Oil and Gas News Briefs
Compiled by Larry Persily
August 14, 2023

Global oil markets tighten as supply falls short of demand

(Bloomberg; Aug. 10) - Global oil markets are on track for a sharp supply deficit of more than 2 million barrels a day this quarter as Saudi Arabia slashes production, OPEC data indicate. Overall output from the Organization of the Petroleum Exporting Countries tumbled last month as the kingdom implemented a unilateral cutback of its own production to tighten markets and shore up prices.

The Saudis will maintain their cutback this month and next as planned, meaning OPEC production could average the current rate of about 27.3 million barrels a day for the quarter through September. That's about 2.26 million a day less than consumers need, potentially resulting in the steepest inventory decline in two years, OPEC data suggest in an Aug. 10 report. Prices have climbed to a seven-month high near $88 a barrel for benchmark Brent as world consumption rises toward record levels while OPEC and its partners constrain supply, depleting inventories in the U.S. and elsewhere.

Still, it's possible that stockpiles don't fall as dramatically as OPEC's projections imply. Demand in China, the world's biggest importer, is clouded by lackluster economic signs. The country's crude imports tumbled in July to the lowest in six months, and its latest consumer price index suggests China has slid into deflation. Concerns also persist over the health of the U.S. economy. But for the time being, the oil market is clearly tightening. Production from OPEC's 13 members declined by a hefty 836,000 barrels a day in July. Oil inventories in developed nations are below their five-year average.

OPEC+ production cuts dig into global inventories, boosting prices

(Reuters; Aug. 11) - The International Energy Agency on Aug. 11 said OPEC+ supply cuts could erode crude oil inventories during the rest of this year, potentially driving prices even higher before economic headwinds limit global demand growth in 2024. Tighter supply driven by OPEC+ output cuts and rising global demand has underpinned a rally in oil prices, with benchmark Brent crude hitting highs of over $88 a barrel on Aug. 11, the highest since January.

The IEA said that if OPEC+ production targets are maintained, oil inventories could be drawn down by 2.2 million barrels per day in the third quarter and 1.2 million per day in the fourth, with a risk of driving prices still higher. "Deepening OPEC+ supply cuts have collided with improved macroeconomic sentiment and all-time-high world oil demand," the Paris-based energy watchdog said in its monthly oil market report.

The Organization of the Petroleum Exporting Countries and its allies, together known as OPEC+, began limiting supplies in late 2022 to bolster the market and in June extended supply curbs into 2024. The IEA said global oil supply plunged in July by 910,000 barrels per day in part due to a sharp reduction in Saudi output. Russian oil exports held steady in July, the IEA said. For next year, demand growth is forecast to slow sharply to 1 million barrels per day, the IEA said, citing lackluster economic conditions, a post-pandemic recovery running out of steam and the burgeoning use of electric vehicles.

Global oil demand continues to set records

(Financial Times; London; Aug. 11) - Global oil demand has hit a record and may move higher in August, threatening to prolong a recent rally in crude prices, the International Energy Agency said on Aug. 11. Demand reached an all-time high of 103 million barrels a day in June driven by better-than-expected economic growth in OECD countries, strong summer air travel and surging oil consumption in China, particularly for petrochemical production, the IEA said in its monthly oil report.

The data on rising oil consumption shows that global efforts to cut carbon emissions are yet to have a significant impact on oil demand, just as the Northern Hemisphere summer has been rocked by record temperatures and wildfires. The IEA said demand could hit another peak this month and is on track to average 102.2 million barrels per day in 2023, a record level. It expects that 70% of the growth coming from China.

Russian oil companies may be profiting by overcharging for shipping

(Financial Times; London; Aug. 13) - Inflated shipping costs are enabling Russian companies to earn far more from oil sales to India than previously recognized, according to a Financial Times analysis which suggests that the excess charges may have raised more than $1 billion in a single quarter. Russia has, until recently, appeared to comply with Western measures designed to curb its revenues which were introduced after its full-scale invasion of Ukraine last year. Its oil producers have been selling crude to India for below the $60-per-barrel price cap.

But when freight costs are included, Russia's oil companies and the traders they work with have charged much higher sums above the cap. An analysis of ships running from Russia's Baltic Sea ports to India suggests that this overcharging, combined with fees earned from shipping the oil on Russia-linked vessels, may have been worth $1.2 billion in the past three months to July.

Benjamin Hilgenstock, an academic at the Kyiv School of Economics, which has been studying evasion of the price cap, said: "Inflated shipping costs are a major concern as they effectively create a leak in the price cap regime through which someone, somewhere can siphon off billions of dollars.” The price cap is intended to keep Russian oil flowing while squeezing revenues that could be used to fund the war. But the cap — which places requirements on buyers, shipowners and insurers from participating countries — does not impose any limit on freight costs.

An official at an Indian state-owned oil company said no negotiation was allowed over freight arrangements or costs on the Russian oil the company has purchased. Any excess charges are therefore likely to have been captured by the sellers of the oil.

