Oil and Gas News Briefs
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Chinese companies profit from selling excess LNG to Europe

(The Wall Street Journal; Oct. 3) - The economic slowdown in China, a Trump-era trade deal and Europe's desperate hunt for natural gas are creating a windfall for some Chinese energy companies. The unusual alignment, however, is helping Europe stock up for the winter. With demand down, Chinese companies that signed long-term contracts to buy U.S. liquefied natural gas are selling the excess and making more than $100 million profit on some cargoes. Buyers include Europe, Japan and South Korea.

Just 19 LNG vessels from the U.S. docked in China in the first eight months of the year, compared with 133 for the same period last year. Part of the reason is that China is getting nearly 30% more gas from Russia so far this year, Chinese customs data show. The boost is due to a scheduled increase in volume from the Power of Siberia pipeline and from purchases of Russian LNG, typically at a steep discount, shipping data shows.

Though Russia turned to China for economic and political support after its invasion of Ukraine, Chinese companies are undercutting its effort to sow divisions in Europe by selling their surplus gas to the continent. The U.S. and China negotiated long-term LNG deals amid pressure on Beijing from the Trump administration to boost imports from the U.S. But unlike other contracts, U.S. LNG long-term contracts typically offer destination flexibility and prices indexed to the U.S. benchmark Henry Hub, currently a fraction of spot prices in Europe and Asia. China is using the opportunity to earn a resale profit.

LNG tanker charter rates in record territory and could go higher

(American Shipper; Oct. 3) - On Sept. 26, Pareto analyst Eirik Haavaldsen predicted that liquefied natural gas shipping rates could top $1 million per day in the fourth quarter. At least some deals are already halfway there, according to a report on Oct. 3. Paying a million a day may sound crazy, but it all comes down to the profit a shipper can make on a cargo. If a shipper can make $200 million in profits moving a single shipload of LNG, it will pay six figures a day in freight. Or if Pareto is right, seven.

It's not even winter yet and short-term LNG shipping rates are in record territory and expected to keep climbing. Clarksons Securities put average rates for the most efficient LNG carriers at $313,000 per day as of Oct. 3. "LNG carriers are shooting for the stars. Spot earnings have reached dizzying heights," Clarksons analyst Frode Mørkedal wrote. "According to brokers, owners can now achieve three-way economics, which means they are compensated not just for a regular round voyage but also for positioning voyages. As a result, earnings on a round-trip basis might be around $500,000 a day."

S&P Global Commodity Insights told American Shipper that over the past week, the LNG carrier Yiannis was reportedly fixed to Shell at $400,000 per day for an intra-Atlantic Basin voyage and a carrier was booked for November at $360,000 per day by India's GAIL. Rates have gone into the $300,000s per day on occasion in the past two winters. But the current market is unprecedented. Gas supplier Russia is at war, it has shut off supplies to Germany, and someone just sabotaged two pipelines in the Baltic.

Record 33 carriers anchored at sea, storing LNG

(S&P Global; Oct. 5) - The number of LNG carriers being used as floating storage globally has hit a record high as oil majors, commodity traders and other energy companies hold onto LNG cargoes and vessels ahead of peak winter season, according to shipping data and shipbrokers. The accumulation of a large number of laden LNG carriers without a fixed destination is underpinned by several market fundamentals — the steep contango between November and January that could yield a profit, regions like Europe and North Asia entering early winter with strong inventories, and the possibility of a surge in demand in the event of a spell of cold weather.

The Ukraine crisis has resulted in a tight LNG market, and cargoes are likely to be heavily sought in the coming weeks and months, both for energy security and to boost trading positions. There were as many as 33 LNG carriers in floating storage in the week of Sept. 19, which eased toward the end of the month but rose again to around 31 carriers at the start of October, according to data from S&P Global Commodity Insights.

This is higher than the last time LNG floating storage hit a record high, at almost 30 vessels in mid-2020, when a steep contango along the forward curve incentivized traders to float their ships and hold onto the cargoes ahead of early winter procurement. Maximum floating storage in the winter of 2021-22 was only in the mid-teens, S&P Global data showed.

