Oil and Gas News Briefs
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Foreign shareholders suspend participation in Russian LNG project

(Reuters; Dec. 25) - Foreign shareholders suspended participation in the Arctic LNG-2 project due to sanctions, renouncing their responsibilities for financing and for offtake contracts for the new Russian gas plant, the daily Kommersant reported Dec. 25. The project, seen as a key element in Russia's drive to boost its liquefied natural gas market share to 20% by 2030 from 8%, was already facing difficulties due to U.S. sanctions over the conflict in Ukraine and a lack of specialized tankers to transport the gas.

China's state oil majors CNOOC and China National Petroleum Corp. each have a 10% stake in the project, which is controlled by Novatek, Russia's largest LNG producer and owner of a 60% stake in the project. The Kommersant newspaper, citing unnamed sources in the Russian government, said both Chinese companies, together with France's TotalEnergies and a consortium of Japan's Mitsui and JOGMEC — which also have a 10% stake each — have declared force majeure on participation in the project.

The newspaper said the suspension may lead to Arctic LNG-2 losing its long-term contracts to provide LNG, while Novatek will have to finance the project by itself and sell the seaborne gas on the spot market. Initial investments in the Arctic LNG-2 project stand at $21 billion. It already faced difficulties in raising funds following Western sanctions against Russia. Sanctions have also resulted in Novatek declaring force majeure over LNG supplies from the project, industry sources told Reuters last week.

The plant’s capacity is planned for 19.8 million tonnes per year. Its first cargoes were expected in the first quarter of 2024, according to Novatek. But industry sources say commercial LNG supplies are now expected no earlier than the second quarter of 2024.

China prepares to seek exemption to U.S. sanctions on Russian LNG

(Bloomberg; Dec. 22) - China is preparing to ask the U.S. for exemptions to sanctions on a new Russian liquefied natural gas export plant, as companies seek to prevent disruptions to the flow of a fuel crucial to heating homes and powering industry. State-owned CNOOC and China National Petroleum Corp. each has a 10% stake in Novatek’s Arctic LNG-2 project in Russia. The companies are planning to ask for the exemptions because the U.S. measures threaten deliveries, according to sources.

The U.S. imposed sanctions on the facility in November, as it widened restrictions on Russian firms in the wake of Moscow’s invasion of Ukraine. Those sanctions threaten to delay the start of exports to later next year. LNG vessels could fall foul of U.S. sanctions if they pick up fuel from Arctic LNG-2, the people said. CNOOC and CNPC also purchase LNG from the U.S., and don't want to endanger their supply from American projects, the people added. China is the world's biggest buyer of LNG, and also imports large quantities of Russian gas via overland pipelines.

The request would be rare for China, which tends to find ways to work around sanctions imposed by its geopolitical rival. For example, Russia has been able to sidestep restrictions on its oil shipments to China with the assistance of a "dark fleet" of tankers that are separate from the wider industry and can conceal the origin of their cargoes. But LNG vessels are specially designed to carry the super-chilled fuel, with a limited number of such ships available.

First cargoes from Russia's newest LNG project will be delayed

(Bloomberg; Dec. 21) - The start of supply from Russia's newest liquefied natural gas project will be delayed after the company declared a force majeure on shipments in the wake of U.S. sanctions. Russia's Novatek, which leads the Arctic LNG-2 project, sent force majeure notices to some of the facility's buyers, said people familiar with the matter. Sanctions that the U.S. imposed on the project in November are making it impossible to make shipments for the time being, they said.

Force majeure is a legal clause that allows companies to suspend deliveries due to factors beyond their control. While the outlook for Arctic LNG-2 had already been clouded due to the U.S. measures, the move presents significant challenges for the project — and could curb LNG supply for the global market this winter. Novatek had planned to start production from the first of three trains by the end of the year, aiming for the first cargoes from the facility in early 2024.

The force majeure "does not necessarily mean that no LNG will be exported from Arctic LNG-2, only that external factors are likely to prevent Novatek from fulfilling all of its contractual obligations," Energy Aspects analyst Jake Horslen said in a research note. Exports will depend on "the limited pool of potential buyers willing to ignore U.S. sanctions," he added. Shipping will be a limiting factor, Horslen wrote. Novatek holds a 60% stake in the project. France's TotalEnergies, China's CNPC and CNOOC, and a consortium of Japanese trading house Mitsui and JOGMEC hold the remainder.

