Oil and Gas News Briefs
Compiled by Larry Persily
July 6, 2023

China's push to sign LNG deals gives it more influence in the market

(Bloomberg; July 3) - "Energy security" has become a trendy phrase to explain many countries' plans for building up fuel supplies. And it's certainly a big reason behind China's spending spree to procure natural gas for well into the future. But there's more to the nation's strategy: The unrelenting pace of supply deals is bolstering the influence of the world's second-largest economy in the fastest-growing fossil fuel market.

For the third straight year, Chinese companies are agreeing to buy more liquefied natural gas on a long-term basis than any single nation. Importers are signing some of the industry's longest and largest contracts, and the government is happy if they ink more. These deals lock in LNG through the middle of the century to help avoid energy shortages — like the ones it faced in recent years due to coal and hydropower supply crunches. At the same time, the push expands China's control over global gas supply.

This is China's go-to strategy when it comes to energy and commodities. From copper to rare earths, it tries to expand influence over the stuff that's vital to both its economy and the world's. China is on track for its LNG demand to roughly double over the next decade. The LNG drive gives the nation a seat at the table for the global seaborne trade of gas. Plus, suppliers are eager to court Chinese buyers since no other importer will promise to buy gas for nearly 30 years.

China signs more long-term LNG deals to avoid spot market

(Bloomberg; July 1) - China is on a natural gas shopping spree, and officials are happy for importers to keep striking deals even after a global energy crisis has eased. The government continues to back efforts by state-owned buyers to sign long-term LNG import contracts and even invest in export facilities among supplier nations in order to bolster energy security through the middle of the century, according to people who have had meetings with policymakers.

The nation is on track to be the world's top importer of liquefied natural gas in 2023. And for the third straight year, Chinese companies are agreeing to buy more of it on a long-term basis than any single nation, according to data compiled by Bloomberg News. China is looking to avoid a repeat of energy shortages, while seeking to fuel economic growth. Long-term contracts are attractive because cargoes are promised at a relatively steady price compared to the spot market, where gas surged to an all-time high in 2022.

“Energy security has always been a priority for China,” said Toby Copson, global head of trading and advisory at Trident LNG in Shanghai. “Having ample supply in their portfolio allows them to manage future volatility. I would expect to see more.” The deal-making efforts will help underpin global export projects, strengthening the role the seaborne fuel will play in the energy mix. And as suppliers move to woo Chinese importers, Beijing’s influence in the market is set to increase.

So far this year, 33% of long-term LNG volumes signed went to China, according to Bloomberg calculations. The government isn’t forcing companies to sign deals, and buyers will only ink agreements that have attractive prices, traders said. The bullish demand outlook isn’t certain, however, especially as China boosts its gas production at home, while overland shipments from Russia could increase if new pipelines are built.

China and Europe account for 40% of U.S. LNG contracts since 2021

(Financial Times; London; July 4) - A race between Europe and China to lock in supply of liquefied natural gas from the U.S. is driving investment in a range of export projects that will boost a market facing a potential supply shortage. In the past few weeks, U.S. exporter Cheniere signed a 15-year deal to supply Norway’s Equinor and a contract for more than 20 years with China’s ENN. In addition, Venture Global LNG inked a 20-year deal with Germany’s Securing Energy for Europe, while France’s TotalEnergies bought a $219 million stake in a Texas LNG terminal being developed by NextDecade.

Europe and China accounted for nearly 40% of the U.S. LNG supply contracts signed between 2021 and late June 2023, data from S&P Global Commodity Insights showed. China accounted for 24.4%, owing to large volumes being signed in 2021 and 2022. So far in 2023, Europe has contracted more volumes than China. The long-term purchase agreements are needed to underwrite financing for new or expanding LNG projects.

European buyers have been wary of signing long-term LNG deals, as they attempt to decarbonize their economies. But the contracts offered by U.S. exporters often allow buyers to divert cargoes to other entities, mitigating the risk for European buyers of being stuck with gas. “The European buyers are giving an additional tailwind for U.S. projects to push toward the finishing line,” said Michael Stoppard, global gas strategy lead at S&P Global Commodity Insights. “It can really help a U.S. LNG project if it can get a portfolio of Asian and European buyers together, as it reduces the risk for them.”

