# Oil and Gas News Briefs
# Compiled by Larry Persily
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## U.S. on track to produce more oil than any country in history

(CNN; Dec. 19) - As the world grapples with the existential crisis of climate change, environmental activists want President Joe Biden to phase out the oil industry — while Republicans argue he's already doing that. Meanwhile, the surprising reality is the U.S. is pumping oil at a blistering pace and is on track to produce more oil than any country has in history. The U.S. is set to produce a global record of 13.3 million barrels per day of crude and condensate during the fourth quarter of this year, according to a report published Dec. 19 by S&P Global Commodity Insights.

That's higher than the Donald Trump-era record of 13.1 million set in early 2020 just before the COVID-19 crisis sent oil output and prices crashing. Record U.S. production been helping to keep a lid on crude and gasoline prices. U.S. production — led by shale oil drillers in Texas and New Mexico's Permian Basin — is so strong that it's sending more supplies overseas. America is exporting the same amount of crude oil, refined products and natural gas liquids as either Saudi Arabia or Russia produces, S&P said.

Record-shattering U.S. production is helping to offset aggressive supply cuts meant to support high prices by OPEC+, mainly Saudi Arabia and Russia. Other non-OPEC oil producers including Canada and Brazil are also pumping more oil than ever before. The strength of U.S. output has caught experts off-guard. Goldman Sachs analysts on Dec. 17 cut their forecast for oil prices next year. The bank said the "key reason" behind the lowered forecast is the abundance of U.S. supply.

## Record oil production boosts New Mexico revenues to highest ever

(Santa Fe New Mexican; Dec. 17) – New Mexico state lawmakers will once again head into the legislative session with record oil production pumping up tax revenues to its highest level ever — a trend that's buoying most state officials while raising concerns among conservationists about the leverage it gives the industry to thwart anti-pollution efforts. New Mexico's oil production jumped to 658 million barrels in fiscal year 2023 from 531 million barrels in 2022, helping to nudge tax revenue to a record $12.7 billion.

State finance officials estimate the fossil fuel industry now accounts for 40% of the state's yearly revenue, which funds education, social services, infrastructure improvements and many other programs. But environmentalists contend that as oil companies generate more tax revenue, they also produce more pollution and enjoy more political pull in the Legislature, all while the state becomes more financially dependent on the industry.

One economist said every legislative session presents a tricky challenge for state leaders in balancing a green agenda — including accelerating the transition to renewable energy — and accommodating an industry that injects big money into a relatively poor state. “It does put the Legislature and the governor in kind of an awkward position,” said Jim Peach, a New Mexico State University economics professor emeritus. “It’s a difficult problem.”

## Chinese refiner buys discounted Venezuelan crude

(Reuters; Dec. 19) - China's Sinochem Corp. has bought a million barrels of Venezuelan crude oil for arrival in December, a rare purchase as the state oil and chemicals group capitalizes on Washington's suspension of sanctions on the South American producer. In mid-October, Washington suspended sanctions on Venezuela's oil and gas exports for six months, prompting a flurry of spot trades of crude and fuel through Western traders such as Trafigura and Vitol as well as middlemen.

Sinochem has agreed to buy the cargo of heavy Venezuelan Merey crude at a discount of $11 a barrel to dated Brent crude, three traders with knowledge of the purchase told Reuters. The cargo is for delivery to Sinochem's Changyi refinery in the eastern province of Shandong, one of several it runs in the refining hub. "(Sinochem) barely touched Venezuelan oil before, although several of its subsidiary plants are configured to process heavy type of crude oil," said a trader familiar with its Changyi plant.

Before the U.S. eased sanctions, Chinese independent refiners were top customers for Merey crude, taking advantage of steep discounts after PetroChina halted buying from Caracas since 2019, as the state giant shielded itself from the prospect of sanctions. The $11 discount for Sinochem compares with discounts of $20 for sanctions-era Merey trades into China, reflecting tightening supplies due to stagnant domestic production in Venezuela and growing demand from India and the United States.

