Oil and Gas News Briefs
Compiled by Larry Persily
April 17, 2023

IEA forecasts OPEC cuts will push oil market into supply deficit

(Wall Street Journal; April 14) - The oil market will fall into a far larger oil deficit sooner than expected following surprise production cuts from some of OPEC's leading members, the International Energy Agency said April 14. The gaping hole in the global market between the availability of crude and rebounding demand will reach 2 million barrels a day by the third quarter of the year, the Paris-based energy watchdog said in a closely followed monthly report.

The gap, which oil producers outside of OPEC will be unable or unwilling to fill, risks sending crude prices sharply higher and worsening inflation just as it appears to be moderating, the IEA said. Saudi Arabia and some of OPEC's largest producers earlier this month said they would cut oil output by nearly 1.2 million barrels a day. The news took the market by surprise and came as analysts had predicted that more oil was needed to satisfy rebounding demand in China and prevent prices from jumping.

Russia, which is allied with OPEC in an alliance known as OPEC+, also said it would extend a round of its own oil cuts until the end of the year. The OPEC+ cuts will total roughly 1.6 million barrels a day, though many analysts expect the actual reduction to be slightly lower in practice. The OPEC share of the cuts is expected to begin next month and last until the end of the year. Oil-producing nations not part of OPEC are set to increase their output during the same period, which should soften the impact.

OPEC report predicts global oil demand will increase this year

(Wall Street Journal; April 13) - Demand for crude oil is expected to build by more than 2 million barrels a day this year, the Organization of the Petroleum Exporting Countries said, despite several of its largest members recently slashing output, setting up a growing gap between supply and demand that could push crude prices higher. The oil-producers group said in a monthly report that it still expects demand for crude to grow by 2.3 million barrels a day this year, in line with earlier forecasts.

The cartel said oil demand was 101.55 million barrels a day in the first quarter of the year and foresees it rising to 103.27 million barrels a day by the final quarter of the year. By sticking to its forecasts, OPEC's own oil analysts appear to be at odds with recent steps taken by some of the cartel's largest members, including de facto leader Saudi Arabia, which earlier this month slashed output by more than 1 million barrels a day starting next month and due to last through the year.

OPEC's report April 13 said the cartel's production would need to grow by more than 1 million barrels a day between the first and final quarters of the year to keep oil markets balanced and keep pace with rising demand in China. The oil market is widely seen as tightly balanced between supply and demand, as Western sanctions on Russia have crimped its oil output, while Western producers are expected to stand pat — and as demand in Asia grows. The Saudi-led move to cut production took markets by surprise, sent prices higher and irked the U.S. which is increasingly at odds with Saudi Arabia.

Saudis and rest of OPEC+ operate outside Washington influence

(Bloomberg; April 13) - Just three years ago, when OPEC+ oil giants fought a costly price and production war, the U.S. found itself playing the role of peacemaker. Now it looks more like their target. The Saudi-Russia oil alliance has the potential to cause all kinds of trouble for the U.S. economy — and even for President Joe Biden's re-election campaign. This month's OPEC+ decision to cut crude output, for the second time since Biden flew to Saudi Arabia last summer seeking an increase, may be just the start.

That April 2 announcement has lifted oil prices by about $5 a barrel, and OPEC's own projections show that the cuts will widen the supply shortfall later this year. That means inflation will be higher and recession risks will be bigger — consumers spending more on energy will have less cash left for other stuff. Russian President Vladimir Putin, meanwhile, gets a bigger war-chest to fund his attack on Ukraine. But more significant is what the OPEC+ move says about the likely path of oil prices over the coming years.

In a world of shifting geopolitical alliances, Saudi Arabia is breaking away from Washington's orbit. The Saudis set oil production levels in coordination with Russia. When they wanted to ease tensions with regional rival Iran, they turned to China to broker a deal — with the U.S. left out of the loop. Western influence over the oil cartel is at its lowest point in decades. And OPEC+ members all have priorities of their own, from Saudi Crown Prince Mohammed Bin Salman's ambitious plans to reinvent his economy, to Putin's war. Any extra revenue they get from charging more for oil is a help.

Russian oil exports climb to highest level since April 2020

(CNN: April 14) - Russia's oil exports have bounced back to levels last seen before it invaded Ukraine, despite a barrage of Western sanctions. Moscow's exports of crude and oil products rose in March to the highest level since April 2020, jumping by 600,000 barrels a day, the International Energy Agency said in its monthly oil report April 14. The boost lifted Russia's estimated revenue from oil exports to $12.7 billion last month.

