Oil and Gas News Briefs
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China's LNG imports on track to drop as much as 19% this year

(Reuters; May 26) - China's imports of liquefied natural gas are on track this year to post their first major decline in 16 years, as high prices and weak manufacturing due to COVID-19 lockdowns crimp demand for the fuel. China became the world's top LNG buyer last year but surrendered the top spot back to Japan in the first four months of 2022 as imports sank 18% from a year earlier, Refinitiv data shows.

Gas use has fallen further in May as a COVID resurgence caused extended lockdowns across manufacturing hubs, portending a potentially steep drop for the year, sources told Reuters. Even for shipments arriving in July, industrial consumers are not placing orders, a Chinese trader said. LNG imports will likely fall as much as 19% this year in what would be the first sizable drop since China began importing the gas in 2006, according to S&P Global Commodity Insights, Wood Mackenzie and SIA Energy. China's only full-year fall in LNG imports was a 1% decline in 2015.

Li Ruipeng, a gas retailer in the northern industrial city of Tangshan, said his clients — natural gas refueling stations, steel mills and zinc-coating plants — are buying half the volume of a year ago. "Business is terrible," said Li, who owns a 10-trailer fleet to distribute the fuel. "High prices are another killer as many of my clients can't possibly pass on the cost when their business orders shrink."

U.S. LNG developer expects decision on second phase by year's end

(Reuters; May 26) - Venture Global LNG's chief executive said on May 26 that he expects the company will make a final investment decision to build the second phase of the Plaquemines LNG export plant in Louisiana before the end of the year. "We have (the second phase) largely sold out already," Michael Sabel said, noting the company was already doing a "decent amount" of work on Phase 2 as part of first-phase construction at the project site.

Venture Global made a final investment decision on May 25 to build the first phase at Plaquemines, the first U.S. LNG project to reach financial close since the company's Calcasieu Pass in Louisiana in 2019. The FID came as LNG prices around the world have soared to meet growing demand in Asia and as European countries seek more fuel to help break dependence on Russian gas after Moscow's invasion of Ukraine.

Venture Global started early site work on Plaquemines, about 20 miles south of New Orleans, in 2021, and plans to start production by the end of 2024. It said it has 20-year agreements to sell about 80% of the full Plaquemines project, which will total 20 million tonnes per year output capacity. Customers signed up to take LNG from the first phase include units of China National Offshore Oil Corp. (CNOOC), China Petroleum and Chemical Corp. (Sinopec), Shell, Polish Oil and Gas and Electricite de France.

Europe’s rush to buy LNG could hurt poorer nations in Asia

(CNN Business; May 30) - Europe's scramble to find alternatives to Russia's natural gas is pushing the world to the brink of a winter energy shortage, with the worst effects likely to be felt in poorer economies in Asia. Since Russia invaded Ukraine, the European Union has tried to reduce its reliance on Moscow for energy. EU countries have been racing to buy more liquefied natural gas as an alternative to Russian pipeline gas because it can be shipped on tankers. It's also a cleaner fuel than coal or oil.

But if the bloc manages to "sharply reduce" its reliance on Russian gas — it's planning to slash its purchases by two-thirds by the end of this year — global demand for LNG will outstrip supply by 26 million tons by the end of 2022, according to an analysis by consultancy Rystad Energy. That equates to nearly 7% of global LNG demand last year. "By shunning Russian gas, Europe has destabilized the entire global LNG market that began the year with a precarious balance after a tumultuous 2021," the report said.

Europe has snapped up supplies of LNG at breakneck speed in recent months. But some buyers in Asia will find it hard to compete with richer economies in Europe and could be priced out of the market, said Ruth Liao, editor for LNG Americas. “Next winter remains a major risk in terms of how LNG supply can balance competing demand between Europe and Asia," she said. Rystad said countries such as India, Pakistan and Bangladesh are most likely to take the hit as LNG is diverted to Europe.

Oil up 85% over a year ago, but natural gas up 200%

(The Canadian Press; May 27) - The rising price of oil may grab most of the headlines, but another commodity — natural gas — is on an even wilder ride and expected to hit fresh highs this summer. The war in Ukraine and resulting concerns about global energy security have driven up commodity prices worldwide. But while the price of oil is up about 85% year-over-year, natural gas is up more than 200%.

As of mid-day May 27, the U.S. gas benchmark Henry Hub price was trading around $8.75 per million Btu. It surged to a 14-year high of more than $9 earlier in the week, from less than $3 at this time last year. "It's like if oil went to $200 (per barrel), but it's not getting the same kind of attention," said Dulles Wang, a Wood Mackenzie analyst in Calgary. "And I think there's probably still more upside potential for natural gas prices."