Tanker shortage will hamper deliveries of Russia's Arctic LNG

(Reuters; Dec. 22) - Russia hopes its shipments of liquefied natural gas will offset a sharp fall in pipeline gas sales to Europe, but a shortage of tankers and sanctions will hold back its plans, analysts and industry sources said. Russia wants to boost its share of the LNG market to 20% by 2030 from 8% now, but a force majeure declaration by top producer Novatek over supplies from its Arctic LNG-2 project due to sanctions shows the hurdles it faces. Novatek's announcement comes after the U.S. last month imposed sanctions on Arctic LNG-2, which is due to start shipments in early 2024.

Industry sources say that commercial LNG supplies from the project are now expected no earlier than the second quarter of 2024. Meanwhile, Russia is eyeing the Northern Sea Route across the Arctic Ocean to supply the cargoes to the east, to cut the time and cost of bringing its fuel to market. The route may cut the delivery time to Asia by as much as 40% compared to the Suez Canal. But deliveries through thick ice and freezing conditions pose major challenges and require special-built ships.

According to Novatek, 15 Arc7 ice-class tankers, able to cut through ice six feet thick, will be built at Russia's Zvezda shipyard. Six more Arc7 tankers were due to be built by Hanwha Ocean, formerly Daewoo Shipbuilding & Marine Engineering, including three ordered by Japan's Mitsui O.S.K. Lines and three by Russia's leading tanker group Sovcomflot. But three tankers ordered by Sovcomflot were cancelled due to sanctions against Russia, Hanwha has said in regulatory filings. So far only three suitable gas tankers have been built for Arctic LNG 2, according to public information.

TotalEnergies to restart Mozambique LNG construction in first quarter

(Reuters; Dec. 23) - French energy firm TotalEnergies plans to restart its long-delayed $20 billion Mozambique liquefied natural gas project in the first quarter of next year, two sources told Reuters on Dec. 23. Work on the project has been halted since 2021 when a violent insurgency led by Islamic State-linked militants threatened the Cabo Delgado work site, leading to TotalEnergies declaring force majeure and halting construction.

In September, TotalEnergies CEO Patrick Pouyanne said the company planned to restart work before the end of this year, as the security situation improved with the support a regional military force. "TotalEnergies have indicated that they want to restart their Mozambique LNG project in January 2024," a government source close to the process said on Dec. 23.

The ongoing violence in the northern Mozambican province has claimed thousands of lives since it broke out in 2017, disrupting multibillion-dollar investments including the $20 billion LNG project in which TotalEnergies has a 26.5% stake. "TotalEnergies has asked funders to get approval for the restart of the Mozambique LNG project in the first quarter of 2024," said a second source with direct knowledge of the project. The project, which will help transform the economic fortunes of the impoverished southern African country, has faced criticism from environmental activists.

Angola decides to quit OPEC after production quota dispute

(Associated Press; Dec. 21) - Angola announced Dec. 21 that it's leaving the OPEC oil cartel, coming after it battled with the group over lower production quotas. Diamantino de Azevedo, the African nation's oil minister, said Angola "does not gain anything by remaining in the organization," according to state news agency Angop. The country joined OPEC in 2007. Disputes over lower quotas for some African countries, including Angola, led to an unusual dayslong delay to OPEC's November meeting, where the group, along with allied producers led by Russia, decided how much oil to produce.

At the meeting, Angola's production level was dropped to 1.11 million barrels per day after an assessment of its production capacity by three independent sources, the organization said. OPEC, led by Saudi Arabia, has been trying to bolster oil prices that have fallen in recent months over concerns about too much crude circulating in a weakening global economy, which could weigh on the thirst for oil for travel and industry.

While losing Angola, OPEC announced at its meeting last month that it was bringing Brazil into the fold, a major oil producer that has been producing record amounts of crude this year, according to the International Energy Agency.

UAE production more important to OPEC than Angola's departure

(Bloomberg; Dec. 21) - The three most dangerous words in the oil market are "OPEC is dead." The oil cartel's obituary has been written many, many times — and always prematurely. The almost non-stop departure of member countries during the past decade — Indonesia in 2016, Qatar in 2019, Ecuador in 2020 — have provided ample opportunity to prepare eulogies, all of them a waste of words. So is the exit of Angola, announced Dec. 21, anything but another blip? At first glance, it's irrelevant. But it has deeper implications for the bloc that go beyond what it means for global crude supplies.

