Oil and Gas News Briefs
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Western sanctions on Russia reorder global energy trade flows

(Wall Street Journal; Dec. 30) - Western sanctions on Russian fuels are accelerating the shift in global energy flows, with China and India increasingly taking advantage of Russian oil discounts and Middle Eastern suppliers redirecting their crude to Europe. Russia is offering deep discounts to Asia's biggest oil buyers as it tries to retain market share after banning the sale of its crude and petroleum products to countries imposing a price cap. The cap bars shipping, financing or insuring of Russia's seaborne oil unless it is sold at $60 a barrel or less — a sanction in response to the invasion of Ukraine.

Meanwhile, Saudi Arabia, the United Arab Emirates and other major Middle East energy exporters are shifting focus from their traditional markets in Asia to sell at a higher price to European nations seeking to secure their energy needs. Longstanding energy-trade ties face disruption as nations around the globe try to lock up enough fuels to ensure that they can heat homes, power factories and maintain economic stability over the next few years. A redrawing of the energy map would also likely impact geopolitical alliances as governments try to strengthen ties that would underpin their energy security.

Moscow is seeking to mitigate the impact of sanctions by slashing prices and scooping more market share in China and India, which haven't joined the West in the price cap. Since late November, Russia has been selling its flagship Urals crude for as much as $17 under the cap, according to the International Energy Agency. Russia exported 1.9 million barrels a day to China in November, up 16.5% from a year ago, according to customs data from China. Sales to India grew to 1.4 million barrels a day in November, compared with just 36,000 barrels a day a year earlier, according to data provider Kpler.

Europe will stock up on Russian diesel before ban starts in February

(Bloomberg; Dec. 30) - Russia's seaborne diesel exports are set to boom next month as the nation races to get cargoes into the market before a European Union embargo begins in February. Shipments of the fuel from Russia's key Baltic and Black Sea ports, including some that originated in Belarus, are set to surge to 2.68 million tons in January, an 8% hike on December's planned flows and the highest export rate since at least January 2020, according to industry data seen by Bloomberg.

A forthcoming European Union ban on diesel imports from Russia has the potential to be even more disruptive than a prohibition on almost all seaborne crude purchases that started earlier this month. The bloc, attempting to punish Moscow for the war in Ukraine, has long been hugely reliant on Russian diesel supplies. The European Union will prohibit most seaborne imports of Russian oil products starting Feb. 5.

The bloc, which is structurally short of diesel, has been stocking up to get ready for the cutoff, importing cargoes from Russia, still its single biggest external supplier, as well as from Asia and the Middle East.

Commodity trader sells off stake in Russian oil project

(Reuters; Dec. 30) - Global commodities trader Vitol has sold its interest in the giant Russian Vostok Oil project, led by the Kremlin-controlled energy major Rosneft, to Dubai-based trader Fossil Trading, Vitol said on Dec. 30. Vitol did not disclose details of the transaction. Vitol had bought 5% of the Arctic project with its partner, Mercantile & Maritime Group, in 2021 for $4 billion.

The sale follows a divestment by rival trader Trafigura of a 10% stake in Vostok earlier this year following Western sanctions on Russia for its invasion of Ukraine. Rosneft is leading the project, which is comparable in size with exploration of West Siberia in the 1970s or the U.S. Bakken oil region over the past decade. A year ago, reports were that Vostok Oil could start production by 2024, and export as much as 2 million barrels per day by 2030. Rosneft said it started construction earlier this year.

Dubai-based Fossil Trading is the parent company of Geneva-based Energopole, according to the website of Energopole. Rosneft said earlier this year that Energopole was its wholly owned subsidiary. It wasn't clear, however, what was the relationship between Rosneft, Energopole and Fossil Trading at the time of the transaction with Vitol. Vitol declined further comment. Rosneft, Energopole and Fossil Trading were not immediately available for comment.

Global recession to hold down oil prices in 2023, survey shows

(Reuters; Dec. 30) - Oil prices are set for small gains in 2023 as a darkening global economic backdrop and COVID-19 flare-ups in China threaten demand growth and offset the impact of supply shortfalls caused by sanctions on Russia, a Reuters poll showed on Dec. 30. A survey of 30 economists and analysts forecast Brent crude would average $89.37 a barrel in 2023, about 4.6% lower than the $93.65 consensus in a November survey. The global benchmark has averaged $99 per barrel in 2022.

U.S. crude is projected to average $84.84 per barrel in 2023, versus the previous month's $87.80 consensus. "We expect the world to slip into recession in early 2023 as the effects of high inflation and rising interest rates are felt," said Bradley Saunders, assistant economist at Capital Economics. Brent has fallen more than 15% since early

November and was trading around $84 a barrel on Dec. 30 as surging COVID-19 cases in China depressed the outlook for oil demand growth in the world's largest oil importer.