## Turkey boosts imports of discounted Russian oil and refined products

(Reuters; Dec. 18) - Turkey and Turkish companies have saved around $2 billion on energy bills in 2023 by raising imports of discounted Russian oil and refined products, Reuters calculation based on LSEG data and traders’ estimates showed. Turkey wants to buy more from its neighbor despite Western sanctions. Turkey became the biggest importer of Russian energy in the Western Hemisphere after Russia’s invasion of Ukraine triggered European countries to halt most imports of Russian oil and gas.

China and India have imported larger volumes from Russia than Turkey, but Ankara's proximity to Russian ports means it is saving more than other buyers thanks to cheaper freight. Russian Urals crude oil shipments to Turkey rose to an all-time high of 400,000 barrels per day in November, accounting for some 14% of Russia's overall seaborne oil exports last month, LSEG data and Reuters calculations showed.

Supplies to Turkey are expected to rise further in the coming months after private Russian oil producer Lukoil signed a deal with Turkish firm SOCAR to refine up to 200,000-barrel-per-day of its oil at SOCAR's Turkish STAR refinery, trading sources said. On top of rising crude supplies, Turkey's imports of Russian diesel, heating oil, jet and marine fuel jumped 200% in January to November to 290,000 barrels per day.

## Russian oil tankers headed to India sit idle at sea for weeks

(Bloomberg; Dec. 20) - Almost five million barrels of Russia's Sokol grade crude should have reached Indian refiners over the past four weeks. But none of it has got there, with tankers idling miles from their destinations — in one case for more than a month. It's unclear what's holding the vessels up, but U.S. sanctions on tankers of Russian oil in breach of a $60 price cap imposed by the Group of Seven nations might be part of it.

The U.S. Treasury sanctioned its first two ships tied to the Russian oil trade in mid-October. It followed with three more in mid-November and a further three at the start of December. Six of the eight sanctioned vessels are owned by Russia's state tanker company Sovcomflot. One of the ships on the Treasury list is the NS Century, which was hauling Sokol crude to the Indian port of Vadinar. Two days after it was named on Nov. 16 it came to a halt south of Sri Lanka, where it has remained stuck ever since.

In the past week, it has been joined by two other Sovcomflot tankers, both headed to Vadinar, according to tanker tracking data compiled by Bloomberg. It's not only tankers heading to Vadinar that have stopped. Three more should have arrived at the port of Paradip on India's east coast by now. These too have stopped short of their destination. Five of the tankers, each hauling about 700,000 barrels of crude pumped from fields off the coast of Sakhalin Island in Russia's Far East, are owned by Sovcomflot.

## U.S. steps up enforcement of sanctions on Russian oil cargoes

(Wall Street Journal; Dec. 20) - The U.S. has stepped up enforcement of sanctions on Russian energy, targeting upstart trading companies that have kept a gusher of income flowing to the Kremlin. The Treasury Department imposed blocking sanctions Dec. 20 on three trading firms that have emerged as players in the Russian market since the 2022 attack on Ukraine. Treasury also sanctioned a tanker company owned by Moscow and tightened the requirements on Western companies involved in the Russian market.

Blocking sanctions cut off firms from the U.S. financial system and forbid Americans from doing business with them. The move is meant to shore up a sanctions regime that has struggled to reduce Russia's oil revenue. A price cap imposed by the U.S. and its allies a year ago seemed at first to succeed in keeping Moscow's oil on the market but reducing profits. In recent months, however, Russian crude and fuel have mostly traded above the price caps and the Kremlin's coffers have bulged with money from the sales.

Russia sidestepped the cap in part by funneling exports through companies that have limited interaction with the Western financial system, with few public clues about who controls them. These entities have replaced Western traders that retreated from Russia after the invasion. Traders with opaque ownership now ship up to half of Russia's oil exports, the Treasury Department said Dec. 20. The department said adjustments to the price cap mechanism would complicate efforts by Russia to circumvent the regime.

In another step, U.A.E.-based Sun Ship Management was also sanctioned by the U.S. The company, which runs a fleet of tankers and is controlled by Russia's state-backed shipping operator Sovcomflot, is already subject to European Union and U.K. sanctions.