U.S. LNG developer looking for equity partners

(S&P Global; July 4) – U.S. LNG developer Tellurian aims to draw in equity partners for Phase 1 of its proposed Driftwood LNG project in Louisiana by the end of 2023 and has targeted delivery of its first cargo in the second half of 2027, company CEO Ocatvio

Simoes told S&P Global Commodity Insights in an interview. "We will own 45% and our equity partners will own 55% (in Phase 1)," Simoes said on the sidelines of the Energy Asia conference in Kuala Lumpur last week.

"We are in full construction (phase) right now. ... We have prepared the site, installed the piles, are doing the dredging, the work related to the tanks, and we've spent over a billion dollars on the site," Simoes said. In May, a company presentation noted that it had executed a binding letter of intent for $1 billion in financing and has to date invested or received commitments to cover $2 billion of project costs. Phase 1 production capacity is planned for 11 million tonnes per year, at a development cost of $14.5 billion.

Various parties — oil majors, "mini majors," end-users such as utilities, trading houses and also businesses that have a significant portion of their business related to LNG projects such as large steel manufacturers and shipping companies — are interested in the project Simoes said, adding that by investing in a project like Driftwood LNG they can sell the LNG at their cost or use it for themselves, helping hedge expenses. The process of finalizing equity partners was taking longer than initially expected, as it is a complex process which goes beyond merely signing a contract, Simoes explained.

U.S. LNG developer asks FERC permission to speed up construction

(Reuters; June 30) - Venture Global LNG on June 30 1 asked U.S. regulators for expedited review of a request to add construction workers to its Plaquemines LNG export project in Louisiana and to allow work around the clock seven days a week. The company wants to increase staffing to 6,000 workers, from 4,700 originally approved, and speed up construction after weather delays last year, it said in a request to the Federal Energy Regulatory Commission.

The company originally sought to go to a 24-hour schedule last October. It has asked FERC to approve the increase at its July 27 meeting. Plaquemines LNG hopes to begin exports from the Gulf Coast facility's first phase late next year and to complete construction of the plant's second phase by the end of 2026, the company said in its filing. The $21 billion Plaquemines project is one of the largest project financings for an LNG terminal. At full capacity, the plant would produce about 20 million tonnes per year.

Plaquemines LNG Phase 2 customers include ExxonMobil, Chevron, EnBW Energie Baden Wuerttemberg , New Fortress Energy, Petronas, China Gas Holdings and Excelerate Energy. Venture Global’s first project, Calcasieu Pass LNG, in Louisiana, began exports last year. The plant’s annual production capacity is 10 million tonnes.

Canada’s oil sands producers want to pump wastewater into river

(Wall Street Journal; July 3) - Canadian oil companies have poured billions of gallons of toxic waste into vast reservoirs spread across the boreal forests of Alberta. To permanently dispose of the wastewater, they want to separate it from oil sands mine tailings and pump the water into a nearby river. The companies have promised that once their mines stop producing, they will return the land to something as close to a natural state as possible. But as long as the water reservoirs remain, that is impossible.

The industrial waste rests in reservoirs covering 100 square miles. The companies are lobbying the Canadian government to set rules that would allow them to treat the waste and release it into the Athabasca River by 2025, so that they would have enough time to meet their commitments to eventually close the oil sands mines. The proposal has angered environmentalists and local Indigenous groups, who say the effluent could poison a critical waterway that flows hundreds of miles north to the Arctic Ocean.

Government officials say they are considering the release into the river, but are still studying alternative options. “It is a very urgent issue,” said Steven Guilbeault, Canada’s minister of environment and climate change. “We can’t continue to allow huge quantities of contaminated water like that to be stored in these artificial lakes.” Under Canada’s federal rules, industries need regulatory exemptions to dump their wastewater into any waterway that contains fish. Exemptions have been granted to ore miners and pulp and paper companies, but they have never been given to the oil-and-gas sector.

To eventually close the mines and rehabilitate the landscape, the producers have to find somewhere to put the wastewater, said Rodney Guest, director of water and closure at Suncor, Canada’s second-largest producer by market valuation. He said the companies don’t have many better options than treating and releasing the water into the river.

Saudi Arabia believes market will come around to higher prices

(S&P Global; July 5) - Deep OPEC+ production cuts, led by Saudi Arabia, into a skeptical global market have yet to lift oil prices, but traders will soon come around once evidence emerges of tightening fundamentals, the kingdom's energy minister said July 5. Oil demand is rising, central bankers are working to tame inflation and OPEC+ output restraint will turn the tide of "exaggerated negativity" that has flooded the market and held down prices, Prince Abdulaziz bin Salman told the OPEC International Seminar.