Crude oil shipments increase through Russia’s Northern Sea Route

(High North News; Aug. 10) - Russia’s Northern Sea Route is seeing unprecedented levels of transit shipping activity. Following two initial crude oil shipments departing in mid-July, four more oil tankers are now headed to China via the Arctic. Altogether at least six crude oil or product tankers are currently en route to China across the Arctic Ocean. Experts say this level of shipments to China or anywhere else in Asia via the Arctic is unprecedented.

“One thing is pretty certain, the crude exports that sailed (in July) via the NSR from Russia is the highest-ever monthly reading on that route, by far. The previous high was … one tanker,” said Viktor Katona, an analyst at Kpler, a commodities data and analytics firm. Thus far, all oil shipments have been aboard ice-capable ships. However, this may change as summer navigation season hits its peak. Earlier this year Russian officials stated their intention to use non-ice class tankers to ship oil across the Arctic.

Proposed Utah rail line to move more oil stirs controversy

(Associated Press; Aug. 10) - To move fossil fuels from the Uinta Basin’s massive reserves to refineries around the country, officials in Utah and oil and gas companies are chugging along with a plan to invest billions to build an 88-mile rail line through national forest and tribal land that could allow them to quadruple production. The Uinta Basin Railway would let producers, currently limited to tanker trucks, ship an additional 350,000 barrels of crude daily on trains up to 2 miles long. Backers say it would buoy the local economy and lessen America’s dependence on oil imports.

The rail link has the support of the Ute Indian Tribe of the Uintah & Ouray Reservation and Utah lawmakers. The state has allocated more than $28 million to help launch the proposal and clear early permitting. It’s won key approvals from the U.S. Forest Service and Surface Transportation Board. But its progression through the permitting process could complicate the president’s standing among environmentally minded voters.

“They’re not following their own policies,” said Deeda Seed of the Center for Biological Diversity, one of several groups that has sued over the project. “The world’s on fire. The Biden administration says they want to stop the harm. So far, they’re enabling a project that makes the fire even bigger.” The year ahead will likely be critical for the railroad as it seeks additional approvals from the Forest Service, Department of Transportation and Bureau of Indian Affairs. Completion could be years away and will require fending off fiscal, environmental and safety concerns.

“These trains would run directly alongside the headwaters of the Colorado River — a vital water supply,” Colorado’s Sen. Michael Bennet and Rep. Joe Neguse wrote in a letter last month about the route the trains would take when the new track connects to broader rail lines. “An oil spill in the Colorado River headwaters would be catastrophic.”

Oil and gas companies see potential in lithium production

(Bloomberg; Aug. 9) - The biggest fossil fuel producers are jumping on the energy-transition bandwagon and looking to start extracting lithium, a mineral used primarily in technologies meant to usher in the end of the fossil fuels era. Executive chatter during Big Oil’s latest earnings season made clear that the petroleum industry is seriously looking at ways to produce the silver-white metal needed in batteries for electric vehicles, solar panels and wind turbines.

ExxonMobil CEO Darren Woods told analysts the oil company can produce lithium “at a much lower cost” than traditional mining. Chevron said such efforts fit within its “core capabilities.” It’s a signal that the world’s oil heavyweights finally are seeing upside to extracting a mineral that has long been associated with oil and gas. Lithium is found in saltwater deposits — and in oil brine — that exist naturally or as byproducts in oil fields. It may be a while before any fossil fuel company starts advancing lithium production at commercial scale. First, they’ll have to convince shareholders it’s a worthy investment.

For decades, drillers have disposed of that brine by pumping it back into the ground and not bothering with the lithium. Now, with the rise of EVs and a U.S.-led push to secure domestic supplies of battery metals, what was once considered waste is looking more valuable. The energy companies aren’t talking about mining in the traditional sense, though. Oil brine needs a different set of tools — specifically, an early-stage technology that hasn’t been used at commercial scale called direct lithium extraction. It’s a process that dozens of upstart miners are rushing to develop.

Natural gas discoveries transform Israel’s energy world

(Washington Post; Aug. 10) - Fifty miles off the coast of Israel, a hulking rig floats on the sparkling blue waters of the Mediterranean, processing natural gas drilled from thousands of feet below. The 70,000-ton facility, tied to the seabed by 14 cables, is like a floating town — stacked with dorms, gyms and control areas. The $2 billion project is staffed with 145 workers, trained to respond to the unique security risks of an Israeli installation just 15 miles from Lebanese waters, which Israel views as enemy territory.

“We’re doing this very quietly, but it has a substantial influence on Israel’s economy,” said Shaul Zemach, CEO of the Israeli subsidiary of Energean. The London-based firm brought the rig online at the Karish gas field last fall after a landmark maritime deal between Israel and Lebanon — a diplomatic breakthrough that included Hezbollah, the Iranian-backed militant group. There are an estimated 1.75 trillion cubic feet of reserves in the Karish field alone; already, it produces 35% of the gas consumed in Israel.