Inside OPEC, power is measured in millions of barrels a day. Angola doesn't pump many, and there's little chance it could produce more in the foreseeable future. Angola pumped almost 1.1 million barrels a day in November, down 45% from a peak of more than 1.9 million in 2010. Moreover, it is already at full capacity. Contrast that with Saudi Arabia, which produces about 9 million barrels a day, less than its 12.5 million potential.

The heyday of Angola's petroleum industry is behind it. But the walkout does signal some troubling developments for the oil club. The announcement, with the government openly expressing its frustration with the cartel, sheds some light on an open secret: Lots of OPEC member countries are less than happy about the direction the group has taken in the past few years under the leadership of Saudi Arabia.

The view, expressed always in private, is that Riyadh is trying to keep prices too high, propping up rivals, notably U.S. shale. If OPEC continues doing so, sooner or later it would have to cut production even more, ceding more market share. Other OPEC members would be happy with lower prices. The key country to watch is the United Arab Emirates, which recently won a hard-fought campaign against Riyadh to secure a higher OPEC production level — and which has nearly 1 million barrels a day spare capacity.

Scientists call on Biden administration to reject LNG project

(The New Lede; Dec. 20) - In the wake of the COP28 climate summit, 170 scientists from the U.S. and around the world sent a letter Nov. 19 calling on the Biden administration to reject a liquefied natural gas export facility proposed for Louisiana, as well as similar pending projects. The facility, Calcasieu Pass 2 (CP2), if built, would be among the largest LNG terminals in the Gulf Coast, spanning about 546 acres and shipping up to 24 million tonnes of LNG to other countries each year.

CP2 would be the second LNG terminal built in the region by Venture Global and would result in annual emissions equivalent to 42 million gas-powered cars — 20 times more than the recently approved Willow oil project in Alaska. “You have often said that your policies will be guided by listening to the science,” said the letter to President Joe Biden. “As scientists, we are telling you in clear and unambiguous terms that approving CP2 and other LNG projects will undermine your stated goals of meaningfully addressing the climate crisis and put us on a continued path toward escalating climate chaos.”

The letter follows a Dec. 11 letter from more than 230 organizations that implored Biden and Department of Energy Secretary Jennifer Granholm to halt the project. “I think what we’re seeing is the logical response to continued and repeated inaction from the Biden administration to meaningfully address any platform to phase out fossil fuels,” said Jim Walsh, policy director for the environmental group Food & Water Watch. CP2 is awaiting approval from the Federal Energy Regulatory Commission and Department of Energy.

Norway now supplies 60% of Germany’s natural gas

(Reuters; Dec. 21) - Germany's decision to make Norway its biggest gas supplier, culminating in a deal this week that will cover a major chunk of its industrial needs, means it has replaced the formerly dominant Russia with another equally dominant supplier. The risk of deliberate supply disruption of gas from a friendly country may be much lower, but Germany could find itself at the mercy of technical issues, analysts say.

Since supply disruptions linked to Russia's invasion of Ukraine, Germany, Europe's largest economy, has substituted for huge volumes of Russian gas through deals with Norway, Europe's biggest gas producer. It has also agreed supply deals with liquefied natural gas traders. On Dec. 19, German state-owned energy firm SEFE and Norway's

Equinor announced a 50 billion euro ($55 billion) gas deal that will provide a third of the industrial gas Germany needs.

The deal consolidates Norway's position as Germany's main supplier that it has held since Gazprom suspended direct deliveries in 2022. It will take Norway's share of Germany's gas supplies to around 60%, comparable with the amount Russia used to provide. Tobias Federico, analyst at Berlin-based consultancy Energy Brainpool, said politically stable countries such as Norway still carries "a risk of renewed dependence." Philipp Steinberg, head of the economic stabilization and energy security unit in Germany's Economy Ministry, has also said the country was at risk from over-reliance.

Germany needs to spend $4.8 billion to expand grid to handle LNG

(Bloomberg; Dec. 21) - Connecting Germany's pipeline network to its growing list of liquefied natural gas import hubs is likely to cost about €4.4 billion ($4.8 billion), according to the country's grid operators. After Europe's largest economy was crippled when Russia curbed pipeline gas shipments, Berlin fast-tracked the expansion of LNG terminals last year to open alternative supply routes. With three now in operation and three more to open this winter, the country still faces bottlenecks if it can't quickly get the fuel carried by seagoing vessels pumped into onshore pipeline networks.