Germany calls on U.S. 'solidarity' to tame LNG prices

(CNBC; Oct. 5) - Germany's economy minister accused the U.S. and other "friendly" gas supplier states of astronomical prices for liquefied natural gas supplies, suggesting they were profiting from the fallout from the war in Ukraine. "Some countries, including friendly ones, sometimes achieve astronomical prices (for their gas). Of course, that brings with it problems that we have to talk about," Economy Minister Robert Habeck told regional German paper NOZ in an interview published Oct. 5. He called for more solidarity from the U.S. when it comes to assisting its energy-pressed allies in Europe.

“The United States contacted us when oil prices shot up, and the national oil reserves in Europe were tapped as a result. I think such solidarity would also be good for curbing gas prices,” he said. Habeck, co-leader of Germany’s Green Party, which is a part of Berlin’s coalition government led by center-left Chancellor Olaf Scholz, said the European Union should also do more to address the region’s gas crisis, with countries scrambling for alternative supplies which has pressured prices even more.

OPEC+ cuts production target 2 million barrels a day

(Bloomberg; Oct. 4) - Oil rallied for a third day after OPEC+ agreed to the largest supply cut since 2020 and Russia warned it may reduce its own output even further. West Texas Intermediate futures settled close to $88 a barrel after members of the producer group agreed to slash up to 2 million barrels a day from its output limits. Meanwhile, Russia may impose a temporary production cut in response to efforts by the U.S. and others to cap the price of Russian oil, Deputy Prime Minister Alexander Novak said.

The OPEC+ production cut reflects the extent to which the group is concerned about the outlook for energy demand in the face of tightening monetary policies and recession fears. But with several countries already pumping well below their quotas, including Russia, the real impact of the cuts will likely be about 1 million to 1.1 million barrels a day, according to Saudi Arabia’s energy minister. That’s about 1% of global supply.

Part of the OPEC+ cut is “on paper” because members already can’t supply enough oil to hit their allotments, Gary Peach, oil markets analyst at energy information firm Energy Intelligence, told The Associated Press. “Only about half of that is real barrels,” he said. However, the oil ministers are “looking into the tunnel of recession” that could lower demand even further in coming months, Peach said. “They decided to pre-empt that.” If the OPEC+ cut drives up prices too much, the White House indicated it could release more oil from the Strategic Petroleum Reserve to alleviate fuel prices.

U.S. looking at easing sanctions on Venezuela to boost oil supply

(The Wall Street Journal; Oct. 5) - The Biden administration is preparing to scale down sanctions on Venezuela’s authoritarian regime to allow Chevron to resume pumping oil there, paving the way for a potential reopening of U.S. and European markets to oil exports from Venezuela, according to people familiar with the proposal. In exchange for the significant sanctions relief, the government of Venezuelan President Nicolás Maduro would resume long-suspended talks with the country’s opposition to discuss conditions needed to hold free and fair presidential elections in 2024, the people said.

U.S. officials said details are still under discussion and cautioned that the deal could fall through, because it is contingent on Maduro’s top aides resuming talks with the opposition in good faith. If the deal goes through and Chevron, along with U.S. oil-service companies, are allowed to work in Venezuela again, it would put only a limited amount of new oil on the world market in the short term.

Venezuela was once a major oil producer, pumping more than 3.2 million barrels a day during the 1990s, but the state-run industry collapsed over the past decade because of underinvestment, corruption and mismanagement. Any shift in U.S. policy that brings back Western oil companies would send a psychological signal to the market that more supply is coming. Venezuela sits atop some of the world's largest reserves. Its return could serve a longer-term strategy for the U.S. and European countries trying to secure new supply, said Francisco Monaldi, a Latin America energy expert at Rice University.

Saudi Aramco again warns of underinvestment in oil

(Bloomberg; Oct. 4) - The world's biggest oil company reiterated its warning that producers' spare capacity is running low and said there wouldn't be any left once China ends its COVID-Zero strategy. "The world should be worried," Saudi Aramco's CEO Amin Nasser said at a conference in London. "This is where we are heading. If China opens up a little bit, you will find out that spare capacity will be eroded completely."

