producer having trouble selling its gas

(High North News; May 13) – Russia's largest producer of LNG, Novatek, is struggling to find customers for its liquefied natural gas in Europe as fallout from Russia's invasion continues to ripple through the energy sector. Traditionally, the company ships its LNG from the Arctic to Europe during winter and spring, while shifting some of its deliveries to Asia during the ice-free summer months. Novatek's Yamal LNG plant located in the Russian Arctic, began operation in 2017. The company has since become the country's largest exporter of LNG and a key supplier of natural gas to Europe.

Vessel tracking data shows that two-thirds of Novatek's fleet of specialized ice-capable LNG carriers currently sits idle and is not carrying product to Europe. Out of 15 Arc7 LNG carriers, only three are currently on route to Europe, while two vessels are returning to Sabetta, the site of Novatek's Yamal LNG plant. In addition, 10 ships are reportedly "for hire" across the North, Barents and Kara seas without destination.

Sailing without reporting a destination can also be used in an effort to circumvent sanctions, so some vessels may still be heading for Europe. Meanwhile, the company's trading desk in Switzerland is struggling to find traders and customers for its LNG and may be forced to temporarily suspend operations, Bloomberg reports. Since the middle of April, deliveries have slowed significantly as a result of clients and gas traders severing business ties and avoiding purchasing LNG from Novatek.

Europe refilling gas storage, but paying billions more than last year

(Reuters; May 13) - Europe has begun refilling depleted gas storage sites to shore up supply for the winter and guard against possible disruptions in flows from Russia, but a sky-high market means the move could cost some 40 billion euros ($41.6 billion) more than at last year's prices. Russia's invasion of Ukraine has put a huge question mark over stability of supply for economies and consumers in the region with benchmark prices almost 300% higher compared with a year ago.

Russia typically provides about 40% of the European Union's gas, but is now retaliating against Europe's sanctions — starting to curb supply and making it harder for member states to fill storage sites. "Winter will be difficult without Russian gas. The key is to fill up storages over the summer as much as possible," Guy Smith, director of natural gas trading and LNG at Vattenfall, told Reuters. The European Commission said immediate supply emergencies would take priority over refilling storage.

Gas held in storage typically accounts for around a quarter of the fuel used in Europe during winter, when demand is high. By May 10 Europe's gas stocks were almost 38% full, up from 26% on March 21, data from Gas Infrastructure Europe showed. The European Commission has called on gas storage operators to fill sites to at least 80% by Nov. 1. In the past, typically gas prices have been cheaper in the summer than those expected in the winter, providing an incentive to store gas when demand is low.

Analysts expect LNG developer to build second Louisiana terminal

(Reuters; May 12) - Two long-term supply deals struck this week by developer Venture Global LNG has put its second Louisiana liquefied natural gas export facility on the verge of construction and financing approval, analysts said. Supply deals — with ExxonMobil and Malaysia's state oil and gas firm Petronas — have raised the amount of secured contracts to 80% of the plant's projected 20 million tonnes annual capacity, a milestone that often triggers the major commitment known as final investment decision.

"Eighty percent is a good number for Venture Global to authorize FID," said Ben Chu, head of trading analytics and proprietary data for natural gas at consultants Wood Mackenzie. The company took FID on its first plant at about the same share, he said. A Venture Global spokesperson declined to comment. In March, the company said FID for Plaquemines LNG would come "soon." The Petronas and Exxon contracts follow agreements with China Petroleum & Chemical, Shell and New Fortress Energy.

Early work on the Plaquemines plant, located about 20 miles south of New Orleans, began last year. Venture Global LNG targets first export from the terminal by the end of 2024, according to a federal filing. Venture Global plants are designed with modular liquefaction units prebuilt in factories and put together onsite to expedite construction and reduce costs. It has proposed four LNG facilities in Louisiana. It's first, Calcasieu Pass, in Louisiana, started production in January.

U.S. LNG producers, pipeline companies see strong growth potential

(S&P Global Platts; May 12) - Expectations are building among U.S. oil and gas executives that the European gas crisis will accelerate the next supercycle of LNG export projects, supporting their companies' growth ambitions. The companies during the most recent earnings reporting season highlighted a flood of commercial deals for U.S. LNG in recent months as supporting the build-out of new production capacity, especially as demand in Europe surges following Russia's invasion of Ukraine

In addition, natural gas pipeline developers described new growth opportunities, while gas producers touted their exposure to the international LNG market. Many throughout the supply chain expressed optimism that a shift in sentiment toward the sector could ease permitting for new projects, in addition to LNG buyers signing long-term contracts after shunning them in recent years. "The demise of the 20-year contract was greatly exaggerated, and you have seen that in the last few quarters," Anatol Feygin, chief commercial officer at the largest U.S. LNG producer, Cheniere Energy, said May 4.