"You cannot change a negativity that is emanating from let's say 10 million traders," he told a packed audience in Vienna of industry officials and market participants, two days after Saudi Arabia announced it would hold its crude output at a two-year low of 9 million barrels per day through at least August. But the negativity cannot last, and "I am very optimistic," the prince added. "People should be in their comfort zone that this market will not be left unattended."

Saudi Arabia on June 4 announced it would make a unilateral production cut of 1 million barrels per day in July, on top of 3.66 million in collective OPEC+ quota reductions implemented since October. On July 3, the kingdom said it would extend that cut for August, along with a commitment from Russia to lower its crude exports by 500,000 barrels per day. But the gambits have not yielded any price gains. Platts, a part of S&P Global Commodity Insights, assessed the Dated Brent crude spot price at $76 a barrel on July 4, still below the $77.31 reached June 5 after the first Saudi cut announcement.

India may be near its limit as Russian oil imports hit another record

(Bloomberg; July 3) - India's imports of Russian oil hit another record last month as the South Asian nation potentially nears the limit of its buying splurge from the major OPEC+ producer. Daily volumes climbed to 2.2 million barrels a day in June, rising for a 10th month, according to Viktor Katona, the head of crude analysis at Kpler. Russian purchases again exceeded the combined shipments to India from Saudi Arabia and Iraq, data from the analytics firm show.

India emerged as a key consumer of Russian oil following the invasion of Ukraine, but the nation's buying could be near its limit due to infrastructure issues and the need to maintain good relations with other suppliers. Kpler says imports may dip next month because of reduced Russian supply. State-owned Indian Oil Corp. has been the biggest buyer of Russian crude over the past two months, followed by Reliance Industries.

'Dark fleet' of oil tankers getting younger as safety concerns grow

(Bloomberg; July 1) - An armada of oil tankers ferrying sanctioned crude around the globe is starting to get younger, bucking a monthslong trend of using the world's oldest and most dangerous vessels. Shortly after President Vladimir Putin's invasion of Ukraine early last year, hundreds of aging tankers were snapped up by a cohort of faceless traders, intermediaries and investors to keep Russian oil flowing. By some estimates, the purchases, which added to vessels that were already transporting crude for sanctioned Venezuela and Iran, created a more than 900-strong dark fleet.

Now, the average age of the ships being purchased is declining, according to data from VesselsValue, a researcher of shipping deals. Two industry executives said clampdowns in Asia were likely catalysts for the shift, following a spate of ship detentions in recent months over safety issues. China, one of the top consumers of Russian and Iranian oil, recently ramped up checks on older tankers at the key port of Qingdao, forcing some to wait more than a month to unload their cargo. Anxiety over aging ships was heightened when a 26-year-old vessel exploded off Malaysia in May.

Singapore has also detained tankers for failing inspections at a record clip in recent months. Newer ships could help ease fears of some importers over their seaworthiness, though the fleet remains awash with vintage ships. “Safety concerns surrounding older vessels is one of the reasons that buyers are opting for newer vessels,” said Rebecca Galanopoulos Jones, an analyst at VesselsValue. The average age of tankers being sold to undisclosed buyers — one characteristic of a ship being part of the dark fleet — fell to 15 years this month, according to VesselsValue. In October, it was 19 years.

IEA forecasts upstream oil and gas investment highest since 2015

(Al Jazeera; July 3) - Oil and gas companies are reinvesting record profits from the fossil fuel price surge driven by the Ukraine war to intensify their hunt for new deposits, despite repeated calls by the United Nations for the world to phase out hydrocarbons to avoid a climate crisis. Data and industry executives reveal that the exploration revival is in response to pressure from investors to maximize their oil and gas profits rather than invest in lower-margin renewable energy businesses.

The International Energy Agency has forecast global upstream oil and gas investments to increase by about 11% to $528 billion in 2023, the highest level since 2015. Barclays said it expected the number of offshore projects to win approval this year to reach a 10-year high. The renewed appetite for oil and gas reserves and production — among European majors in particular — comes after Shell and BP slowed plans to shift away from their legacy business toward investing in renewables as part of a transition.

Upstream oil and gas have historically had investment returns of 15% to 20%, while most renewables projects have delivered up to 8%. An analysis of data from oil services firm Baker Hughes showed the number of offshore drilling vessels used to explore and produce oil and gas recovered in May to pre-pandemic levels, rising by 45% from October 2020 lows. Wood Mackenzie analysts predict a continued increase in activity, forecasting offshore exploration and drilling activity to grow by 20% by 2025.

