

Oil and Gas News Briefs

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January 19, 2023

IEA forecasts record oil demand this year as China reopens

(Wall Street Journal; Jan. 18) - China's rapid shift to reopen its economy following lengthy COVID-19 lockdowns should help global oil demand rise to a record level this year, the International Energy Agency said. The energy watchdog lifted its forecast for oil demand growth this year by nearly 200,000 barrels a day to 1.9 million barrels a day. The extra demand means that the IEA now expects total oil demand this year to average 101.7 million barrels a day, well above pre-COVID levels and a record amount.

Beijing's rapid pivot away from its zero-tolerance approach to COVID cases has largely taken the oil market by surprise and boosted predictions that China's reopening could swiftly herald a rebound in the nation's oil demand. A turnaround for the fortunes of economies in Europe and the U.S. is also boosting oil-demand expectations, the IEA said. Europe's economy this year is expected to fare better than previously forecast, as warmer temperatures have eased its energy supply crisis.

In its report, the IEA pointed to "a faster than anticipated reopening of China" and a "somewhat improved economic outlook," as well as lower oil prices, for the upward revisions to its oil demand forecasts. China's demand for oil makes up most of the revision. The IEA raised its forecast for Chinese demand by 100,000 to 15.9 million barrels a day. China's reopening will unlikely be smooth and the recovery in oil demand isn't certain, the IEA said, pointing to "massive underreporting" of COVID cases and a weak economy. Oil demand would depend on Chinese households spending more.

Russia's use of energy exports as weapon costs money and influence

(Wall Street Journal; Jan. 16) - President Vladimir Putin's use of energy as a weapon of financial war is increasingly backfiring, threatening the core of Russia's beleaguered economy and curtailing its geopolitical influence. Western sanctions, falling prices for Russian fossil fuels and strategic miscalculations are hurting the country's oil-and-gas industry while the war in Ukraine is poised to stretch into a second year. Ultimately, the strain will erode Moscow's status as an energy superpower, according to analysts.

Russia had hoped that cutting off gas would cause Europe to freeze and weaken its support for Kyiv. Warm weather and ample supplies from elsewhere have derailed that effort so far. Russia's oil industry, meanwhile, is having trouble adapting to a European Union embargo and a U.S.-led price cap on its crude. A Kremlin threat to cut supplies in response failed to boost prices and hasn't materialized, showing Russia's weaker hand.

Russia has diverted much of the oil that went to Europe, but in doing so has replaced an array of buyers with two big importers: China and India, whose refiners command low prices in part because delivering farther afield raises shipping costs. With gas, Russia needs to build huge pipelines eastward to sell all the fuel that used to head to Europe. That would take years. In the long run, lost access to technology and Western know-how will likely undermine production potential as Soviet-era oil and gas fields dwindle.

Oil and gas are the backbone of the economy and filled 45% of the federal budget in 2021, but those revenues are down substantially, said Evgeny Gribov, who quit as an executive at Lukoil, Russia's second-biggest oil producer, shortly after the invasion. "Russia is still an energy power but its role has dramatically changed," said Vladimir Milov, former deputy energy minister and now an opposition politician living abroad.

India's December imports of Russian oil 33 times higher than year ago

(Bloomberg; Jan. 16) - India bought a record amount of Russian oil last month, with the country importing a whopping 33 times more than a year earlier. The world's third-biggest crude importer purchased an average of 1.2 million barrels a day from Russia in December, according to data from Vortexa. That's 29% more than in November. The country is now easily India's biggest source of oil after overtaking Iraq and Saudi Arabia several months ago.

Indian refiners have been lapping up cheap Russian crude since the invasion of Ukraine caused many buyers to shun the shipments. The sharp increase in December is possibly the result of deepening discounts due to additional sanctions from the G-7 and European Union including a \$60-a-barrel price cap. "Russia has likely offered its crude at an attractive discount to Indian refiners, which have surpassed China as the largest importer of Russian crude," said Serena Huang, lead Asia analyst at Vortexa.