## Novatek issues force majeure notices for Arctic LNG project

(Reuters; Dec. 21) - Novatek, Russia's largest producer of liquefied natural gas, has sent force majeure notices to some of its clients over future supplies from its Arctic LNG-2 project, industry sources said on Dec. 21. Novatek declined to comment on the situation. The notifications were issued after the U.S. last month imposed sanctions on the $20 billion Arctic LNG-2 development, which is due to start production before Dec. 31 or in early 2024. The designed capacity, with three liquefaction trains, is 19.8 million tonnes per year of LNG and about 20 million barrels per year of gas condensate.

The project is a key element of Russia's drive to increase its share of the global LNG market to 20% by 2030, from around 8% now. One of the sources said that clients who had contracted to buy the LNG, such as China's Shenergy Group and Zheijang Energy and Spain's Repsol, had received force majeure notifications. A seller of goods or services may declare force majeure in the event that they cannot supply them due to circumstances beyond their control. In such a case, they must notify the other party.

## World's biggest oil trader buying up service stations

(Bloomberg; Dec. 17) - Vacationers filling up with gasoline in Australia or South Africa this holiday season have a good chance of pulling into a station that's part of the growing fuel-retailing empire of the world's biggest independent oil trader. Vitol Group, a closely held company known for cutting oil deals from Kurdistan to Benghazi, made purchases this year that mean it either owns or has a share of more than 8,800 gas stations worldwide. Those acquisitions give it a portfolio to rival some oil majors.

While Big Oil is pulling back from some downstream operations, the trading house is doubling down — betting fossil-fuel demand in emerging markets will remain robust, even as electric vehicles make headway in developed nations. That is giving Vitol, which made $15.1 billion in profit last year, both an outlet for the products it trades and physical assets to bolster its margins long after energy-market volatility subsides.

A growing chunk of the world’s energy infrastructure is moving into private hands, including Vitol, which is owned by about 350 of its top employees. Energy majors are still the biggest distributors of oil products to consumers globally, with BP operating over 20,000 retail sites. But others are whittling down their portfolios; Italy’s Eni now owns about 5,000 stations, while Spain’s Repsol has just over 4,600. Vitol’s latest investments are also a bet on the longevity of oil demand in countries where vehicle fleets are unlikely to go electric anytime soon.

## Qatar expects more long-term LNG deals in Asia and Europe

(Reuters; Dec. 18) - QatarEnergy expects to negotiate new long-term liquefied natural gas supply deals in Asia and Europe, with several “imminent,” its chief executive told Reuters. Qatar is among the world's top exporters of LNG, competition for which has ramped up since the beginning of the war in Ukraine in February 2022. Europe, in particular, needs vast amounts of the fuel to help replace the Russian pipeline gas that comprised almost 40% of the continent's imports.

"In Europe, we have live discussions that are ongoing that are quite serious," Saad al-Kaabi, who is also state minister for energy, said in an interview at QatarEnergy's headquarters. "Everybody in Asia that's buying LNG is talking to us. And we have some deals that are very close to the finish line.” State-owned QatarEnergy has signed a string of supply deals with European and Asian partners in its estimated $50 billion North Field expansion project, which is expected to boost the country’s production capacity to 126 million tonnes of LNG per year by 2027, from 77 million now.

It is drilling wells to assess expansion opportunities beyond the existing North Field East and North Field South phases, al-Kaabi said. "If we think there is more capacity, we'll probably do more," he said. Al-Kaabi said the company was in "serious, positive discussions" with potential "value-added" partners, referring to deals like those with China's Sinopec and CNPC, each of which took a stake in a joint venture equivalent to 5% of one LNG train with an agreement to offtake half that volume for 27 years.

## Texas town questions pipeline to serve LNG exports from Mexico

(The Texas Tribune; Dec. 20) - When word spread this summer among the 2,000 residents of the small West Texas town of Van Horn that a 48-inch-diameter natural gas pipeline — larger than others in the region — was coming their way, they saw it as a threat to their town's tranquility and sense of security. Yolanda Carmona, a third-generation cattle rancher, learned that the proposed Saguaro Connector Pipeline would run near a property she recently bought at the edge of town.