The revenue is still down 43% from a year ago, the IEA said, as Russia is forced to sell its barrels to a more limited pool of customers who can negotiate substantial discounts.

Western countries have imposed a raft of sanctions on Moscow’s energy exports since President Vladimir Putin ordered his troops into Ukraine in February last year. The most significant are a ban on Russian seaborne crude imports into the European Union and a ban on refined oil products such as diesel into the bloc.

But Russia, the world’s second-largest exporter of crude, has found buyers in China and India to replace European sales. Still, sanctions have made a major dent in Russia’s coffers. Last week, the government said declining energy revenues had contributed to a budget deficit of 2.4 trillion rubles ($29 billion) in the first three months of this year. Its overall income plunged nearly 21% compared with the same period in 2022. Russia relies on the oil and gas sector to finance about 45% of its budget, according to the IEA.

Crude oil at sea increases to highest volume since 2020

(Bloomberg; April 13) - The volume of crude oil on tankers at sea jumped to the highest since 2020, the latest demonstration of how Russian crude is sailing longer distances to new buyers. Oil on water — the volume of crude sailing to a destination or floating idle at sea — rose to 1.27 billion barrels last week, according to Vortexa data. The increase reflects the recasting of the global oil market following Russia’s invasion of Ukraine.

The figure is up by almost 230 million barrels since August as Moscow diverts supplies to buyers farther afield, especially India and China, while Europe has had to pull in more crude from elsewhere. In addition, record U.S. exports have lengthened the distances ships are sailing to deliver supplies. “Russia is diverting larger quantities of its crude to non-EU countries, while Europe is importing its crude from farther locations,” UBS Group analysts including Giovanni Staunovo wrote. “Longer routes mean the shipped oil spends more time on a tanker.”

China plans to speed up coal mine approvals to meet energy needs

(Reuters; April 12) - China plans to accelerate the approval of new coal mines and fast track the construction of already approved mines to support its baseload energy supply during demand spikes, Liang Changxin, an official from the National Energy Administration, said on April 12. Peak energy demand is expected to exceed 1.36 billion kilowatts this summer, representing a "significant increase on last year,” Liang added.

Some provinces could face power cuts this summer as a result, the NEA official warned. China's energy consumption typically spikes in the summer months due to household demand for air conditioning. This, combined with a related slump in power from hydro sources due to low rainfall, led to a wave of blackouts across southwest China last year.

China continues adding wind and solar power

(S&P Global; April 13) - China expects to raise the share of non-fossil fuels in its overall energy mix to 18.3% in 2023, up from 17.5% in 2022, as part of its energy transition push, the country's energy regulator said April 12. The proportion of non-fossil based power generation capacity is expected to increase to about 51.9% of the that segment, the National Energy Administration (NEA) said in a guidance.

China's non-fossil based power generation capacity — which includes solar, wind, hydro and nuclear — was about 1,270 gigawatts at the end of 2022, accounting for 49.6% of the total installed capacity of 2,560 GW, according to China Electricity Council. The NEA also said the proportion of wind and solar power alone is expected to reach 15.3% of total power consumption this year, while wind and solar PV installed capacity is likely to rise by about 160 GW in 2023.

This is expected to be one of the largest annual additions of renewable energy capacity in a single country and will outpace the coal power capacity growth in China. However, in order to ensure the security of energy supply, China will continue to enhance oil and gas exploration and development efforts in 2023. The country will also accelerate the construction of important natural gas production projects in northern Shaanxi, southern Sichuan, and Bozi-Dabei, the NEA said, without giving any specific targets.

Germany starts shutdown of its last nuclear power reactors

(Associated Press; April 15) - Germany began winding down its three remaining nuclear power plants April 15 as part of a long-planned transition toward renewable energy, drawing cheers from environmentalists who campaigned for the move. The shutdown was agreed to more than a decade ago, then briefly delayed to ensure adequate energy supplies after Russia cut off natural gas flows to Germany. Other industrialized countries, however, such as the United States, Japan, China, France and Britain still are counting on nuclear energy to help replace planet-warming fossil fuels.