Besides Urals, India has stepped up imports of other Russian grades like Arco, Sakhalin and Varandey in recent months, she said. India meets more than 85% of its oil demand via imports, which makes it highly vulnerable to price volatility. State-owned refiners, which have been prevented by the government from raising pump prices of diesel and gasoline since May, have increasingly favored cheaper Russian imports.

Key Russian oil export blend drops to lowest price since fall 2020

(Bloomberg; Jan. 16) - Russian state oil revenues came under further pressure as the average crude price the government uses to calculate its taxes dropped to the lowest in more than two years. The country already had a record federal budget deficit in December as it spent heavily on the invasion of Ukraine while the price of oil and gas —

the single-largest source of government revenue — declined. The main export price for Russian crude nearly halved in 2022 on a combination of a slowing global economy and waves of international sanctions in response to the war.

Urals crude, Russia's key export blend, traded at \$46.82 per barrel between mid-December and mid-January, according to data from the Finance Ministry published on Jan. 16. That's the lowest level since the monitoring period of mid-October to mid-November in 2020 during the height of the COVID-19 pandemic. The price will be used to calculate a variety of taxes on the Russian oil industry for the next month, including crude and oil-product export duties.

By imposing sanctions including import bans and a price cap on seaborne Russian oil shipments, Western countries aim to reduce the flow of petrodollars to the Kremlin while simultaneously keeping its exports robust enough to avoid more market turmoil.

Russia's Arctic oil increasingly heads to China and India

(High North News; Jan. 16) – European Union sanctions against Russian oil are increasingly diverting Arctic crude from the Prirazlomnoye platform and the Arctic Gate and Varandey terminals to China and India, with three vessels currently en route from Murmansk to China. Experts anticipate increasing exports of Russian crude to Asia via the Northern Sea Route.

Following the EU's latest sanctions, which took effect Dec. 5 and banned the seaborne import of Russian oil, Arctic crude now flows almost exclusively to Asia. Last month at least six tankers departed from the floating Umba transfer terminal outside Murmansk with the destination of India.

"Europe is basically completely out of the game," said Viktor Katona, lead oil analyst at Kpler, an intelligence and data firm for commodity markets. "The incremental buyer really is India, effectively taking over Ural's (Arctic Gate) exports," he said. The Umba terminal off the coast of Murmansk is used as a transfer point for three blends of Arctic crude oil. Also in the Pechora Sea is the world's sole ice-hardened oil platform, Prirazlomnoye, which produces and loads the heavy and sour Arco variety.

Guyana pumping more oil, targets 1.6 million barrels a day by 2030

(Reuters; Jan. 13) - Guyana's oil exports jumped 164% last year, boosted by growing output and demand for the newest Latin American oil producer's light sweet crudes, particularly in Europe where thirsty refiners ramped up imports to replace Russian supplies. Since a consortium led by ExxonMobil began pumping in late 2019, Guyana's

shipments have soared, bringing the South American nation's oil export income to \$1.1 billion last year, according to official figures provided to Reuters.

The government's \$1.1 billion share of oil revenue was up sharply from a combined \$409 million in profit and royalties in 2021. High global prices pushed its take above the country's initial revenue forecast of \$958 million. Guyana, among the smallest and most underdeveloped nations in South America, plans to use its oil wealth to industrialize, adding a gas-fired power plant, new roads and solar energy projects.

Following the startup of Exxon's second floating production vessel last February, oil output ramped up and exports flowed as European refiners were searching for alternatives to Russian crude in the aftermath of the Ukraine invasion. Guyana is producing about 360,000 barrels per day of oil and aims to raise output to 1.64 million by the end of the decade. Guyana's exports averaged 265,693 barrels per day last year.

Saudi Aramco CEO believes oil demand will recover this year

(Bloomberg; Jan. 18) - The world's biggest oil company is confident demand will pick up strongly this year as China reopens its economy and air travel recovers. "We are very optimistic in terms of demand coming back to the market," Saudi Aramco CEO Amin Nasser said in an interview. "We are starting to see good signs coming out of China. Hopefully, in the next couple of months, we'll see more of a pickup in the economy."