Driving the high prices are surging liquefied natural gas exports from the U.S. Gulf Coast, aimed at helping to meet global demand for energy, along with low North American storage levels. Part of the reason for the low inventory levels, said Robert Fitzmartyn, managing director and head of energy research at Stifel FirstEnergy in Calgary, is increased demand as regions such as Alberta phase out coal-fired power and replace it with gas. The industry, which had gone through more than a decade of depressed prices, had to lay off many workers and is having a hard time keeping up.

European leaders agree on partial ban of Russian oil

(Bloomberg; May 30) - European Union leaders have agreed to pursue a partial ban on Russian oil, paving the way for a sixth package of sanctions to punish Russia and its president, Vladimir Putin, for the invasion of Ukraine. The sanctions would forbid the purchase of crude oil and petroleum products from Russia delivered to member states by sea but would include a temporary exemption for pipeline crude deliveries, European Council President Charles Michel said late May 30 during a summit in Brussels.

“This immediately covers more than two-thirds of oil imports from Russia, cutting a huge source of financing for its war machine,” Michel said in a tweet. Officials and diplomats still have to agree on the technical details and the sanctions must be formally adopted by all 27 nations. Hungary, which will continue to receive Russian oil via pipeline, had been blocking an embargo for the past month as it sought assurances its supplies would not be disrupted. It received guarantees from EU leaders that it would be able to receive replacement crude if pipelines flows were disrupted, according to sources.

The European Commission has proposed to ban seaborne crude from Russia in six months, while refined petroleum products would be halted in eight months, according to people familiar with the most recent version of the proposal. Shipments of oil through the giant Druzhba pipeline to central Europe would be spared until a technical solution is found that satisfies the energy needs of Hungary and other landlocked nations.

U.S. gas drilling rig count highest since 2019

(Reuters columnist; May 27) - U.S. natural gas prices have climbed to the highest in more than 13 years as storage inventories remain well below average while the drought and lack of hydroelectric generation threatens to stretch them even further. Front-month futures prices for gas delivered at Henry Hub in Louisiana have climbed to around $9 per million Btu, up from $3 at the same point a year ago.

Prices are the highest after adjusting for inflation since October 2008, when the financial crisis was intensifying and the economy was heading deeper into the great recession. Last week, working stocks in underground gas storage were 348 billion cubic feet (16%) below the pre-pandemic five-year seasonal average. High prices signal the need to reduce consumption, including by switching from gas-fired to coal-fired generation as much as possible, while maximizing drilling and new production.

The total number of rigs drilling for gas has climbed to 150, the highest since late 2019, and up from just 100 this time a year ago, according to field services company Baker Hughes. The number of oil rigs, which produce associated gas as a byproduct, has climbed to 576, up from 343 a year ago, and the highest since just before the first wave of the pandemic arrived in early 2020.

Canada willing to accelerate permitting to help LNG export project

(Bloomberg; May 26) - Canada's top energy official said Prime Minister Justin Trudeau's government is open to accelerating a proposed liquefied natural gas project that could start supplying Europe in as soon as three years. Natural Resources Minister Jonathan Wilkinson told Bloomberg News the fastest way to help "our European friends" would be for Spain's Repsol to convert an existing LNG import facility in New Brunswick, on Canada's Atlantic Coast, into an export terminal.

"A lot of existing infrastructure is there," Wilkinson said May 25 in a telephone interview from Berlin, ahead of a Group of Seven energy ministers meeting. If Repsol decided to convert the terminal, "you likely could have a facility that would be producing within three to four years," he said. Wilkinson said the issue of European energy security and moving off Russian oil and gas is essential for his G-7 colleagues. Yet the problem for Canada, a major gas producer, is that it lacks an LNG export terminal on its East Coast.

The government is talking to Repsol and other firms interested in building LNG infrastructure about whether the regulatory process can be expedited, Wilkinson said. Repsol itself would also "need to decide to go forward," he added, so that the government could determine the type of environmental assessment required. The company has looked at adding liquefaction and exports to the 13-year-old import terminal, but shelved the plan several years ago due to lack of market interest.

EU working on deal to import Israeli gas through Egyptian LNG plants

(Bloomberg; May 26) - The European Union is working on a deal to import Israeli gas through Egypt as the bloc rushes to reduce its reliance on Russian supplies. The gas would be liquefied at Egyptian plants for shipment aboard tankers to the EU, according to documents seen by Bloomberg. An agreement would open up a new market for Israel, where domestic gas prices are much lower than what it could charge in Europe.