Aramco and Saudi Arabian officials have frequently criticized Western governments and firms for shunning investment in fossil fuels and trying to transition to renewable energy too quickly. They've cited this year's surge in oil and natural gas prices as evidence that more exploration projects are needed. Brent crude climbed above $125 a barrel after Russia's invasion of Ukraine. It's since dropped below $90, in part because China's strict coronavirus restrictions have suppressed demand in the second-biggest economy.

Analysts say there's only about 2 million barrels a day of capacity that could be brought online quickly should there be a supply shutdowns. That's the equivalent of 2% of the market. Saudi Arabia and neighboring United Arab Emirates are among the few major oil producers investing to boost their maximum production levels. Nasser said Aramco was on track to increase its capacity to 13 million barrels a day from 12 million by 2027, a project that will cost billions of dollars.

European energy relief spending climbs to at least $375 billion

(Bloomberg; Oct. 5) - European households will benefit from at least 376 billion euros ($375 billion) in government aid to stem whopping energy bills this winter, yet there's a risk the smorgasbord of spending won't bring enough relief. The divergent solutions to Russia's squeeze on gas supply may end up being only a temporary fix since wholesale prices are set to remain far above historical norms. In August, the average price offered to domestic customers in the largest European countries was 67% higher than a year ago for electricity and 114% higher for gas, according to consultancy VaasaETT.

“If you can’t control the wholesale price, the only thing left you can do is basically hand out money,” said Philip Lewis, CEO of Finland-based VaasaETT. “The only thing consumers can really do is save energy.” This winter will be grim across the continent. The U.K., which already has the highest electricity costs in Europe, is set to see winter bills rocket by about 178%. The Netherlands, with the highest gas tariffs, also is seeing triple-figure increases. The total energy aid bill for European governments is nearing 400 billion euros, based on fresh announcements and data from think-tank Bruegel.

Europe’s natural gas demand will decline again next year, IEA says

(Bloomberg; Oct. 2) - European natural gas demand will slump next year as high prices drive nations to enact energy-saving measures amid Russian supply curtailments, according to the International Energy Agency. High gas prices will result in European consumption falling by 4% in 2023 after slumping by a record 10% this year, the IEA said in a quarterly gas report. Declines are most pronounced in the industrial sector, but are also evident in power generation, pushing global gas demand down 0.8% this year.

“Russia’s invasion of Ukraine and sharp reductions in natural gas supplies to Europe are causing significant harm to consumers, businesses and entire economies — not just in Europe but also in emerging and developing economies,” Keisuke Sadamori, the IEA’s director of energy markets and security, said in the report.

The European Union is taking measures to tackle the worst energy crisis in decades, escalated by severely reduced flows from Moscow, once the biggest gas supplier to the region. Europeans face a cold winter as surging gas prices have sent power bills soaring. The EU has urged a voluntary reduction in gas demand by 15% compared to its five-year average. If demand is not curbed, Europe’s storage will dip to a critically low level of 5% in February if Russian pipeline flows completely stop, the IEA estimates. Such low inventories could create disruptions if there is a late-winter cold snap.

European households not reducing gas use as much as needed

(Bloomberg commentary; Oct. 2) - If Europe was a school student, last week it sat for its first exam in Energy Savings 101. It failed. And that doesn’t bode well for much tougher tests to come in January. Despite strong imports of liquefied natural gas to replace Russian supplies, Europe needs to reduce gas consumption by a lot if it’s going to make it through the winter. Extra supply won’t be enough. Conservation is paramount.

A warmer winter would make conservation a lot easier, a colder one much harder. But irrespective of how harsh the winter gets, Europe needs to consume less gas than it did in 2021 and what it has averaged over the past five years. High prices so far have encouraged industrial firms to reduce consumption. In some cases, particularly in the chemical sector, some companies have simply shut down production. As a result, gas demand across Europe has been running as much as 20% below normal.

Until now, however, we didn't know how households would react, though the assumption was that public messaging, coupled with higher prices, would discourage consumption. The reality? As the first autumn cold snap hit, German households and small firms increased their gas demand 14.5% above the five-year average. Klaus Muller, the German official in charge of monitoring the gas network, called the figures "sobering." Even an average winter would be problematic. Europe has limited time to get the gas-saving message out. It doesn't want to fail its next exam.