Decades of anti-nuclear protests in Germany, stoked by disasters at Three Mile Island, Chernobyl and Fukushima, put pressure on successive governments to end the use of a technology that critics argue is unsafe. Defenders of atomic energy argue that nuclear power produces far fewer greenhouse gas emissions and is safe, if properly managed. Bavaria’s conservative governor, Markus Soeder, who backed the original shutdown deadline set in 2011, this week called the closures “an absolute mistaken decision.”

“While many countries in the world are even expanding nuclear power, Germany is doing the opposite,” Soeder said. “We need every possible form of energy.” Advocates of nuclear power worldwide have slammed the shutdown. The German government has acknowledged that, in the short term, the country will have to rely more heavily on polluting coal and gas to meet its energy needs, even as it takes steps to ramp up electricity production from solar and wind. Germany aims to be carbon neutral by 2045.

Fossil fuel executives start new careers in green hydrogen

(Wall Street Journal; April 15) – Fossil fuel executives are following the money into green hydrogen. The queen of liquefied natural gas, an Italian energy executive and top officials from companies entwined in the fossil fuel industry have made the switch to the nascent hydrogen business. Green hydrogen is produced by splitting water using machines called electrolyzers that run on renewable power. Its ability to carry “green electricity” where it is needed and power fuel cells has made it a dream of clean-energy advocates for decades and drawn interest from the fossil fuel industry.

Among the highest-profile executives to make the switch is Meg Gentle, a former top executive at U.S. liquefied natural gas companies Cheniere Energy and Tellurian. She is known by some as the queen of LNG for her work helping Cheniere build the first LNG terminal on the Gulf Coast to export natural gas extracted in the U.S.

Gentle is executive director or start-up HIF Global, which had a project in Chile to produce synthetic fuels based on green hydrogen — which is typically combined with carbon dioxide — and could replace conventional gasoline or shipping fuel. HIF is attempting to complete its first large facility in Texas by 2027. Green hydrogen facilities require new infrastructure, financing, permitting and customer agreements, components that energy veterans such as Gentle say are similar to aspects of the fossil-fuel sector.

Others jumping into green include Mark Hutchinson, formerly head of GE’s Europe and China divisions and now CEO of the clean-energy unit of miner Fortescue Metals; Paul Eremenko, former chief technology officer at United Technologies and Airbus and now CEO of flight-infrastructure focused Universal Hydrogen Co.; and Marco Alverà, former executive at Italian energy firms Enel and Eni and now CEO of Tree Energy Solutions.

Report cites 27 bcf of gas lost to leaks, flaring in Louisiana in 2019

(The Associated Press; April 13) - Louisiana lost more than $82 million worth of natural gas in 2019 due to leaks, venting or flaring at production sites, according to a study released April 13 by an environmental group and government watchdog organizations. The Environmental Defense Fund’s report said state fossil fuel producers wasted more than 27 billion cubic feet of gas in 2019. The report estimated the state lost out on $2.5 million in tax and royalty revenue. The report also said it was an environmental hazard because methane, a major component of natural gas, is a contributor to climate change.

More than 81% of wasted gas was from leaks. Less than 1% was from purposeful venting, and 19% was lost by flaring. Releasing gas by venting small amounts or by burning it is done for a variety of reasons involving safety and economics. “That’s enough lost gas to meet more than two-thirds of residential natural gas demand in the state for a year,” a statement accompanying the report said.

The research was done by Synapse Energy Economics, a consulting firm that lists various environmental groups and municipal, state and federal agencies among its clients. The report comes as the federal Environmental Protection Agency considers rules aimed at preventing gas releases, including inspection requirements for well sites. The state also is setting in motion a process for developing rules to deal with the issues, said Patrick Courreges, spokesperson for the state Department of Natural Resources.

LNG down below $12 as winter season ends and storage fills up

(Bloomberg; April 15) - The world is becoming awash with natural gas, pushing prices lower and creating an overabundance of the fuel in Europe and Asia — at least for the next few weeks. The trend has been a rare sight over the past year since the war in Ukraine upended energy markets and Europe rushed to secure as many alternative supply sources as possible. Now, gas inventories are filling up from South Korea to Spain, a result of mostly mild winter weather and efforts to reduce consumption.

Tankers filled with liquefied natural gas now often struggle to find a home, spending weeks idling at sea. Demand for gas typically slides as the heating season ends, before hotter weather lifts cooling needs in the summer. During that window, the fuel mainly goes into storage to prepare for the next winter, but this year, refilling efforts in Europe may be completed as early as late August, Morgan Stanley said, depending on weather.