Demand for jet fuel has recovered to about 1 million barrels a day below pre-pandemic levels, according to Nasser, roughly half the loss from a year ago. "It's picking up," he said at the World Economic Forum in Davos. Nasser reiterated that companies need to invest more in oil production. Spare capacity stands at 2 million barrels a day, barely above total demand of 100 million barrels, and will probably drop as China ends its coronavirus lockdowns, he said. The world needs 4 million to 6 million barrels a day of new production just to make up for the natural decline in existing fields, he said.

"We're moving into the situation where we're eroding spare capacity and any supply interruptions will have a huge impact," Nasser said. The state-controlled company sees oil demand continuing to build for the rest of the decade, even as electric vehicles grow in popularity and investors pour money into renewable energy. "It's offsetting some of the demand" for oil, he said. Still, crude consumption will "definitely" be higher in 2030.

It looks to be a big year for advancing hydrogen fuel in Canada

(CBC News; Canada; Jan. 16) - As the Canadian Pacific Railway locomotive moves along the tracks in Calgary, something is clearly amiss. It's the typical size and look that you'd expect, but what's absent is the low rumbling noise of the diesel engine. Instead,

this locomotive is powered by hydrogen fuel cell and battery technology as part of a trial by the railway to explore whether the low-emission vehicles are strong enough and reliable enough to potentially one day revolutionize operations at the company.

Over the past several years, there has been an increased focus on the potential for hydrogen to decarbonize many industries and help countries reach their climate goals. The next 12 months will be critical, experts say, in understanding whether that vision could become a reality in the near future or remain part of the imagination for decades.

There is excitement in the Canadian industry about what 2023 will bring as several demonstration projects are set to take place, while construction will also begin on a massive new hydrogen production facility. For CP Rail, the hydrogen locomotive completed its first "revenue trip" a few months ago with the expectation to have the trains operating in Vancouver, Edmonton and Calgary by the end of 2023. The next step will be testing out the technology through the Rocky Mountains.

Meanwhile, a hydrogen fueling station is under construction in Edmonton to allow the Alberta Motor Transport Association to test out semi-trucks on the province's highways. And construction has just begun in northeast Edmonton on what is expected to be the largest net-zero hydrogen plant in the world by Air Products Canada. The C\$1.6 billion facility will use natural gas to produce hydrogen with the goal of sequestering 95% of the emissions and storing them underground. There is momentum in the hydrogen sector in Canada, but some experts warn that the most critical question is not so much about the technology but how willing governments are to support the industry.

Western Australia plans major role as hydrogen exporter to Asia

(S&P Global; Jan. 16) - The state of Western Australia, currently accounting for more than half of Australia's liquefied natural gas exports, is planning an extensive build-out of hydrogen infrastructure to become a key producer of the fuel. Its masterplan dovetails with the national strategy to become a global hydrogen superpower, but the rollout in Western Australia will be of special interest for several reasons.

Western Australia will be a case study for other major LNG producers like Qatar, the U.S., Indonesia and Malaysia, which are looking to use existing gas infrastructure as a launch pad to build a hydrogen economy. It will also compete with Mideast oil producers that have similar renewable-energy potential and stronger finances to build up hydrogen supply for Asia, and the U.S., where federal assistance will help fund new ventures.

Western Australia plans to extend its success in hydrocarbon development into the hydrogen sector. The state currently accounts for 50% of Australia's gas production (including natural gas, coal-seam methane and LNG feedstock), 61% of crude oil production, and 76% of condensate production, according to government data. The hydrogen rollout will test regulatory preparedness and how well policies for extractive

industries can be adapted for hydrogen projects. Developers also hope to cash in on the existing strong customer base for LNG in China, Japan, South Korea, Taiwan and Singapore to back the build-out of new hydrogen infrastructure in Australia.

Coal prices retreat from near-record highs in Europe

(Reuters; Jan. 18) - Thermal coal markets were a prominent beneficiary of Europe's power sector turmoil in 2022, with prices surging more than 250% through mid-March as utilities and trading firms scrambled to replace lost supplies of Russian natural gas with other fuels. Benchmark European thermal coal prices remained close to historic highs throughout 2022 on sustained higher use across the continent.

