Oil and Gas News Briefs
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September 15, 2022

OPEC says falling oil prices do not accurately reflect demand

(The Wall Street Journal; Sept. 13) - The oil market is in a “state of schizophrenia” and increasingly disconnected from signs of robust crude demand, OPEC said Sept. 13, reiterating earlier hints that it would act to support prices that have continued to tumble despite cuts to the cartel’s output. The comments echo remarks made last month by Saudi Energy Minister Prince Abdulaziz bin Salman. As Saudi Arabia is OPEC’s largest producer, comments from its officials carry large sway over the group’s actions, but it is the first time such comments have been made on behalf of the entire 13-member cartel.

The remarks, made in OPEC’s monthly market report, are the latest signal that the group is prepared to backstop the oil market and prevent prices from falling much further, confounding efforts by Western governments to ease the pain of high energy prices on households and businesses. OPEC+ last week cut its oil production levels by 100,000 barrels a day and said it was prepared to hold emergency meetings in the weeks ahead, a signal that it stood ready to cut output further if prices continued to fall.

OPEC and a Russian-led group of allied oil producers, known as OPEC+, “will continue to monitor market developments and address challenges as well as ensure sustainable market stability,” the monthly report said. Brent crude, the global oil benchmark, has slumped about 24% over the past three months and at times dropped below $90 a barrel, a level that some analysts believe OPEC would like prices to remain above. OPEC has said declines in oil prices don’t accurately reflect the strength of demand, and that concerns about flagging global growth have been overblown.

JPMorgan sticks with $150 oil; says demand will outpace supply

(Bloomberg; Sept. 13) - Oil prices will be pushed higher as demand outpaces supply and alternative energy sources such as natural gas and renewables fail to plug the gap, according to JPMorgan Chase. Christyan Malek, the bank’s global head of energy strategy, reiterated his $150-a-barrel price forecast during an interview with Bloomberg TV on Sept. 13. As global crude output lags demand growth, “we’re back to the same issue, which is how do we meet this energy deficit in the future?” Malek said.

“It can’t be coal, it can’t be gas — we’re maxed out on natural gas. It’s got to be through solar and wind and then when you’ve gone through that, we still have a major deficit in oil, which basically means that we’re going to see a repricing of oil significantly higher.” Malek said international oil explorers aren’t spending enough on drilling to replace old reserves, and markets are relying too heavily on OPEC nations to keep the world amply supplied. On the demand side of the equation, Chinese demand probably will see a resurgence once pandemic-related lockdowns are lifted, he said.

China's oil demand projected to drop this year; first time since 1990

(Bloomberg; Sept. 14) - China faces its biggest annual drop in oil demand in more than three decades as COVID-19 lockdowns and a property crisis weigh on growth in the world's No. 2 consumer, the International Energy Agency said. China's oil demand will decline by 420,000 barrels a day, or 2.7%, this year in the first annual drop since a 1% retreat in 1990, the Paris-based adviser said. The pullback that year is the only previous retreat in IEA records dating back to 1984.

The country has reimposed restrictions as part of a COVID-zero strategy, with lockdowns hitting locations liken megacity Chengdu, with 21 million inhabitants. Meanwhile, home prices have fallen for 11 straight months despite government relief efforts. The projected decline in China prompted the IEA to trim global oil demand forecasts in its latest monthly market report. The country has been the engine of world oil consumption during the past two decades, managing to expand even during the 2008-2009 financial crisis and 2020 pandemic, according to IEA data.

"For now, a deteriorating economic environment and recurring COVID lockdowns in China continue to weigh on market sentiment," said the agency, which advises most major economies. World oil consumption will increase by 2 million barrels a day this year — about 110,000 a day less than previously forecast — to average 99.7 million barrels a day, the IEA said. Demand will expand by about the same amount in 2023, it said. Crude futures have tumbled almost 25% over the past three months — trading near $93 a barrel in London on Sept. 14 — on signs of a global economic slowdown.