Cheniere breaks ground on expansion at Corpus Christi LNG plant

(Houston Chronicle; Oct. 5) - Cheniere Energy on Oct. 4 launched another expansion of its liquefied natural gas complex in Corpus Christi, Texas, the first in what is likely a series of expansion projects as the Houston company positions itself to exploit soaring demand for natural gas in Europe, Asia and other overseas markets. The $8 billion expansion will add seven production units, increasing the gas plant's capacity by 10 million tonnes per year to 25 million, and bringing Cheniere's investment at the site to over $25 billion, CEO Jack Fusco said. The project is expected to come online in 2025.

Cheniere began operations at Corpus Christi in 2019 and has steadily grown there. Customers have already committed to buy all the LNG produced by the latest expansion project, named Stage 3, and Cheniere has already begun selling contracts for a subsequent expansion that will increase Corpus Christi LNG's capacity to roughly 30 million tonnes a year — double its current capacity.

While demand for gas is soaring in Europe in the near term, Cheniere is staking its long-term growth on Asia, where countries are turning to gas to replace carbon-intensive, dirtier coal and fuel oil. Some European LNG buyers are hesitant to sign decades-long contracts to buy a fossil fuel as many nations there move toward net-zero greenhouse gas emissions by 2050, said Anatol Feygin, Cheniere's chief operating officer. The company recently signed a 24-year deal with China's state-owned PetroChina, bringing its deliveries to PetroChina to around 3 million tonnes per year through 2050.

There’s a shortage of floating LNG import and storage terminals

(Bloomberg; Oct. 3) - Europe’s worsening energy crisis is creating a shortage of floating liquefied natural gas terminals, causing rental rates for the specialized tankers to double. Demand for LNG imports is set to intensify after the ruptures on the key Nord Stream pipeline system quashed any prospect of Russia turning its gas taps back on. Countries are increasingly turning to floating storage and regasification units, or FSRUs, which are essentially mobile terminals that unload the fuel and pipe it to onshore grids.

“Last year there was a surplus of FSRUs and this year there is a deficit,” said Per Christian Fett, the global head of LNG at shipbrokers Fearnley LNG in Oslo. “Up until now there have been sufficient vessels in the market, but as most have now been taken, it’s becoming more challenging.” There are 48 FSRUs in operation globally, and all but six of them are locked into term charters, according to Kaushal Ramesh, a senior analyst at consultant Rystad Energy. With the supply of vessels so tight, the cost of recent charters into Germany doubled year-on-year to $200,000 a day.

There’s little sign of the shortage easing. Shipyards are at full capacity, and even converting existing vessels takes at least three years, Ramesh said. For a newbuild FRSU, the wait can be longer, though the vessels are quicker to set up and far cheaper than an onshore regasification plant. Countries from Germany to Italy and Finland have secured floating terminals, while the Netherlands started importing LNG from two new FSRUs last month. One Texas-based company, Excelerate Energy, is sending three FSRUs to Europe over the next 16 months.

Croatia’s LNG import facility busy with U.S. gas deliveries

(LNG Prime; Oct. 3) – U.S. liquefied natural gas supplies keep coming to the floating import terminal in Krk, Croatia, drawn by high demand in Europe. State-owned terminal operator LNG Croatia said in a short statement on Sept. 30 it had received the 43rd LNG cargo at the import facility located in the northern Adriatic Sea since the launch of operations in January 2021.

Croatia’s FSRU (floating storage and regasification unit) mostly gets gas from the U.S. Besides Croatia, it supplies Hungary, Slovakia and other European countries. Due to high demand, Croatia recently decided to increase the facility’s capacity to more than 200 billion cubic feet of gas per year. The expansion will cost about 180 million euros ($176 million) and includes construction of a new pipeline to deliver gas into the grid.

Gazprom says it could resume flow through undamaged gas line

(Reuters; Oct. 3) - Russia's Gazprom said on Oct. 3 that gas had stopped leaking from three ruptured Nord Stream gas lines under the Baltic, and that it might be possible to resume pumping through the remaining line. It said the pressure in the three lines had stabilized and it was working to reduce environmental risks. Europe is investigating major leaks discovered in the two Nord Stream gas pipelines, each consisting of a pair of lines. Germany, Denmark and Sweden said they believed there had been sabotage.