Vladimir Putin’s invasion of Ukraine sparked international condemnation and a move by buyers of Russian gas to secure alternative supplies. As part of a potential memorandum of understanding, the EU, Israel, and Egypt would also increase collaboration on clean-energy projects, the documents showed. Any eventual deal would require the backing of EU member states.

Israel’s gas mostly serves the local market as well as Egypt and Jordan. Sending fuel to Europe would involve Egypt’s liquefaction plants in Idku and Damietta, which have available capacity. That’s generally seen as a more viable option for the gas-rich East Mediterranean region than new pipelines, which would be costly and take years to build.

Russian oil shipments to India and China surge to record level

(Bloomberg; May 26) - A record volume of Russian oil is on board tankers, with unprecedented amounts heading to India and China as other nations restrict imports because of the war in Ukraine. Between 74 million and 79 million barrels from the producer were in transit and in floating storage over the past week, more than double the 27 million barrels just before the February invasion of Ukraine, according to Kpler.

Asia overtook Europe as the largest buyer for the first time last month, and that gap is set to widen in May, according to the data and analytics company. The sharp jump in Russian oil in transit by sea underscores how the global energy trade has been thrown into turmoil by the invasion, with U.S., U.K. and many European Union companies turning their backs on its cargoes and forcing Moscow to look for buyers in Asia. China and India have snapped up millions of barrels to take advantage of hefty discounts.

“Some of the interested buyers in Asia are more motivated by economics rather than taking a political stand,” said Jane Xie, a senior oil analyst at Kpler in Singapore. “That said, there has been an increase in U.S. interest in India’s buying of Russian oil, so there may be some downside risks to this trade flow, even if it is currently unlikely to be dented significantly.” Combined Russian oil flows for Asia’s top two buyers, India and China, surged to records in April, mainly boosted by increased purchases from India.

India open to Russian oil and gas ‘if it makes commercial sense’

(Reuters; May 27) - India's largest gas distributor GAIL is open to buying Russian oil and gas assets shunned by Western companies after Moscow's invasion of Ukraine if the deals make commercial sense, the company's Chairman Manoj Jain said on May 27. European countries and the U.S. have imposed heavy sanctions on Russia since

Moscow sent troops into Ukraine on Feb. 24. and the European Union has proposed its toughest package of punishments yet, including a ban on crude oil in six months.

India has tried to balance its ties with Russia and the West but unlike others it has not imposed sanctions on Russia. "Why would anyone say no (to Russian assets) if it makes commercial sense," Jain told reporters at a post-earnings press conference. Jain said GAIL is scouting for a 10-year deal to annually import 1 million tonnes of LNG. GAIL already has a long-term gas import deal with Gazprom Marketing & Trading Singapore to buy an average 2.5 million tonnes per year of LNG.

Under the deal, Gazprom is progressively increasing supplies to GAIL. But Gazprom has informed GAIL that it was facing issues in procuring gas and has asked to reschedule a liquified natural gas cargo, Jain said. GAIL's imports of natural gas could increase 5% to 6% in this fiscal year to March 2023, Jain said.

Small traders step in and profit from Russian oil sales

(The Wall Street Journal; May 27) - A group of under-the-radar commodity traders are cashing in on Russian oil, stepping in to buy and transport crude to customers as bigger rivals retreat from the market. Little-known merchants including Paramount Energy & Commodities and Coral Energy are buying unwanted Russian oil at deep discounts. For taking the risk, the companies can make $20 million or more on one cargo depending on the size of the tanker, according to traders. That is up from $600,000 before the war.

The European Union has blocked its companies from doing most business with state-aligned producer Rosneft, and Switzerland has also enacted some restrictions. That pushed big traders such as Trafigura, Vitol, Glencore and Gunvor to head for the exit, opening up a lucrative opportunity for smaller traders. But the trade could be short-lived if the West imposes tougher sanctions on Russia's oil industry or financiers and shipowners pull the plug on companies dealing in Russian energy.

Russia needs traders to sell the roughly 3.6 million barrels of oil it is exporting by sea each day, according to Kpler. Paramount is a little-known Geneva-based trader. It has traded an average of 163,000 barrels a day since the invasion, according to Petro-Logistics. Paramount is owned by its Dutch founder, Niels Troost. Dubai-based Coral Energy increased its volume of Russian oil by 25% in April compared with the previous month, trading around 260,400 barrels a day of crude and refined products, according to Petro-Logistics. Coral was founded by Azeri businessman Tahir Garayev in 2010.