China buying more oil, natural gas and coal from Russia

(Reuters; Sept. 14) - China is buying more — and less expensive — energy supplies from Russia this year, reaping the benefits of a plunge in European purchases as the Ukraine crisis pushes Moscow in search of alternative markets. The growing cooperation, to be further deepened with Chinese President Xi Jinping's meeting with Russia's Vladimir Putin in Uzbekistan on Sept. 15, is a boost for both countries.

China has gained access to cheaper energy while Russia is able to offset losses from the European Union and other allies scaling back on purchases of Russian exports due to sanctions over its invasion of Ukraine. China, the world's largest energy consumer and top buyer of crude oil, liquefied natural gas and coal, has imported 17% more Russian crude between April and July from the same period a year ago.

It has also bought over 50% more LNG and 6% more coal from Russia during the same period, while electricity imports from Russia, mainly via a cross-broader transmission line connecting northeast China and Russia's Far East, soared by 39%. China's oil, gas, coal and electricity purchases from Russia amount to $43.68 billion so far this year. Cheaper Russian energy is helping to dampen inflation in China, where the economy narrowly avoided contracting in the second quarter amid COVID-19 lockdowns.

Russia tells India it’s willing to give larger discount on oil purchases

(Business Standard; India; Sept. 11) - In a bid to counter the growing clamor among the G7 nations to enforce a price cap on Russian oil sales, Moscow has told India it is willing to provide petroleum at even lower rates than before to the country’s importers, officials said. “In principle, the ask in return is that India should not support the G7 (Group of Seven) proposal. A decision on this issue will be taken later following talks with all the partners," an official with the Ministry of External Affairs said.

These “substantial discounts” will be steeper than those offered by Iraq in the past two months, officials said. In May, Russian crude oil was cheaper by $16 a barrel for India as compared to the average Indian crude import basket price of $110 a barrel. The discount was reduced to $14 a barrel in June, when the Indian crude basket averaged $116 a barrel. As of August, Russian crude sold to India cost $6 less than the average crude import basket price, officials said.

India’s biggest oil supplier, Iraq, undercut Russia beginning in late June, by supplying a range of crudes at an average cost of $9 a barrel less than Russian oil. The extremely price-sensitive market has shifted heavily back in favor of Iraq. The G7 nations of Canada, France, Germany, Italy, Japan, the U.K. and the U.S., along with the European Union, are currently pushing to institute a cap on the price of Russian oil. The Western allies hope to financially squeeze Moscow and cut off financing its invasion of Ukraine.

U.S. strategic oil reserve falls to lowest since 1984

(Reuters; Sept. 12) - U.S. emergency crude oil stocks fell 8.4 million barrels last week to 434.1 million barrels, the lowest since October 1984, according to U.S. Department of Energy data released Sept. 12. The release from the Strategic Petroleum Reserve in the week ended Sept. 9 was the steepest draw since May. It comprised about 6.3 million barrels of sweet crude and around 2 million barrels of sour crude.

President Joe Biden in March set a plan to release 1 million barrels per day over six months from the reserves to tackle high U.S. fuel prices, which have contributed to soaring inflation. The Biden administration is weighing the need for further releases after the current program ends in October, Energy Secretary Jennifer Granholm told Reuters last week. A DOE spokesperson later said the White House at that time was not considering new releases beyond the 180 million barrels.

The SPR stocks also have declined due to sales from congressional mandates and Biden's price initiative. The oil is sold to qualified oil companies via online auctions, and prices are set using a five-day average bracketing the date of delivery. The Department of Energy has proposed to replenish the reserves by allowing it to enter into contracts to purchase oil in future years at fixed, preset prices. The administration said it believes the repurchase plan would help boost domestic oil production.

Suppliers pay cancellation fee, resell LNG at a profit on spot market

(Bloomberg; Sept. 12) - The former unit of Russia’s Gazprom is paying a small penalty to scrap scheduled liquefied natural gas shipments to India, according to a government official. The move is the latest example of LNG suppliers exercising cancellation clauses in long-term contracts to free up shipments to sell into the more lucrative spot market. The strategy is becoming popular because spot prices are far higher than the value of shipments via long-term contracts, which were signed before the current energy crunch.