The line would transport gas from the Permian Basin to the U.S.-Mexico border, passing within one mile of Van Horn, where 80% of the population is Hispanic and the median household income is just over $37,000 — about half the state median. Saguaro would connect to another proposed line in Mexico to move gas to the coast of Sonora, where a proposed liquefied natural gas facility would export the fuel to Asia and South America.

Suddenly the future of the town was tangled up with the global gas market. Van Horn residents in the pipeline's path worry their town doesn't have the emergency management capacity to respond to explosions or leaks along the pipeline, and they are distraught that land would be snatched through eminent domain for construction. They question why they should sacrifice their land for a pipeline exporting gas abroad.

Meanwhile, national environmental advocacy groups warn that the project is advancing with limited federal oversight and goes against the Biden administration's climate goals of phasing out fossil fuels. The pipeline proposal recently received the blessing of federal and state regulators, but opponents are pressing agencies to force the company to reroute the pipeline farther from town or kill the project altogether.

## Analyst says Tokyo Gas purchase of U.S. producer a good buy

(Houston Chronicle; Dec. 19) - Tokyo Gas is doubling down on the Haynesville shale region of East Texas with its acquisition of Rockcliff Energy, reaffirming its belief in the area's rising importance in global gas markets. The Japan-based gas utility said Dec. 15 that its TG Natural Resources subsidiary would buy the East Texas gas producer for $2.7 billion from Quantum Energy Partners, a Houston private equity firm. The deal is scheduled to close on Dec. 29.

Tokyo Gas said it wanted to expand its holdings in the gas-rich region that straddles Texas and Louisiana because of shale formation's proximity to liquefied natural gas facilities that supercool gas into a liquid and load it onto ships bound overseas. The growing gas export business along the Gulf Coast has increasingly supplied Asian nations as they move from coal to gas for electricity generation.

The acquisition quadruples the gas production capacity of Tokyo Gas to 1.3 billion cubic feet per day from 330 million cubic feet per day, the company said. Rockcliff is a good buy for a gas utility looking to shore up supply for future gas demand, said Matthew Bernstein, a senior shale analyst at Rystad. "I certainly think the U.S. LNG build-out is the most robust," he said, "and Haynesville being that core source of gas that’s already right there, I think from their perspective it’s a really good place to be."

## Kansai Electric drops plan for gas power plant, turns back to nuclear

(Nikkei Asia; Dec. 18) - Kansai Electric Power has decided not to build a new liquefied natural gas-fired power plant planned southwest of Osaka, Nikkei has learned, shifting its resources instead to hydrogen, nuclear and other energy sources that can help reduce carbon emissions. The facility was most recently slated to come online as early as fiscal 2033. With an output capacity of 3.7 gigawatts, it was expected to become one of the largest fossil-fuel plants operated by Kansai Electric, which serves greater Osaka.

Kansai Electric is expected to log extraordinary losses for the fiscal year ending March for the costs it has incurred, including for surveys and other work. The total charges could reach hundreds of millions of dollars. The utility in 2000 began preliminary work at the Wakayama city site, which it purchased from what is now Nippon Steel. But construction had been postponed due to sluggish energy demand. The company will do further work on the site to ready it for other businesses.

Kansai Electric's decision comes as nuclear power plants halted after the 2011 Fukushima Daiichi disaster are restarted. As of this fall, all of the nuclear reactors Kansai Electric plans to continue to operate were back online. Fossil fuel-powered plants make up around 50% of its output, a relatively low figure among Japanese utilities. The company is now focusing on efforts to keep its nuclear plants running long-term, including by rebuilding aging facilities.

## Abu Dhabi signs 15-year LNG supply deal with Chinese buyer

(Reuters; Dec. 20) - Abu Dhabi's state oil giant ADNOC said on Dec. 20 it signed a 15-year agreement to deliver at least 1 million tonnes a year of liquefied natural gas to a subsidiary of China's ENN Natural Gas. "The LNG will primarily be sourced from ADNOC's low-carbon Ruwais LNG project, currently under development in Al Ruwais Industrial City, Abu Dhabi," ADNOC said in a statement, adding that deliveries are expected in 2028 when commercial operations at Ruwais begin.