Most analysts said oil demand will grow significantly in the second half of 2023, driven by the easing of COVID-19 restrictions in China and by central banks adopting a less aggressive approach on interest rates. The impact of Western sanctions on Russian oil is expected to be minimal, the poll showed. "In the event of a severe drop to Russian exports (which we do not expect to occur), OPEC+ will likely be ready to increase output to prevent prices from rising too high," data and analytics firm Kpler said.

Production growth slows down for U.S. shale

(Reuters; Dec. 30) - The shale oil patch this week closes the door on a disappointing year while bracing for weaker output gains in 2023, hamstrung by rising costs, dwindling reserves and pressure to hold down spending. U.S. oil output in 2022 will rise by an average of 620,000 barrels per day, according to the latest government estimates, a third less than the 1 million that some forecasts called for at the start of the year. The shortfall has undercut shale's influence on markets and helped lift prices.

Gains next year will be harder to come by, said Scott Sheffield, CEO of top Permian producer Pioneer Natural Resources. He predicted 300,000 to 400,000 barrels per day of increased shale production in 2023. "Most companies are drilling Tier 2 and Tier 3 inventories now," having tapped their best prospects, Sheffield said in an interview on Dec. 30. "Less quality production is coming out of the Permian, out of the Bakken," he said, referring to the top two U.S. shale basins.

Weakening output gains come despite historically strong demand in the wake of Russia's invasion of Ukraine. Brent futures on Dec. 30 settled at $85.91 per barrel, a level that typically would spur producers to pursue higher prices with more drilling. Pioneer and other shale producers are experimenting with oil-recovery techniques that could eventually squeeze more from older wells. In the near-term, Sheffield warned oil field inflation, which ran 10% to 15% this year, will persist and limit production growth. Another restraint is investor demand to focus on returns over volume increases.

Chevron sends tanker for first load of Venezuelan crude in 4 years

(Reuters; Dec. 30) - Chevron is sending two oil tankers to Venezuela, one of which will load the first cargo of crude destined for the U.S. in nearly four years, according to a person familiar with the matter and shipping data. On Dec. 30, a Chevron-chartered vessel approached the country's waters to pick up a cargo of Venezuelan crude. A second tanker carrying a cargo of diluents (to be mixed in with thick crude) for a Chevron joint venture is due to arrive in Venezuela early next month, the person said.

The U.S. last month issued a six-month license to Chevron, authorizing it to take an expanded role at four Venezuelan joint ventures that produce, process and export oil, and to bring their oil to the United States. The U.S. license will reopen oil flows that were shut by U.S. sanctions nearly four years ago. The license was one of Washington's first steps to ease sanctions as an incentive for Venezuela to work with opposition leaders toward a presidential election in late 2023.

A Chevron spokesman declined to comment, citing a policy of not discussing commercial matters. Venezuelan state oil company PDVSA did not immediately reply to a request for comment. Analysts said the new oil flows could set the stage for additional concessions by the administrations of Venezuela's Socialist President Nicolas Maduro and U.S. President Joe Biden. No. 2 U.S. oil producer Chevron could return to a historical role in Venezuela's oil production and processing over time, they said.

Lack of new U.S. LNG terminals in 2023 may ease domestic prices

(S&P Global; Dec. 28) – U.S. liquefaction capacity additions are poised to flatline in 2023, supporting softer domestic prices and allowing storage levels to refill as the largest driver of U.S. gas demand growth starts to stall until the next wave of LNG export facilities is constructed. The lack of new liquefaction capacity coming online in the U.S. in 2023, combined with tepid supply additions globally, stands to keep pressure on the global gas market as it grapples with volatility and persistently high prices.

"The U.S. production response isn't expected until 2024 at the earliest," Ross Wyeno, lead analyst for LNG Americas at S&P Global, said in an interview. Venture Global expects the first phase of its Plaquemines LNG facility in Louisiana to come online in 2024. It could reach 20 million tonnes annual production capacity at full build-out. Golden Pass LNG in Texas, under construction since early 2019, is also expected to start production in late 2024. Full capacity is planned at 18 million tonnes.

A dearth of investment decisions for U.S. LNG terminals in recent years leaves little else until the next wave of facilities starts up in 2024. "The lack of new liquefaction capacity next year could be bearish for near-term pricing, but the medium- to long-term growth in export capacity will create a demand sink for those additional (gas) volumes and could very well rationalize near-term investments in drilling," Wyeno said. Rising production amid the pause in new LNG terminals will lead to a better-supplied U.S. market in 2023 and 2024 that will allow prices to fall back, according to Goldman Sachs analysts.