The Singapore unit of SEFE Marketing & Trading, formerly known as Gazprom Marketing & Trading, is continuing to cancel promised LNG supply to GAIL India by paying a fee of 20% of the value of the contractual shipment, according to an Indian government official. The penalty is roughly 4% of the value of current spot gas prices in Europe, according to Bloomberg calculations. GAIL’s contract allows for SEFE to cancel a shipment and pay a penalty, the Indian official said.

Due in part to the lost cargo, GAIL was forced to purchase a September shipment from the spot market at nearly $40 per million Btu last week, according to traders. A shipment under a long-term contract would be nearly one-fourth the price. The global energy crisis is upending the sanctity of long-term contracts, forcing some cash-strapped developing nations to rethink the role of LNG in their power mix. The cancellations are also exacerbating supply shortfalls in nations that can’t afford the pricey spot market.

Loss of Russian gas may ‘deindustrialize’ European economy

(The Wall Street Journal; Sept. 11) - European industry thrived for decades on a steady supply of cheap Russian gas, which flowed uninterrupted throughout the Cold War and other times of tension between Moscow and the West. Since invading Ukraine, Russian President Vladimir Putin has weaponized the country’s vast stores of energy to undermine support for Kyiv. The impact has pushed Europe to the brink of recession and threatens to inflict lasting harm on its manufacturing businesses.

Unlike the U.S., Europe leaned on manufacturing and heavy industry to keep its economy chugging in recent decades. A bigger chunk of its economy comes from the likes of steelmakers, chemicals producers and car makers. Europe's energy crisis has left few businesses untouched, even toilet-paper makers. Some industries, such as the energy-intensive metals sector, are shutting factories that analysts and executives say might never reopen, imperiling thousands of jobs. The question is whether the current pain is temporary, or marks the start of a new era of deindustrialization in Europe.

The continent might never again have access to the cheap Russian gas that helped it compete with the resource-rich U.S. and offset high labor costs, rigid employment rules and stringent environmental regulations. In the city of Žiar nad Hronom, Slovakia, built around a 70-year-old aluminum factory that supplies car-part makers across the continent, some fear for their financial future. "This is probably the end of metal production in Europe," said Milan Veselý, who has worked at Slovalco, majority owned by Norway's Norsk Hydro, all his adult life, following in his parents' footsteps.

Gas shortage in Europe leads to CO2 shortage; beer could be next

(Bloomberg; Sept. 13) - The Belgian brewer of Delirium Tremens beer is facing a real risk of halting production for the first time in more than a century as Europe's energy crisis creates unexpected ripple effects across the region. From German tomatoes to Swedish bread, Russia's squeeze on gas supplies is starting to hit sectors well beyond utilities and energy-intensive industries. The spillover on food and drink supplies will likely intensify as temperatures drop and households require gas for heating, forcing businesses and consumers into tough decisions.

Brewery Huyghe, located in the Belgian village of Melle, considered shutting production because of a 13-fold surge in the price of liquid carbon dioxide, which it uses to make beers bubbly. It's hoping a court will thwart its supplier's force majeure. Alain De Laet, owner of the family-run company, said his CO2 inventories could run out this week and force a stoppage for the first time since 1906, unless temporary supplies come through.

The Belgian brewery's woes were triggered by a chain of misfortunes that illustrate how interconnected Europe's economy is. Norwegian fertilizer giant Yara International halted ammonia output at a plant in the Netherlands. That in turn hit Huyghe's supplier Nippon Gases, which demanded 3,350 euros ($3,398) a ton for CO2 instead of 250 euros previously. Huyghe isn't alone. Carlsberg said it may need to "significantly reduce" or halt beer production in Poland due to a shortage of liquid CO2. A handful of other Belgian brewers are also affected by the issue, and concerns are growing.

European Commission drafts tax on energy company ‘surplus profits’

(Reuters; Sept. 12) - The European Commission wants to force fossil fuel firms that have pocketed gains from soaring energy prices to make a financial contribution to help citizens and industries grappling with sky-high bills, a draft document seen by Reuters showed. The proposal, details of which are expected to be unveiled by Brussels this week, would see European Union countries introduce a “solidarity contribution” for companies that have reported bumper profits from selling fossil fuels this year.