Natural gas has transformed Israel, once a resource-poor nation, into a regional energy powerhouse. The discovery of significant offshore fields a decade ago has allowed it to become largely self-sufficient and has opened up lucrative export opportunities. Earlier this year, the United Arab Emirates’ state-owned oil and gas company and BP announced an offer to buy a stake in NewMed, one of Israel’s largest gas companies. In 2021, the UAE’s sovereign wealth fund purchased a $1 billion share in Tamar, Israel’s second-largest gas field. “The atmosphere has completely changed,” said Hezi Kluger, a former Israeli energy minister who oversaw the sector’s development in the 2000s.

Standoff with U.S. LNG project prompts review of contract terms

(Reuters; Aug. 9) - The standoff between U.S. LNG developer Venture Global and its customers over the start of commercial shipments has caused liquefied natural gas buyers to broadly review their contract terms, according to developers and experts. BP, Shell and Edison International have filed arbitration cases against Venture Global over its failure to supply LNG under long-term contracts even as the company shipped some 177 cargoes from its Louisiana terminal to non-contract buyers in the past 16 months.

Venture Global has blamed equipment failures for its inability to supply its contracted buyers with liquefied natural gas cargoes despite twice-a-month shipments to higher-price spot-market buyers. The company calls the shipments to date "pre-commission cargoes." The definition of commissioning and its trigger for contract volumes has become more acute since the dispute began, said Anatol Feygin, executive vice president at Cheniere Energy, the largest U.S. LNG exporter.

The point at which LNG cargoes become available to buyers under long-term agreements has taken on greater importance in light of the Venture Global standoff, said Ira Joseph, a Global Fellow at Columbia University's Center for Global Energy Policy. "It will be a focus now for long-term buyers," Joseph said. LNG shipping and brokering firm Poten & Partners said customers pursuing new deals are focused on ensuring that their right of first refusal for any additional commissioning cargoes is explicit in LNG agreements, said Jason Feer, global head of business intelligence.

Potential strikes at Australia LNG plants unsettle market

(Bloomberg; Aug. 9) - Potential strikes at three major liquefied natural gas facilities in Australia could disrupt about 10% of global exports of the fuel and deliver a new price shock across Asia and Europe. Workers at Chevron and Woodside facilities in Australia have voted to approve action at the North West Shelf, Wheatstone and Gorgon operations, and some walkouts could begin as soon as next week under labor rules.

“The situation highlights the importance of Australian LNG for global energy security, with even the possibility of a disruption to Australian gas supply causing large price spikes as far away as Europe,” said Saul Kavonic, a Sydney-based energy analyst at Credit Suisse. “But in all likelihood an accommodation will be reached before it presents a material impact on global LNG supply.”

This week’s spike in gas prices in Europe, which rarely receives LNG from Australia, highlighted the region’s nervousness following last year’s crisis that saw flows drop from Russia, traditionally its biggest source of the heating and power plant fuel. Worries have persisted even with Europe’s gas storage levels currently at almost 90% and above the five-year average, according to Goldman Sachs analyst Samantha Dart. Any squeeze on exports from Australia would stoke competition for LNG between Asia and Europe.

Germany’s gas storage operators call for more investment

(Bloomberg; Aug. 10) - Germany will continue to face a risk of severe gas shortages until early 2027 unless it invests in more infrastructure to smooth out potential strains from cold weather. Additional liquefied natural gas import terminals, storage capacity and pipeline connections are needed to ensure sufficient supply, the country’s gas storage operators group INES said. For now, stockpiles are “developing positively” and are nearly 90% full, but a cold winter could put Germany’s energy security at risk.

Europe’s largest economy was among the hardest hit by Russia’s curtailment of gas shipments last year but has managed to build up alternative supplies thanks to a combination of mild winter weather and reduced consumption, as well as a rapid build-out of LNG import terminals on its coasts. However, some of those have faced local opposition. If very cold temperatures were to hit Germany during the upcoming winter, storages could be depleted by the end of next January, INES showed in its analysis.

Ownership dispute persists over oil removed from abandoned tanker

(The New York Times; Aug. 11) - A U.N. operation to transfer more than one million barrels of oil from a decaying tanker into another ship off the coast of Yemen has been completed, officials said on Aug. 11, averting a catastrophic spill that could have devastated marine life and communities across the Red Sea. But with one crisis averted, another looms: The recovery vessel could be stranded until thorny negotiations over who owns the transferred oil are resolved.

Yemen, the world’s poorest Arab country, has been fractured by a war that has stretched on for eight years, with territory carved up under the control of two rival governments and various militias. For years, both of those governments have claimed ownership of the oil on the decaying tanker, called the FSO Safer, hoping to gain desperately needed revenue from its sale.

The Safer held about four times the amount of oil leaked in the disastrous 1989 Exxon Valdez spill in Alaska. The 1,188-foot tanker was largely abandoned during the war and had been poorly maintained for years. The recipient tanker will be managed and maintained by the U.N. until the end of the year and then handed over to Yemen’s state oil company. But both the Houthis and the internationally recognized Yemini government claim ownership of the company. The question of who gets the revenue from the oil sales has been disputed since talks about the tanker began in 2018.