Nord Stream 1 reported a significant pressure drop on both of its lines, presumed to be caused by ruptures, while Nord Stream 2 reported a similar sharp pressure drop in its A line. Gazprom said Nord Stream 2's B line could still export gas to Europe, if a decision were made to start deliveries. Nord Stream 1 had been fully functional before Russia reduced and then stopped gas flows over the past six months, citing non-payment in Russian roubles and technical problems.

But the recently completed Nord Stream 2 has never come online, since Germany, where it makes landfall, froze the authorization process as Russia was preparing to invade Ukraine. "If a decision is made to start deliveries through Nord Stream 2's B Line, natural gas will be pumped into the pipeline after the integrity of the system has been checked and verified by supervisory authorities," Gazprom said.

U.K. looking for long-term gas supply contracts

(S&P Global; Oct. 4) - The U.K. is looking to secure long-term gas import contracts as part of efforts to ensure the country's gas supply security, Prime Minister Liz Truss said Oct. 4. The government has said it is scouring the market for potential gas import deals as part of a new supply security push. “We are looking at long-term energy contracts with other countries because, as well as making sure we've got a good price, energy security is vitally important," Truss said.

"And we never want to be in a position again where we're dependent on authoritarian regimes for our energy. That's why we're in the situation we are now." The U.K. relies on imported gas to meet about half of its demand, with Norway the top supplier, accounting for some two-thirds of the U.K.'s imports last year, according to government data. The U.K. also has three operational LNG import terminals, with LNG supplies making up the bulk of the remaining imports last year.

However, the U.K. is relatively exposed to the spot market for additional LNG purchases, so the government is now looking at the potential for new long-term supply deals. Long-term gas supply contracts can typically last for 20 to 25 years, though deals with a duration of 10 to 15 years have also been relatively commonplace. The U.S. and Qatar are front and center of UK efforts to lock in new long-term LNG supply deals.

No one bids on contract to supply Pakistan with LNG

(Bloomberg; Oct. 3) - Pakistan's acute energy shortage is at risk of lasting years after the government was unable to secure a long-term supply of liquefied natural gas. Not one supplier responded to Pakistan LNG's tender to buy the power-plant fuel for between four to six years starting January, said traders with knowledge of the matter. The tender, which closed Oct. 3, was seeking to procure one cargo of LNG each month.

The cash-strapped nation has been hit with widespread blackouts this year after several failed attempts to buy gas from the expensive spot market. It tried to get a long-term deal looking for more reasonable prices, but that hasn't materialized. There's little LNG supply available until 2026 when new export projects start up, according to traders. Many spot cargoes are currently going to Europe, where buyers are willing to pay high prices in the rush to secure gas to replace dwindling Russian pipeline flows. That's leaving developing nations facing energy shortages and economic uncertainty for years.

The latest blow comes at a difficult time for Pakistan, which is already struggling with high inflation and falling currency reserves. Some LNG suppliers are hesitant to sell fuel to the nation out of fear it may not be able to make future payments, according to traders. Pakistan's gas distributor, Sui Northern Gas Pipelines, plans to supply 100,000 liquid petroleum gas (LPG, generally propane) cylinders to consumers to deal with a potential gas shortfall this winter, it said in a notice to the stock exchange.

Carbon emissions headed for record on higher coal and gas use

(Bloomberg; Oct. 4) - Global carbon emissions from power plants may be headed for a record high this year after summer droughts and heatwaves boosted coal- and natural gas-fired generation. The jump in fossil fuel use pushed emissions from electricity production up 1.7%, or 133 million tons, in the first eight months of this year, climate think-tank Ember said in a report Oct. 5. Most of the increase was in July and August.

Summer heatwaves disrupted electricity demand and grids across the world. A historic drought in China hurt hydropower output, while in Europe reservoir levels fell and nuclear generation plunged as France grappled with repairs for its aging plants. "We can't be sure if we've reached peak coal and gas in the power sector," Malgorzata Wiatros-Motyka, electricity analyst at Ember, said in the report. "Global power sector emissions are still pushing all-time highs when they need to be falling very quickly."