Oil, gas, coal and refining companies would make a contribution based on “taxable surplus profits made in the fiscal year 2022,” according to the draft, which could still be amended. The temporary scheme would raise cash to help governments mitigate Europe’s energy crisis with measures such as supporting households and businesses with high heat and power bills, helping energy-intensive industries, cutting EU energy consumption and making Europe more self-sufficient in its energy supplies.

“The solidarity contributions are justified by the fact that such companies make unpredictable surplus profits,” the draft said. “Those profits do not correspond to any regular profit that these entities would or could have expected to obtain in normal circumstances.” Some countries, including Italy, have already introduced a windfall profits tax on energy firms. The European Union measure would not require unanimous approval from the 27 member countries, though it would require approval from most.

EU plans to raise $140 billion to help consumers pay energy bills

(Reuters; Sept. 14) - The European Union's executive plans to raise more than 140 billion euros ($140 billion) to shield consumers from soaring energy prices by skimming off revenues from low-cost electricity generators and making fossil fuel companies share windfall profits. The European Commission published the proposals on Sept. 14 as the 27-member European Union grapples with an energy crisis fueled by Russia's invasion of Ukraine.

Governments across Europe have already ploughed hundreds of billions of euros into tax cuts, handouts and subsidies to tackle a crisis that is driving up inflation, forcing industries to shut production and hiking bills ahead of winter. "In these times, profits must be shared and channeled to those who need it most," European Commission President Ursula von der Leyen told the EU Parliament in Strasbourg, adding that the plans should raise more than 140 billion euros for member states to rechannel into helping businesses and retail consumers.

EU countries will have to negotiate the Commission's proposals and agree on final laws. The plan did not include an earlier idea to cap Russian gas prices. EU countries are divided over whether broader gas price caps would help or harm efforts to secure winter supplies. With gas price caps off the table, at least for now, some diplomats were optimistic that deals could be struck at a meeting of EU energy ministers on Sept. 30.

France opposes new gas line to link Spain with rest of Europe

(Reuters; Sept. 12) - French skepticism about a new gas pipeline across the Pyrenees mountains highlights the competing visions for Europe's future energy mix as the continent urgently confronts a power crisis. MidCat would be a third gas line between France and Spain which its main backers, Madrid, Lisbon and more recently Berlin, say would help Europe reduce its Russian gas reliance. But French President Emmanuel Macron has bluntly told his partners he sees no case for the multibillion-euro project.

France says MidCat would take too long to build, be costly for France and go against its ambitions toward a green economy. Officials in Spain and Germany, speaking on condition of anonymity, said they believe that France is acting to protect its own ailing nuclear industry and fend off competition from Spain as a staging post for imported gas. "Macron is under pressure at home from different groups, which don't like the pipeline … the biggest is surely the nuclear-power sector," a German government source said.

Russia supplied 40% of Europe's gas before its invasion of Ukraine. Now, the region is scrambling to diversify its energy sources and MidCat was one of the projects European Union ministers discussed at an emergency meeting last week. German Chancellor Olaf Scholz last month described the line as "dramatically missing" from Europe's network, and last week raised the issue with Macron during a videocall. Immediately afterward, Macron said the line could not be constructed swiftly enough to ease this winter's crisis.

Record drought imperils hydropower production, dependability

(The Wall Street Journal; Sept. 10) - Record drought across the globe this year dried up rivers and reservoirs and sapped the world’s largest source of renewable electricity: hydropower. The dip in electricity generated by the flow of water across dams in China, Europe and the U.S. has, in some places, caused factories and smelters to shut down for weeks on end. As governments push a transition away from fossil fuels and climate change upends the reliability of nature-driven energy sources, the drought has also raised questions about how hydropower fits into the energy mix.

The drop in output from hydropower, an energy technology long thought to be tried and true, is causing a rethink of how it fits into a resilient energy system, according to energy executives, analysts and government planners. Drought frequency and duration have increased by nearly a third globally since 2000, according to the World Meteorological Organization, a United Nations body.