“There does appear to be a brief gas glut that should sustain pressure on LNG prices in the next few weeks, potentially nudging benchmarks slightly lower,” said Talon Custer, a Bloomberg Intelligence energy analyst. While gas prices in Europe and Asia have plummeted from last year’s highs, they’re still well above the average of the past 10 years, signaling possible concern that the current glut could disappear. Custer said prices “may be close to a floor” as cheaper gas could spur additional demand. Spot-market LNG sold at below $12 per million Btu last week, off last summer’s $70 highs.

IEA says gas demand could decline, but investments still needed

(S&P Global; April 13) - Global natural gas demand is expected to grow at a slower rate or decline in the mid to long term, but new investments in gas supply remain necessary to offset production declines from existing fields, the International Energy Agency said, marking a turnaround in its view on investments. In its latest report released just days ahead of the G7 climate and energy ministerial meeting, the IEA said "additional upstream investment" is required both in its flat or declining gas demand scenarios.

The role of LNG will be discussed by delegates at the G7 Ministers' Meeting on Climate, Energy and Environment at Sapporo, Japan, over April 15-16, which will happen against the backdrop of energy security challenges and an urgency to make progress toward carbon neutrality. "In the midst of a global energy crisis in which shortages of gas have played a central role, fundamental questions are now being asked about the long-term future of natural gas," the IEA said in its report on gas markets and investment.

"The crisis has reminded policy makers and energy consumers of the immediate importance of stable and affordable natural gas supplies. The traditional arguments in favor of gas — its role as a reliable partner to the clean-energy transition and its ability to step in to fill the gap left by declining coal and oil — are also being tested." The IEA expects gas demand to decline in advanced economies across the three scenarios on the back of growing policy support, and incentives for clean energy and efficiency.

Colorado officials want closer federal look at new oil trains

(The Denver Post; April 13) - Several Colorado elected officials say federal agencies that approved a plan to run daily crude oil trains from Utah through Glenwood Canyon and Denver shrugged off potential “downline” impacts and need to take a closer look. Colorado Sen. Michael Bennet and Rep. Joe Neguse have asked the Environmental Protection Agency to conduct a supplemental review of the Uinta Basin Railway project to more carefully consider the risks to Colorado communities and the environment.

Several western Colorado cities and counties are lending their support to a consolidated lawsuit by environmental organizations and Eagle County against the trains. They say the environmental analysis of the rail project, which is being pursued by seven eastern Utah counties, is flawed because it glosses over the potential impacts of running as many as five trains carrying up to 350,000 barrels of waxy crude a day through Colorado. The destination would be refineries on the U.S. Gulf Coast.

The federal Surface Transportation Board wrote the environmental impact statement for the project that will build an 88-mile line in Utah to connect the Uinta Basin to the national rail network. The EIS was approved in 2021. The U.S. Forest Service issued permits in 2022 to build on roadless national forest land. Critics of the public-private project question the plan by the project’s organizers to seek $2 billion in tax-exempt private activity bonds to finance construction.

South Africa’s Sasol wants to reduce its emissions from coal

(Bloomberg; April 12) - South Africa’s second-biggest emitter aims to be among the continent’s biggest buyers of renewable energy — but for now Sasol remains firmly tied to fossil fuels. The company that made its name producing synthetic fuel and chemicals from coal, aims to reach net-zero emissions by 2050. That plan has been criticized as vague by activists and unrealistic by some analysts.

Curbing emissions will be an especially heavy lift for Sasol — its biggest plant produces more greenhouse gas than the global operations of oil companies BP or Marathon. Sasol’s CEO Fleetwood Grobler said the company is committed to its green future; the company just needs profitability to get there. That starts with the dirtiest fossil fuel, coal, which has been the company’s lifeblood since it was founded in 1950 and what has made its Secunda plant in central South Africa the world’s single most-polluting site.

“We’ve got a focus on coal quality that’s impacting our operations,” he said in an interview at the company’s headquarters. Sasol has exhausted the richest deposits at its mines and what’s left doesn’t work as well in processes that convert the mineral into fuel, he said. “We are working hard to remediate that.” Sasol’s strategy to cut emissions by 30% by 2030 also involves displacing one fossil fuel with another. Reducing the 40 million tons of coal it mainly uses to make fuel each year by a quarter will mean finding enough natural gas, which is more efficient and creates lower emissions, Grobler said.