Still, renewable sources of power rose by 416 terrawatt-hours, which was more than the 389-terrawatt-hour increase in global electricity demand, according to the report. Wind and solar alone met 77% of the growth. Such a boost in renewables saved $40 billion in fuel costs and also curbed 230 million tons of carbon emissions, Ember said. "The first step to ending the grip of expensive and polluting fossil fuels is to build enough clean power to meet the world's growing appetite for electricity."

Climate activists want insurers to withhold coverage for LNG project

(Bloomberg; Oct. 5) - Climate NGOs are calling on insurers to withhold coverage for a giant LNG project and hold firm to their net-zero ambitions. Reclaim Finance and other organizations have sent letters to global insurers, asking them to stop providing insurance coverage for the expansion of the Ichthys LNG project in Australia, total emissions from which could reach 590 million tons of carbon dioxide, close to Australia's annual carbon dioxide output.

None of the insurers involved in the first phase of the project so far have a policy excluding LNG projects, according to Reclaim Finance. Most insurers involved in the past in this project have "committed to reach net-zero emissions by 2050," Ariel Le Bourdonnec, insurance campaigner at Reclaim Finance, said in a statement. "If they want to meet their climate pledges, they cannot renew their support in such a gas expansion project like Ichthys LNG's expansion or any other new oil and gas project."

Insurers and reinsurers stand to be among the biggest losers from climate change, as rising global temperatures exacerbate physical catastrophes from wildfire to flooding. Many of the biggest players in the industry have now committed to reach net-zero emissions from their underwriting portfolios by 2050.

Nigeria will award contracts to capture and sell flared gas

(Reuters; Oct. 3) - Nigeria will award contracts for its flared gas by the end of December under an accelerated program to harness gas that is released as a byproduct of oil production, the country's petroleum regulator said. President Muhammadu Buhari first launched the program to auction rights to capture and sell flared gas in 2016. In 2020 the government approved 200 bidders but the process was stalled due to the outbreak of the coronavirus pandemic.

Nigerian Upstream Petroleum Regulatory Commission CEO Gbenga Komolafe said the auction was being restarted and would be open to previous applicants and new bidders. "The auction process has been streamlined to enable an accelerated delivery schedule … with the announcement of winners planned for December," Komolafe said in a statement on Oct. 2. The government has said that flaring costs it roughly $1 billion a year in lost revenue. The gas could be used in power plants, in industry or exported.

Last month, Petroleum Minister Timipre Sylva said Nigeria's plan to commercialize gas burned from its oil fields was at an advanced stage. Nigeria, which has Africa's largest gas reserves of more than 190 trillion cubic feet, first targeted gas flaring in the late 1970s and, through various plans and regulations, has more than halved it since 2001.

Australian Tax Office limits questionable deductions by energy firms

(Australian Financial Review; Oct. 3) – The Australian Taxation Office has knocked out about A$40 billion in interest deductions by resources giants, boosting the tax take from oil and gas firms following a landmark legal case involving Chevron. Using litigation and legal settlements negotiated with major corporate taxpayers, the ATO has limited past-year debt deductions and required firms to undertake significant restructuring of debt arrangements, delivering about A$12 billion in extra revenue to the budget so far.

With reduced carry-forward losses, companies have to pay corporate tax much sooner. The firms had used hundreds of billions of dollars in investments in gas projects to limit their tax liabilities. “That’s [money] straight to us because we eliminated $40 billion of carry-forward deductions across that sector,” said Tax Commissioner Chris Jordan. Settlement of the 2017 Chevron dispute, which related to the financing and interest paid on borrowings from its parent company to help fund the huge Gorgon LNG venture, reduced the deductions the company could claim against tax in Australia.

Chevron Funding Corp. in Delaware borrowed $US2.5 billion at an interest rate between 1% and 2% in 2003, lending the money to Chevron Australia at a rate of between 8.8% and 10.5%. The ATO argued those terms were not at arm’s length and alleged the arrangement generated excessive interest deductions, slashing the amount of tax Chevron owed in Australia. Settlement agreements with the ATO include changes in tax and debt structures going forward. Chevron last month revealed it was bracing for a 25-fold increase in its Australian tax bill after it had exhausted all its capital deductions.