Hydropower generated 16% of the world's electricity in 2021, more than all other sources of renewable energy combined, according to data from the International Hydropower Association. The question is: How sustainable is it? Parts of China endured the hottest and driest summer in 60 years. The Yangtze River is at the lowest level since records began. Water flowing to hydropower stations has halved. This led the government of Sichuan to order factory closures in 19 cities last month to ration power.

EIS finds adverse environmental justice impacts from LNG project

(Institute for Energy Economics and Financial Analysis; Sept. 12) - A major liquefied natural gas export project on the Gulf Coast would result in "disproportionately high and adverse" impacts for nearby environmental justice communities, staff at the Federal Energy Regulatory Commission concluded in an analysis last week. The finding could influence the commission's decision on the proposed Commonwealth LNG project, one of eight LNG facilities being developed or under construction in southwest Louisiana.

The conclusion in the final environmental impact statement for Commonwealth LNG suggests a potential turning point in FERC's consideration of equity and environmental justice effects, according to activists who oppose the project. Environmental justice refers to the fair treatment and protection of all people from environmental harms. It's a priority of President Joe Biden, who has promised to advance a "whole-of-government" approach to reducing inequities in infrastructure projects and their pollution.

"Just the fact that they've found environmental justice impacts is significant," said Naomi Yoder, a staff scientist at the group Healthy Gulf. Slated to begin operating in 2026, Commonwealth LNG would be capable of exporting up to 1.18 billion cubic feet of gas per day to markets overseas. Last week, the developer announced its first contract to sell gas from its proposed facility to the Australian energy company Woodside Energy.

In its environmental statement, FERC staff concluded that most of Commonwealth LNG's environmental impacts could be brought to "less than significant levels" or would only occur during the construction phase. However, staff found that the facility — in tandem with other industrial projects in the area, would result in adverse cumulative impacts for low-income and minority environmental justice communities.

Germany open to taking majority ownership of largest gas importer

(Bloomberg; Sept. 14) - The German government may increase its stake in Uniper above 50% and is open to taking the historic step of fully nationalizing the country's biggest gas importer to prevent a collapse of the energy system. Uniper needs more help from the state after already tapping into a support package that could be worth as much as $20 billion, according to people familiar with the matter. A surge in gas prices and Russian supply cuts have triggered millions in daily losses at Uniper, prompting the government to step in with a rescue package in July which included a 30% stake.

Chancellor Olaf Scholz’s administration is ready to inject more capital and increase its stake above the 50% threshold, said one of the people, who asked not to be identified because the information is confidential. A full nationalization is also under discussion, and Uniper’s Finnish parent company Fortum Oyj would have a say in that decision, the person said. Talks with the Finnish government — Fortum’s majority owner — are ongoing, and Germany has previously said it isn’t willing to buy out the Finnish stake.

Uniper confirmed on Sept. 14 that one of the options being discussed is the German government taking a “significant majority” stake in the business. “The deteriorating operating environment and Uniper’s financial situation have to be taken into account while Fortum, the German government and Uniper continue their discussions on a long-term solution,” Fortum said.

Canadian gas producers trim output due to pipeline maintenance

(Reuters; Sept. 12) - Two Canadian natural gas producers on Sept. 12 said they had temporarily reduced output due to pipeline bottlenecks that led to a collapse in western Canadian gas prices in the second half of August. Tourmaline Oil, Canada's largest gas producer, cut its third-quarter output by 1.5%, or 7,500 barrels of oil equivalent per day. Kelt Exploration reduced its 2022 production forecast by 1,500 barrels of oil equivalent a day (about 6,000 cubic feet of gas equals the energy in a barrel of oil).

Spot natural gas prices at the AECO hub in western Canada tumbled last month and briefly turned negative as maintenance on TC Energy's pipeline system cut capacity, leaving gas stranded in Alberta and at the Station 2 hub in British Columbia. The price collapse came amid a global surge in gas prices to record highs, as European countries scrambled to replace Russian supplies. Spot Canadian gas traded at $2.248 per million Btu at AECO on Sept. 9, having recovered from the August lows.

However, Kelt warned there could be more AECO volatility through September and October as further maintenance on the pipeline system is completed. Calgary-based Tourmaline shut in approximately 100 million cubic feet a day of existing production and delayed the start-up of several new drilling pads from August to September or October.