U.S. Energy Department approves gas exports through Mexico

(Natural Gas Intelligence; Dec. 28) - Momentum is building for the re-export of U.S. natural gas to Asia by way of Mexico’s Pacific Coast. The U.S. Department of Energy granted Sempra Infrastructure's request for two LNG export permits for terminals planned in Mexico. Published on Dec. 20, the orders expanded export volumes for Sempra's Energia Costa Azul liquefied natural gas terminal and authorized shipments for the proposed Vista Pacifico project through 2050.

Located in Mexico's Baja California, the Energia Costa Azul project was granted long-term export approval in 2019 and was sanctioned by Sempra in 2020. The first phase, at 3 million tonnes annual capacity, is under construction. Sempra estimates start-up in 2024. Sempra in 2021 filed a request to expand authorized exports after reviewing its design and operation plans, estimating the project's maximum capacity could be increased to 12.4 million tonnes. The Dec. 20 order expands the approved exports.

The department also approved a request for Sempra's proposed Vista Pacifico terminal to export 200 billion cubic feet per day of gas to non-free trade countries, which includes much of Asia. The Vista Pacifico project, at 4 million tonnes per year output capacity, is proposed for Topolobampo, Sinaloa. It is currently unsanctioned. Sempra and its government and industry partners in Mexico have been pursuing development of LNG terminals in the country that could take advantage of U.S. gas supplies.

German utility signs long-term supply deal with Texas LNG project

(Natural Gas Intelligence; Dec. 28) - Sempra Infrastructure said Dec. 27 it has finalized a deal to sell an affiliate of German utility RWE 2.25 million tonnes per year of LNG from the first phase of its proposed Port Arthur export project in Jefferson County, Texas. The liquefied natural gas would be sold for 15 years on a free-on-board basis, a standard U.S. provision that would allow RWE to deliver the cargoes anywhere in the world. The transaction comes after a heads of agreement signed earlier this year.

RWE Supply & Trading CEO Andree Stracke said the deal would help enhance European gas supply security on a long-term basis. Sempra Infrastructure CEO Justin Bird said the agreement keeps the first phase of Port Arthur on track for a final investment decision in the first quarter of 2023. The announcement "moves us one step further along in the process of making Port Arthur LNG a reality," Stracke said.

U.S. LNG developers have had their busiest year on record, signing sales-and-purchase agreements to supply more than 40 million tonnes per year of the fuel. About three dozen deals have been announced this year, with more than 20 signed since June. High spot prices and a tight market have spurred the rise in long-term deals. The bulk of the contracts have been signed with Asian offtakers, but more European buyers are stepping up as the continent's energy crisis enters its second year. The first phase of Port Arthur LNG would have the capacity to produce 13.5 million tonnes per year.

New projects could boost Europe’s LNG import capacity 20%

(Argus Media; Dec. 29) - A swathe of new liquefied natural gas import capacity set to come online in the coming months and later in 2023 could lift Europe's aggregate LNG import capacity by 20% by December 2023, as the region seeks to do away with Russian pipeline gas supply. Total European LNG import capacity could stand at about 250 million tonnes per year by the end of 2023, up from 210 million at present, if planned projects and expansions are finalized by current timelines.

The sharp rise is mainly concentrated in the first half of 2023, with new German import terminals driving most of the increase. Germany has commissioned the first of its three import terminals that are scheduled to start up this winter. Germany was the largest importer of Russian pipeline gas in recent years, but has greatly accelerated its plans to start importing LNG following a slowdown in deliveries from Russia. Germany now has 10 LNG import terminals it plans to bring online over the next decade.

Another terminal set to come on line in the coming weeks is the project in Inkoo, Finland, which will bolster gas supply to not only Finland but also Estonia and farther into the Baltic region. Turkey could also add to its existing import capacity by early 2023. France is planning to boost LNG import capabilities through expanding existing projects, while also securing an additional floating import unit. Italy's Snam is planning to bring online a terminal in Piombino, although strong opposition to the project from local authorities could threaten its scheduled start-up in May.

U.S. natural gas futures hit 10-month low on warm weather forecast

(Reuters; Dec. 29) - U.S. natural gas futures fell to a 10-month low on Dec. 29 on forecasts for warmer weather over the next two weeks, despite a bigger than expected draw on storage inventories. Prices stayed negative for the day even after the U.S. Energy Information Administration said utilities pulled 213 billion cubic feet of gas from storage due to severe cold in the week ended Dec. 23, exceeding the 201 bcf decline that analysts had forecast in a Reuters poll.

That compared with a decrease in storage of 125 bcf in the same week last year and a five-year (2017-2021) average decline of 106 bcf. Front-month February gas futures slipped 15 cents, or 3.2%, to settle at $4.559 per million Btu. During the session Dec. 29 they fell 6% to $4.422, their lowest since early March. The weather outlook for warmer average temperatures and less demand for gas outweighed the storage drawdown report, said Robert DiDona, of Energy Ventures Analysis.