But all that coal also yielded more pollution, with cumulative carbon dioxide discharges by Europe's coal-power sector topping 600 million tonnes through November, the highest tally for the period since 2019, data from Ember shows. However, thanks to a recent plunge in European natural gas prices — down 60% since Dec. 1 on mild winter temperatures, filled storage tanks and diminished industrial use — European coal prices and demand have slumped so far in 2023.

That clashes with the more bullish posture of coal markets in top coal-consuming Asia, which has been bracing for sharply higher coal use and purchases in 2023 as dominant coal consumer China reboots its economy following 2022, which was weakened by restrictions to stop the spread of COVID. Ultimately, the outlook for the coal market in 2023 depends in large part on whether Europe regains a sustained hunger for the fuel.

Coal and natural gas production in China hit record highs in 2022

(Bloomberg; Jan. 17) - Fossil fuel production in China soared in 2022, with coal and gas hitting record highs, as environmental targets took a back seat to energy security after a tumultuous year for prices. That swamped some good news for the climate from the steel sector, where China cut output for a second consecutive year to make good on its promise to rein in emissions from the worst-polluting industry after power generation.

The world's top coal-mining nation dug up nearly 4.5 billion tons of the dirtiest fuel last year, an increase of 9% on 2021, the statistics bureau said on Jan. 17. Production of cleaner-burning natural gas rose 6.4% to 7.7 trillion cubic feet, while crude oil rose above 200 million tons (about 1.46 billion barrels) for the first time since 2015, helping to cut China's reliance on pricey imports. As early as January last year, President Xi Jinping had flagged that China's ambitious climate goals shouldn't clash with its economic objectives, which include securing adequate supplies of commodities.

Qatar, UAE ministers blame lack of investment for tight LNG market

(S&P Global; Jan. 14) - The energy ministers for Qatar and the United Arab Emirates are both expecting tight liquefied natural gas markets for the next couple of years because of inadequate investment in new projects. However, another year of high natural gas prices could "distort demand" and "distort" the role gas will play as a baseload for power for a number of years, UAE Energy Minister Suhail al-Mazrouei said Jan. 14 at the Atlantic Council's Global Energy Forum in Abu Dhabi.

Saad al-Kaabi, Qatar's minister of state for energy affairs, told the forum that he expects gas prices to remain volatile this year, but emphasized that Qatar does not want high prices because that would destroy demand. Kaabi said the LNG market will be tight until at least 2025, when more supply is expected. "The biggest worry that we would have as an oil and gas producer is demand destruction," al-Kaabi said.

"When we talk about the lack of investment and the lack of interest from financial institutions to finance ... oil and gas projects, part of that is also the lack of understanding that it is the future for many countries when it comes to energy strategy," al-Mazrouei said. "Once the situation is sorted out," he said, referring to Russia's war on Ukraine and subsequent European and Western sanctions against Russian energy sales, "that will be a big relief from the whole gas sector and stabilize prices." He added, "High prices are not good for us. We want a happy buyer that can continuously pay."

Qatar energy minister says Europe eventually will buy Russian gas

(CNBC; Jan. 16) - The European Union's rejection of Russian energy commodities following Moscow's invasion of Ukraine won't last forever, Qatar's energy minister said during an energy conference over the weekend. "The Europeans today are saying there's no way we're going back" to buying Russian gas, Saad Sherida al-Kaabi, energy minister and head of state gas company QatarEnergy, said at the Atlantic Council Energy Forum in Abu Dhabi.

"We're all blessed to have to be able to forget and to forgive. And I think things get mended with time. ... They learn from that situation and probably have a much bigger diversity (of energy supply)," he said. Europe has long been Russia's largest customer of most energy commodities, especially natural gas. European Union countries have dramatically cut down their imports of Russian energy supplies, imposing sanctions in response to Moscow's brutal, full-scale invasion of Ukraine.