The agreement with ENN LNG, a Singapore-based subsidiary of China's ENN Natural Gas, is subject to a final investment decision including regulatory approvals and reaching a definitive sale and purchase agreement. ADNOC plans to more than double its LNG production capacity to meet rising global demand. The Ruwais plant will have electric-powered processing facilities and run on renewable and nuclear power, making it one of the lowest-carbon-intensity LNG facilities globally, ADNOC has said. It will have two liquefaction trains, at 4.8 million tonnes annual capacity each, when completed.

## Warm weather drives up gas storage levels, pushes down prices

(Reuters columnist; Dec. 15) - The Northern Hemisphere experienced its warmest October and November in records dating back to the 1880s — pushing the natural gas market into a large surplus and triggering a slump in prices. Europe experienced near-record warmth in October, though temperatures were more in line with recent years in November. North America experienced near-record warmth in both months. But it was in Asia where temperatures were truly exceptionally warm.

Record temperatures extended the gas storage refill season much later than usual and delayed the onset of the winter drawdown. In the United States, working inventories in underground gas storage amounted to 3.736 trillion cubic feet, which was the highest since 2020. Stocks remained plentiful even though futures prices have been very low throughout the year, encouraging consumption by power generators.

In the U.S., prices for deliveries in January 2024 have slumped from $3.70 per million Btu in October to $3.25 in November and $2.54 in December. Even in northeast Asia, which relies most heavily on LNG imports, futures have slipped from $17.31 per million Btu in October to $15.85 in December. Around the world, exceptionally high prices for most of 2022 and early 2023, coupled with consecutive warm winters in 2022/23 and 2023/24 in Europe, have left the major consuming regions with excess gas in storage.

## Shipbuilder ordered to pay $290 million for defective LNG carriers

(Korea JoongAng Daily; Dec. 18) - Samsung Heavy Industries has been ordered to pay $290 million in compensation to SK Shipping for defects in two liquefied natural gas carriers built by the South Korean shipbuilding company. The London Maritime Arbitrators Association ruled Dec. 15 the carriers had defects in their cargo containment systems that were “not adequately repaired within a reasonable time frame.”

The dispute stems from a contract signed in 2015, when Samsung Heavy agreed to construct the two carriers, applying the country's first LNG membrane tank system, which was designed by Korea Gas. The two vessels were delivered in 2018. The ships, however, soon faced operational suspension due to defects such as cold spots, where ice formed on the outer walls of the containment system, risking cracking its casing.

SK Shipping formally launched legal action against Samsung Heavy, citing a “decrease in vessel value and losses due to non-operation. … Recognition of liability for damages has been acknowledged, as the cargo containment system defect has not been fully repaired," said the company. Responsibility remains under dispute. Korea Gas claims that Samsung Heavy Industries introduced construction defects to the vessels, while Samsung Heavy Industries blames Korea Gas for design flaws in the LNG tank.

## Santos wins approval for offshore gas project; pipeline still in court

(Australia Financial Review; Dec. 18) - Santos has secured approval from Australia's national offshore petroleum regulator for its revised plan to drill its A$5.8 billion Barossa gas project in the Timor Sea, even as the pipeline essential for the venture remains the subject of a court dispute. The National Offshore Petroleum Safety and Environmental Management Authority on Dec. 15 accepted the environmental plan for the drilling, which Santos had to revise after a court last year ruled its previous approval invalid.

The ruling resulted in Santos having to redo and widen its indigenous consultation for the project. The carbon-intensive Barossa project, intended to supply gas for the Darwin LNG export plant, has faced multiple legal challenges that have slowed progress, putting its start-up schedule at risk. Drilling had already started at the offshore field, 165 miles north of Darwin, but had to be suspended in September 2022 when the court found the regulator should not have accepted the consultation Santos carried out.

When Santos resubmitted its environment plan for the project in July, it said it was aiming to restart the drilling work by the end of 2023 in order to keep the project on track to start production in the first half of 2025. However, many energy analysts are assuming a delay to the project, in which South Korea's SK E&S and Japan's JERA have stakes. Santos still requires approval by regulators for its production operations plan at Barossa and needs to resolve litigation over its 162-mile undersea pipeline.