With the weather expected to turn mild, data provider Refinitiv projected average U.S. gas demand, including exports, would drop from 142.6 bcf per day this week to 111.6 bcf per day in the next week. U.S. daily demand from the four biggest gas-consuming sectors — residential, commercial, power and industrial — reached an all-time high of 148.5 bcf during an Arctic weather blast on Dec. 23, according to Refinitiv data.

Japanese insurers negotiate continuation of LNG tanker coverage

(Reuters; Dec. 29) - Japanese insurers are expected to maintain marine war insurance for at least three months to cover the risks of sinking and requisition of liquefied natural gas tankers due to war in Russian waters, industry sources said Dec. 30. Japan's Tokio Marine & Nichido Fire Insurance, Sompo Japan and Mitsui Sumitomo told shipowners a week earlier that starting Jan. 1 they would stop offering coverage for ship damage caused by war in Russian waters because reinsurers were withdrawing coverage.

Then on Dec. 27, a senior official at the industry ministry said the Japanese government had asked insurers to take on additional risks to continue providing war insurance for liquefied natural gas shippers. This was to ensure that Japan will be able to import the fuel from the Sakhalin-2 gas and oil project in Russia's Far East at the height of peak winter demand. Japan receives 9% of its imported LNG from Sakhalin-2, which is owned by Gazprom and Japanese trading houses.

The insurance companies negotiated with reinsurers to replace part of the coverage and they are expected to enable continued insurance, Nikkei reported on Dec. 29. After renegotiating with U.K. reinsurers, a total of 30 billion yen ($224 million) is expected to be secured, with domestic insurers covering about 8 billion yen and overseas reinsurers taking on about 22 billion yen, the newspaper said. The underwriting capacity will be less than half of the previous 67 billion yen, limiting the ability to pay multiple claims.

TC Energy completes repairs, restarts Keystone oil line

(Wall Street Journal; Dec. 29) - The operator of the Keystone oil pipeline said it was moving to fully reactivate the system, ending a weekslong outage that pressured U.S. oil prices and complicated some Gulf Coast refiners' operations. TC Energy said Dec. 29 that it had completed repairs, inspection and testing on the line and that the system was now operational to all delivery points. It had received approval from the U.S. Pipeline and Hazardous Materials Safety Administration to restart a 300-mile segment linking Steele City, Nebraska, to the main U.S. oil storage hub in Cushing, Oklahoma.

The 2,700-mile Keystone pipeline shut down Dec. 7 after a rupture in Kansas spilled an estimated 14,000 barrels of crude oil, according to TC Energy — the largest such reported leak in the line's history. The company earlier this month partially reactivated the pipeline, but the so-called Cushing extension had remained offline. Keystone originates in the Canadian province of Alberta and delivers about 622,000 barrels of crude a day to refiners in the Midwest and the Gulf Coast. It is one of nearly two dozen pipelines that pass through the oil storage complex in Cushing.

Canada’s oil traditionally trades well below the U.S. benchmark and fetched a $20-per-barrel discount to prices at Cushing prior to the spill. As supplies of the Canadian grade declined at Cushing, the discount narrowed to $7 per barrel last week, before widening out again to $17 per barrel on Dec. 28, according to data collected by Argus Media. TC Energy hasn’t said what caused the leak, which prompted a cleanup operation of a creek involving hundreds of individuals. The cleanup is ongoing. As of Dec. 20, TC Energy had recovered 7,599 barrels of oil from the stream, according to the company.

Sinopec sets record depth with 29,000-foot well

(World Oil; Dec. 30) - China Petroleum & Chemical Corp. (Sinopec) announced that its Yuanshen-1 exploration well in the Sichuan Basin had successfully completed drilling at a depth of more than 29,000 feet, beating the previous deepest record in the Sichuan Basin set by its Rentan-1 well. A major breakthrough of Sinopec's "Project Deep Earth," the Yuanshen-1 well has reached the deepest oil and gas formation in the Sichuan Basin and shows the potential of deep ancient carbonate rocks in the region.

Drilling to such depths can bring many challenges. The large-size upper casing weighs almost 570 tons at ground level, which is a challenge to the rig's lifting and casing capabilities. The ultra-high temperature in the deep Earth has high requirements for drilling fluid stability and anti-pollution capability, and coring is difficult and time consuming. To combat these challenges, Sinopec has developed technologies for drilling to support oil and gas exploration in deep and ultra-deep carbonate reservoirs.

Sinopec has continually advanced deep hydrocarbon exploration in the Sichuan Basin, mainly including conventional gas in deep marine carbonate rocks and deep shale gas.