Pipeline giant Kinder Morgan, which moves about half the gas delivered to U.S. LNG export terminals, expects growing demand for more LNG capacity to drive investment in other midstream expansions, Executive Chairman Richard Kinder said in an earnings call April 20. "LNG is on everybody's mind these days," Chevron CEO Michael Wirth told investors last month. "It's important [in] meeting Europe's needs. It's important [in] delivering a lower carbon energy system globally."

[Former B.C. premier blames lack of LNG projects on overregulation]

(Vancouver Sun; May 12) - Concerns about energy security prompted by Russia's attack on Ukraine helped reignite discussions about British Columbia's prospects for liquefied natural gas exports at the industry's first major convention in Vancouver since 2019. But the province's only LNG plant under construction, the Shell-led LNG Canada project in Kitimat, will not begin production until 2025, and no other developers have taken a positive investment decision on an LNG export terminal.

Some 500 delegates gathered at the three-day event that wrapped up May 12, with former Premier Christy Clark's warning that Australia's more-developed industry is making gains in Pacific markets for LNG while British Columbia is still building. Clark, now an adviser to law firm Bennett Jones, told a panel that the province is losing ground due to "government overregulation." Clark won a come-from-behind election in 2013 on the promise that the province's LNG windfall could wipe out B.C.'s debt, at a time when up to 19 export proposals were on the books. Only the one has gone ahead.

"That is the main issue," analyst Omar Mawaji said about the difficulties building new pipelines in Canada. "If you look at every single LNG project off the coast of B.C., and some of them off the eastern coast, the pipeline issue is always going to be a problem," said Mawaji, an energy finance analyst at the independent Institute for Energy Economics and Financial Analysis. The U.S. "is just better positioned for LNG exports, because they have existing infrastructure (pipelines)," Mawji said.

[Japan's largest power company says it could replace Russian LNG]

(S&P Global Platts; May 12) - Japan's largest power generation company, JERA, considers Russian LNG imports replaceable should delivery difficulties arise, as they represent less than 10% of its total procurement volume of about 30 million tonnes per year, JERA President Satoshi Onoda said May 12. "In the event of losing Russian LNG [supply], we believe, we will be able to procure the volume … via alternative procurements," Onoda told an online press conference.

JERA, which does not procure spot LNG from Russia, has initiated internal discussions on what to do with its Russian LNG term contracts, although it does not currently see any issue for taking delivery of the term supplies, he said. Onoda's remarks come as pressure mounts on energy imports from Russia following its invasion of Ukraine.

JERA, which procured a record-high 4.5 million tonnes of spot LNG in fiscal year 2021-22 (April-March), expects to see a similar situation in FY 2022-23, with the company already securing a "very large volume" of spot LNG, albeit not reaching the record, Onoda said. JERA is 50-50 joint venture between Tokyo Electric and Chubu Electric.

Japan and EU agree to work on diversification from Russian energy

(S&P Global Platts; May 12) - Japan and the European Union agreed on May 12 to cooperate and help each other's security of LNG supply, while working together to reduce Europe's dependency on Russian energy supply by ensuring diversification through investments. "We will cooperate to keep global energy markets stable and help ensure each other's security of supply, in particular for the supply of LNG," Japan and the EU said in a joint statement following a summit meeting in Tokyo earlier in the day.

The latest move comes after Japan said Feb. 9 it would divert some surplus LNG cargoes to Europe, where there were gas shortages, following requests from the EU and the U.S. The EU has pledged to phase out all Russian fossil fuel imports by 2027, with a total ban on Russian coal imports set to take effect in August this year. The EU has also proposed to phase out oil and oil product imports by the end of 2022.

Nuclear reactor manufacturer calls for comeback in Japan

(Financial Times; London; May 15) - Russia's war in Ukraine has created the "best opportunity" for Japan's nuclear industry to stage a comeback since the Fukushima disaster in 2011, according to the country's largest reactor maker. Akihiko Kato, nuclear division head at Mitsubishi Heavy Industries, said in an interview with the Financial Times that nuclear energy is a geopolitically safer alternative to Russian energy.