The cut in Russian gas has dramatically increased energy costs for Europe, sending leaders and oil and gas executives scrambling to develop new sources of energy and shore up alternative supplies. "But Russian gas is going back, in my view, to Europe," al-Kaabi said. "The issue is what's going to happen when they want to replenish their

storages this coming year, and there isn't much gas coming into the market until '25, '26, '27 ... So I think it's going to be a volatile situation for some time."

LNG Canada expansion project will need to wait on renewable power

(Reuters; Jan. 16) - Shell's LNG Canada export project in British Columbia plans to start building its proposed second phase with gas-powered turbines and switch to electricity as more renewable power becomes available, a top executive said, a decision that means the expansion project will initially generate high greenhouse gas emissions. LNG Canada, in which Japan's Mitsubishi owns a 15% stake, will be Canada's first liquefied natural gas export terminal. The first phase is expected begin shipments around 2025.

With global demand for gas from sources other than Russia accelerating, LNG Canada is weighing whether to build by 2030 a second phase to double its annual production capacity to 28 million tonnes. LNG Canada now plans to initially build Phase 2 with gas-powered turbines and switch to electric motors as more power becomes available, pending a final investment decision, CEO Jason Klein told Reuters on Jan. 13.

The company's move to gradually switch to renewable electricity means Phase 2 would produce initially high emissions that would run up against emissions reduction goals set by the British Columbia and federal governments. Running the turbines on the province's hydroelectricity power to cool the gas to liquid for shipping would limit emissions but require hundreds of miles of new transmission lines to reach the terminal on the northwest coast. Electrifying Phase 2 is expected to be more expensive than using gas, but buyers may pay more for LNG produced with lower emissions, Klein said.

German chancellor calls for speeding up shift to renewable energy

(Bloomberg; Jan. 14) - Chancellor Olaf Scholz said Germany needs to increase its pace of expanding renewable power to reach its goal of becoming climate-neutral by 2045, even as Europe's largest economy withstands the initial impact of Russia's energy squeeze. "We are getting through this winter" without a gas shortage, Scholz said Jan. 14 at the opening of a liquefied natural gas import terminal in Lubmin on the Baltic coast, according to news agency DPA.

For the long-term transition away from coal, oil and gas, Germany needs to increase electricity generation by one-third by 2030 and then double that in the following decade, Scholz said in an interview with the Berlin-based Tageszeitung newspaper. "If we want to achieve the energy transition, we need more speed," he told the publication. "The goal needs to be to set up three to four large wind turbines in Germany every day."

Energy has dominated Scholz's first year in office. Germany's fragile energy security was exposed as Russia squeezed gas supplies in retaliation for Berlin's support of Ukraine following its invasion. LNG has helped plug the gap. Lubmin is the second LNG import terminal to open, with more to follow this year. The energy squeeze also prompted Germany to extend operations of the country's remaining nuclear power plants, but Scholz said the reactors would "definitely" be shut down in the spring.

Small increase in cargo volumes along Russia's Northern Sea Route

(High North News; Jan. 18) - Arctic shipping along the Northern Sea Route saw a moderate increase to 34 million tons in 2022 even though international operators shied away from the route, bringing a halt to transit traffic. Volumes along Russia's Arctic shipping lane represent a modest gain of 966,000 tons over 2021. With the multibillion-barrel Vostok Oil project under construction, shipping volume is set to surge after 2024.

While traffic, primarily oil and gas deliveries from Russia's Arctic to Europe and Asia, reached record-levels, transits collapsed as international shipping companies shied away from the route as a result of sanctions and the Ukraine war. Even Chinese shipping company COSCO, which had been a regular visitor along the route over the past decade, did not dispatch vessels into the Arctic this year.

Liquefied natural gas remains king on the route. In 2022, LNG volumes reached new heights as Novatek's Yamal LNG plant hit record production. LNG and gas condensate accounted for 20.5 million tons of cargo, followed by oil and petroleum products at 7.22 million tons (about 53 million barrels). Coal, iron ore and general cargo made up the rest. During the peak season, up to 94 vessels operated on the route at the same time in 2022, down slightly from previous years when up to 120 vessels were active during the peak. Next year, work on Rosneft's Vostok Oil project will add to cargo volume.