[Iraq seeks foreign investment to boost oil production]

(S&P Global; May 29) - Iraq is looking to boost is oil production capacity to 5 million barrels per day by 2025, the country's oil minister said during a visit to France, as OPEC's second-largest producer seeks to drum up foreign investments to help develop its oil fields. Iraq is seeking to further ramp up its oil production capacity to 8 million barrels per day by 2028, Ihsan Ismaael said during his visit to France, where he met with the foreign minister, the oil ministry said in a May 28 statement.

Iraq's production in May was about 4.4 million barrels per day. The country is seeking the help of international oil companies to ramp up its production but political instability, investment climate and energy transition trends are hampering its ability to attract foreign investment into its energy sector. Rising insecurity, political gridlock and bureaucratic inefficiency threaten to accelerate the exit of international oil companies from Iraq, according to Platts Analytics by S&P Global Commodity Insights.

Iraq has struggled with technical issues at some of its key oil fields, but its crude output jumped to a two-year high of 4.43 million barrels per day in April, according to data from federal state oil marketer SOMO. During his visit to France, Ismaael met with TotalEnergies CEO Patrick Pouyanne and discussed speeding up the implementation of a $27 billion deal to develop four energy projects in southern Iraq.

[Saudi Arabia oil exports reached $1 billion a day in March]

(Bloomberg; May 26) - Saudi Arabia's oil exports reached $30 billion in March, the highest in at least six years, driven by a rally in oil prices and rising production. The value of crude exports, now almost $1 billion a day, increased by 123% year-on-year, the kingdom's statistics office said.

Saudi Arabia's crude production rose to 10.3 million barrels a day in March, with Brent oil prices averaging $112 a barrel. Prices have jumped almost 50% this year, mostly due to the fallout of Russia's invasion of Ukraine. The higher revenues helped the kingdom post a 57.5 billion riyal ($15 billion) budget surplus between January and March. It will be one of the fastest-growing large economies in the world this year, according to the International Monetary Fund.

The oil-export figures may continue to grow because OPEC+, a 23 nation group of producers led by Saudi Arabia and Russia, is only slowly raising production each month under a deal that expires around September.

[Saudis will decide at end of year how to spend oil windfall]

(Bloomberg; May 26) - Saudi Arabia will hold billions of dollars from its oil windfall in a government account until the end of the year and only then decide how to distribute the money, a shift in its strategy from previous boom periods. In the past, higher oil prices and output would quickly translate into rising foreign reserves and deposits in local banks, and often lead to a swift boost in the government's spending. But this time, it will wait until "after the surplus is realized, which means after the closing of the fiscal year" in December, according to Finance Minister Mohammed Al-Jadaan.

In a statement to Bloomberg, Al-Jadaan said the government won't spend the money until it has rebuilt reserves depleted during eight years of subdued oil prices. It could then use some of the cash to repay debts and pour it into state investment vehicles, including the powerful Public Investment Fund and the National Development Fund, which focuses on domestic infrastructure.

The comments explain why the oil bounty has so far left little trace in the economy of the world's largest crude exporter. The government's current account held at the central bank rose by 70 billion riyals ($19 billion) in the first quarter of the year, when Saudi Arabia reported a $15 billion budget surplus. Saudi Arabia has seen revenues soar on the back of $100 oil and rising production.

[Report says U.S. government's fuel reserves inadequate and costly]

(S&P Global; May 25) - Federal petroleum product reserves are inadequate to address severe supply disruptions and available analysis is insufficient to determine what alternative federal action should be taken to mitigate supply risks, the U.S. Government Accountability Office said May 25. Neither the Department of Energy's Northeast Home Heating Oil Reserve nor its Northeast Gasoline Supply Reserve was "well suited to address the risks of supply disruptions in the Northeast," the GAO said in its report.

The agency concurred with the Energy Department's 2020 assessment that the reserves were too expensive to maintain and too small relative to regional demand for the fuels. The GAO asserted that operations and maintenance of the product reserves cost on an annual basis about $13 per barrel, compared with just 30 cents per barrel to maintain the emergency crude oil supplies in the Strategic Petroleum Reserve.

The 1 million barrels of refined fuel in each product reserve would satisfy less than two days of consumption in the Northeast, the GAO said. The release of the report comes just days after reports circulated that the Biden administration was considering tapping the emergency diesel reserve to address the current supply crunch and help lower soaring diesel prices, averaging $5.57 a gallon nationwide, up from just $2.32 a year ago. The home heating oil reserve has suddenly moved into the spotlight because its ultra-low-sulfur distillate can be used as either home heating oil or diesel fuel.