Portugal doubles 2030 goals for renewable energy, green hydrogen

(Reuters; July 3) - Portugal has more than doubled its 2030 goals for installed capacity of solar energy and electrolyzers to produce green hydrogen, as it aims to shut down natural gas-fired power plants by 2040 and possibly become carbon neutral by 2045. The new targets are part of an updated draft of the energy and climate goals that Portugal sent to Brussels on July 1 — the deadline for all European countries to submit updated plans on how they expect to help further EU renewable energy objectives.

Portugal now aims to reduce greenhouse gas emissions 55% by 2030 from 2005 levels, while its previous plan envisaged a 45% to 55% cut. It is also studying the possibility of becoming carbon neutral five years earlier than its original commitment. The government forecasts that the overall installed renewable energy capacity will rise to 42.8 gigawatts by 2030, up from a target of 27.4 GW in the previous plan, and 2.5 times more than the capacity in operation last year. That will require an estimated 75 billion euros ($81.80 billion) of investment in green energy projects, mostly private.

The EU is at risk of failing to meet its 2030 climate change targets, owing to uncertainty over whether sufficient funds are being invested in the low-carbon transition, the European Court of Auditors said in a report last month. Portugal aims to generate 85% of its annual electricity supply from renewable sources by 2030, up from around 60% in 2022, which was already one of the highest ratios in Europe. In addition to boosting solar and wind power output, new electrolyzer capacity to produce green hydrogen should hit 5.5 GW by 2030, up from 2.5 GW forecast previously.

Japan worries Australia’s emissions limits could affect LNG supply

(S&P Global; July 3) - Reforms to Australia's “Safeguard Mechanism” that took effect July 1 will have a significant impact on the liquefied natural gas business and import costs for Japan, and are accelerating the import-dependent country's efforts to diversify its supply sources, with a renewed focus on Mideast prospects. The reforms, the latest in a series of policy changes, have shaken Japan's confidence in Australia's role as a stable long-term supplier, sources and analysts told S&P Global Commodity Insights.

The unexpected turnaround in Australia's policy direction has raised concerns in Japan, where the government and companies see impacts on investments as well as a likely increase in LNG import prices in the long run. Japan currently sources more than 40% of its LNG from Australia, and has more than 24 million tonnes per year of long-term Australian supply contracts due to expire by 2039, with more than 8 million tonnes set to expire by 2029 unless they are extended, according to S&P Global's LNG database.

The Safeguard Mechanism applies to industrial facilities, including oil and gas and mining operations, that emit more than 100,000 tonnes of CO_2 equivalent, and requires offsetting CO_2 emissions such as purchasing carbon credits or carbon capture and storage. It requires facilities to cut net emissions by 4.9% a year through 2030, while new facilities, including gas fields, are expected to have a baseline of net-zero emissions at start-up. Given the uncertainty over Australia as a stable LNG supplier, Japan is finding an increased need to diversify its import portfolio and is exploring LNG supplies from Qatar and the UAE, a source told S&P Global.

Partners will invest to expand gas production offshore Israel

(Reuters; July 2) - Partners in the Israeli offshore gas project Leviathan said on July 2 that they would invest $568 million to build a third pipeline that will allow increased natural gas production and exports. Leviathan, a deep-sea field with huge deposits, came online at the end of 2019 and produces 420 billion cubic feet of gas per year for sale to Israel, Egypt and Jordan. The idea is to boost capacity to include sizable exports volumes for Europe as the continent seeks to reduce dependence on Russian energy.

The new pipeline will connect the field with a production facility some 6 miles off Israel's Mediterranean shore. It’s due to come online in the second half of 2025, when output at Leviathan will climb to almost 500 bcf a year, the companies said. The Leviathan consortium includes operator Chevron and Israel's NewMed Energy and Ratio Energies.

"Expansion of the production capacity and future liquefaction via a designated liquefaction facility will allow us to supply more natural gas to the local, regional and very soon also the global market," said NewMed CEO Yossi Abu. In the longer term, Leviathan production is expected to reach almost 750 bcf a year. The group has announced plans for a floating liquefied natural gas terminal off the Israeli coast with an LNG production capacity of about 4.6 million tonnes, or 230 bcf of gas a year.