The latest plan involves building 591 miles of new gas lines by 2032 and adding as much as 164 megawatts of compressor capacity, according to the report approved by energy regulator Bundesnetzagentur and published Dec. 21. The plan revises a draft the regulator approved last year before Russia's attack on Ukraine. Consequently, 82 projects have been added to make the grid fit for non-Russian imports, including border infrastructure upgrades to handle LNG transported from other European harbors.

U.S. LNG cargoes avoid Red Sea, take longer voyage to Asia

(Bloomberg; Dec. 22) - Liquefied natural gas cargoes recently loaded from the U.S. and bound for Asia are changing course for voyages lasting more than a month longer as they avoid the Red Sea, according to ship-tracking data on Bloomberg. The diversions highlight a shift in trade flows after Houthi attacks in the key waterway forced hundreds of ships to take safer but longer routes, delaying cargoes. LNG is key for the biggest buyers in northeast Asia, particularly in winter. The U.S. is the top shipper of the fuel.

The Vivit Americas LNG vessel, which loaded at the Cove Point plant in Maryland on Dec. 16, initially flagged a course to the Suez Canal before diverting three days later to travel around Africa. The ship is now signaling arrival in Japan on Jan. 25, more than a month since loading. Another tanker, the Prism Courage, is also avoiding the Suez

Canal on its way to South Korea. The cargo was loaded at the Freeport LNG plant in Texas on Dec. 16 and will arrive in the Asian country on Jan. 26.

LNG carriers began avoiding the Red Sea this week, including empty vessels headed to pick up their next cargoes. The shorter routes from the U.S. to Asia are via the Panama Canal, where vessels now face delays amid a drought-induced congestion, or via the Mediterranean and Suez. Qatari LNG shipments have so far continued to sail via Suez to Europe, ship-tracking data show.

Canadian regulator cites safety concerns in denying pipe variance

(The Canadian Press; Dec. 20) - The Canada Energy Regulator is citing safety concerns as its reason for refusing a request by Trans Mountain Corp. for a pipeline construction variance. In a written statement released Dec. 20, the regulator provided its explanation for its denial earlier this month of the Crown corporation's request for permission to use a different diameter, wall thickness and coating for a 1.5-mile stretch of the pipeline expansion project nearing completion in British Columbia.

The company said it had run into challenges drilling through hard rock and warned of a possible 60-day delay in completion if it isn't granted a variance. But the regulator said it has serious concerns with the quality of materials Trans Mountain has procured to construct the segment, adding it doesn't believe the company has demonstrated it can guarantee an appropriate level of safety and pipeline integrity if it makes the change.

It's the latest in a series of hurdles Trans Mountain has faced as it races to finish its expansion of Canada's only oil pipeline to the west coast. The work will boost the line's capacity to 890,000 barrels per day from 300,000. Project completion, which had been expected in early 2024, is eagerly awaited by the country's energy industry, which will benefit from improved access to export markets and better prices. But the project's costs have spiraled through the course of construction from an original estimate of C$5.4 billion to the most recent estimate of C$30.9 billion.

Navy continues work to drain, clean up leaky fuel storage in Hawaii

(Hawaii News Now; Dec. 21) – It was a major milestone in the saga of Hawaii's notorious fuel leak: The last oil tanker, Yosemite Trader, left Pearl Harbor on Dec. 21 carrying fuel from the U.S. Navy's underground Red Hill storage facility. The tanker left with five million gallons of fuel that had been drained by gravity from the underground storage facility. Vice Admiral John Wade, commander of Joint Task Force-Red Hill, said most of the fuel — more than 104 million gallons — was removed by gravity.

The order came from the U.S. Defense Secretary to drain the massive tanks and shut down the facility. In 2021, fuel that leaked from the facility tainted the Pearl Harbor drinking water system and poisoned thousands of military and civilian families. “I think it signifies an important moment that we were able to remove the majority of the threat that laid above the aquifer,” said Wade. “It’s an emotional time.”

From January to March, the task force plans to remove residual fuel from the storage facility and then transfer responsibility to a Navy Closure Task Force. “Every last drop, residual fuel and sludge will be removed from the Red Hill facility,” said Wade. But the Navy must figure out how to remove 4,000 gallons of residual fuel by cutting into the pipes. Hawaii is demanding $1.2 billion from the Navy and there’s a grand jury, a flood of lawsuits, and community members questioning the safety of their drinking water.