## New pier for LNG imports built in 330 days in Germany

(Offshore Energy; Dec. 19) - Only 330 days after starting construction, Germany's seaport company Niedersachsen Ports has handed over a new landing pier for floating storage and regasification units (FSRUs) in Stade to the state of Lower Saxony. The construction of the pier officially began on Jan. 20. The pier is the second port facility that Niedersachsen Ports has put into operation in a very short time to support Germany's ability to import liquefied natural gas.

The jetty is 2,130 feet long and is located south of an existing harbor. Its construction was accelerated to allow an FSRU chartered by the German government to temporarily dock at Stade. The FSRU will be operated by Deutsche Energy Terminal on behalf of the German government and, according to DET, is scheduled to dock in February. The FSRU will leave Stade once a larger onshore terminal becomes operational.

“We are showing once again that we are not only prepared to take responsibility for a safe and independent energy supply for all of Germany. Above all, we show that we deliver — and continue to do so at the proverbial new German speed,” said Olaf Lies, Lower Saxony Minister for Economic Affairs, Transport, Construction and Digitalization.

## BP first to suspend oil tanker traffic through the Red Sea

(S&P Global; Dec. 18) - BP became the first international oil major to announce Dec. 18 it had suspended tankers passing through the Red Sea in response to the worsening security situation in the region and repeated attacks by Houthi militants on shipping. "In light of the deteriorating security situation for shipping in the Red Sea, BP has decided to temporarily pause all transits through the Red Sea," the company said in a statement to S&P Global Commodity Insights. "We will keep this precautionary pause under ongoing review, subject to circumstances as they evolve in the region."

The recent surge in attacks on ships passing through the Bab el-Mandeb Strait and the Red Sea has started to move the needle on oil prices by $1 a barrel or so. More than 135 crude oil, refined products, chemical and LNG tankers were seen transiting the Suez Canal and Red Sea midday Dec. 18, of which 85 were laden, according to data from S&P Global vessel tracking service Commodities at Sea. Another 165 dry bulk and cargo vessels were transiting the region, of which 108 were laden, the data shows.

Despite BP's move, other international oil companies and traders contacted by S&P Global on Dec. 18 wouldn't say if they will instruct vessels to avoid the Red Sea. Shell, Glencore and Trafigura all declined to comment on the growing risk to shipping in the region. Vitol, Gunvor and Mercuria didn't respond to requests for comment. The Suez Canal and Bab al-Mandeb Strait accounted for 8.8 million barrels per day of total oil flows in the first half of 2023, according to the U.S. Energy Information Administration.

## Hostilities could threaten oil and gas trade through Red Sea

(Wall Street Journal; Dec. 19) - The war in Ukraine made traffic on the Suez Canal busier. If conflict in Gaza bottles it up, energy cargoes will be forced to take an expensive, inflationary diversion. Oil giant BP said Dec. 18 that it would temporarily reroute tankers from their usual journey through the Red Sea because of attacks on ships by Houthi rebels from Yemen who are sympathetic to Palestinians. So far it is the only major energy player to take this measure, but shipping companies including A.P. Moller-Maersk and Hapag-Lloyd have also diverted cargoes, sailing them around Africa.

The Red Sea is a major artery for oil and liquefied natural gas exports. According to the U.S. Energy Information Administration, shipments through this route accounted for 12% of seaborne oil trade in the first half of 2023 and 8% of LNG trade. The Ukraine war has made the Suez busier than it used to be. From January through November, 4.72 million barrels of oil a day moved southbound through the canal on average, a 46% increase on the same period of 2022, according to data from S&P Global.

Traffic has picked up because sanctioned Russian oil cargoes have found new markets. Vessels that traditionally went to Europe or the U.S. now travel south through the canal to Asia. If the route becomes riskier to navigate, it will be a headache for Moscow but also for the European Union. Europe has grown more reliant on LNG imports from Qatar, which pass through the Red Sea, to replace the pipeline flows Moscow switched off last year. It is also importing more diesel from India these days.