"It may be challenging to import fuel from Russia in the future. People are realizing that as long as we import fuel from overseas, there will always be fear of instability," Kato said. "Many have changed their views on nuclear power, which is a stable and a domestic source of energy." Japan's heavy reliance on Russian gas imports has rekindled the debate over nuclear power in the country more than a decade after regulators took most plants offline following one of the worst nuclear disasters in history.

Kato's remarks underscore the shift in the country's nuclear discourse by an industry emboldened to speak out. About one-third of Japan's energy came from 54 nuclear reactors before the Fukushima disaster. Only four are now operational and 10 more are approved for restart. "Japan desperately needs to improve its energy self-sufficiency," said Tom O'Sullivan, at Mathyos, a Tokyo-based energy consultancy. "Nuclear power stations are a sunk cost and have been an underexploited asset since 2011."

India wants to renew LNG contract with Qatar; hopes for lower price

(Reuters; May 12) - India's Petronet LNG has begun talks with Qatar to renew a multiyear gas deal despite market "turbulence" making new long-term contracts difficult as sanctions on Russian gas have squeezed an already tight market. India's top gas importer has until the end of 2023 to renew its long-term liquefied natural gas deal with Qatar Gas to go beyond its 2028 expiration, its head of finance Vinod Kumar Mishra said on a call with financial analysts. The contract is for 8.5 million tonnes a year.

He said it was not a "perfect environment" to initiate new long-term deals, as the market was tight and European companies were aggressively scouting for new contracts to cut dependence on Russia after Moscow's invasion of Ukraine. Qatar is already in talks with Germany for long-term gas supplies, helping Europe's biggest economy cut its dependence on Russian energy sources.

Petronet, however, hopes Qatar would lower prices for India, mirroring contracts signed with Bangladesh, Pakistan and China, where prices per million Btu of gas are pegged to 10.2% of the price of a barrel of Brent crude. In contrast, India's older LNG deal with Qatar is based on 12.67% of Brent, plus $0.52 per million Btu. At $100 a barrel, that comes to $13.19 per million Btu, which is far below current spot-market prices. Mishra said Petronet LNG would buy more gas if Qatar offered favorable pricing terms.

Crew and equipment shortages hold back Canadian producers

(Calgary Herald columnist; May 14) - It’s taken a while to get here, but Canadian conventional oil and gas producers are spending more money as commodity prices climb. Some of the increase is due to inflation and costs rising by 10% to 15%. Some is directed toward more drilling activity and modest production increases. However, challenges stand in the way of more capital expenditures and activity in the field: a lack of equipment — and staff — in the oil field services industry to make it happen easily.

“The incentive is definitely there to put as much capital to work in the ground as we can,” Peyto Exploration & Development CEO Darren Gee said on an first-quarter earnings call May 12. “The challenge … is we are kind of at the limit of the people and the equipment and the amount that we can go and do. The industry, though, is kind of tapped out.” With today’s high prices, Peyto is seeing some new wells pay out within three to six months, but prices remain volatile and there are limitations on what additional work can be done due to labor shortages, Gee said in an interview.

Headwater Exploration president Jason Jaskela said the company has the ability and places to invest more capital. However, he noted supply chain issues, inflation and labor shortages are challenging the entire industry in North America. “If tomorrow we wanted to go out and add 10 rigs, it’s not happening. For us, we’re looking to add an incremental rig … so it’s quite manageable and allows us to grow,” Jaskela said.

Namibia starts up sovereign wealth fund for future oil revenues

(Reuters; May 12) - Namibia has launched a sovereign wealth fund, months after oil discoveries by energy giants TotalEnergies and Shell off its coast. At the launch in the capital Windhoek on May 13, President Hage Geingob said the Welwitschia Fund would receive an initial injection of 262 million Namibian dollars ($16.3 million) and invest 2.5% of its portfolio locally to bridge the country's infrastructure financing gap.

The fund will collect some of the royalties from all mineral resources sold as well as some tax revenues and money raised by the government divesting from its investment holdings. "We are looking forward to the prospects and opportunities that will emanate from the recent discoveries of oil and the green hydrogen energy, which have the potential to further boost the fund's capital," Geingob said. Other resource-rich African countries with sovereign funds include Angola, Botswana, Libya, and Nigeria.

In February, TotalEnergies said its Venus prospect offshore in Namibia had found a good quality reservoir, which one source told Reuters held more than one billion barrels of oil equivalent. It was the second major discovery in a month after Shell also announced a significant find. Known for its gem-quality diamonds, gold and uranium, Namibia has considered creating a sovereign fund since 2009.