Oil and Gas News Briefs
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Novatek asks tax exemption for Chinese investment in Russian LNG

(Barents Observer; Norway; June 7) – The leader of Russian natural gas producer Novatek is pushing for tax benefits for Chinese companies that invest in the Russian Arctic. According to CEO Leonid Mikhelson, China National Petroleum Corp. and China's Silk Road Fund should be exempted from the dividend tax on their stakes in the Novatek-led Yamal LNG project. In return, the Chinese companies would re-invest the money in new LNG projects in the Arctic.

According to the newspaper Kommersant, Mikhelson has sent a request to the federal government about the issue. CNPC and the Silk Road Fund own 20% and 9.9%, respectively, of Yamal LNG. In the Novatek-led Arctic LNG-2 project, which is under construction, CNPC holds 10%, as does China National Offshore Oil Corp. They all pay a 10% tax on dividends to Russia. The Chinese companies have long called for reducing the tax, and Mikhelson now is calling on the Russian government to follow up.

The request comes at the same time as Novatek has announced plans for a new LNG project on the Kola Peninsula. Murmansk LNG is to have a capacity of 20.4 million tonnes per year, about the same as Arctic LNG-2, with a proposed 2027 start-up date.

Russian official invites China and India to invest in oil and gas

(Reuters; June 6) - The local governor of Russia's Pacific island of Sakhalin has invited companies from India and China to tap the region's energy resources, following the departure of European and American oil and gas majors. Russia has been forging closer political and economic ties with Asia since the start of its war on Ukraine last year and the resulting Western sanctions on Moscow.

"We invite companies from China and India to projects of the energy complex. This is a good chance for them to fill the niche vacated by American and European companies in the oil and gas services market," Sakhalin Gov. Valery Limarenko said on the government's website. Shell and ExxonMobil withdrew last year from energy projects in Russia's Far East, writing off billions of U.S. dollars of assets.

The island is the location for the Gazprom-led Sakhalin-2 liquefied natural gas plant and the Sakhalin-1 oil project, in which Russia's largest oil producer, Rosneft, has a 20% stake. Shell had been a partner in Sakhalin-2, and Exxon in Sakhalin-1. India's ONGC Videsh already has stake in Sakhalin-1.

New pipeline could move Russian gas to LNG export project

(The Barents Observer; Norway; June 6) - Regional authorities in Murmansk, Russia, have lobbied for a northbound natural gas pipeline connection to the Kola Peninsula for decades. Practically every post-Soviet governor has had the project on the agenda. But nobody seemed to take the plans seriously. Now the war with Ukraine and Russia's subsequent detachment from Europe's energy market might restore life in the project. Not only among the regional establishment in Murmansk, but also among federal authorities and energy companies in Moscow.

Russia today has a significant surplus of natural gas that needs to find a new purpose. Gazprom plans to use some of the gas in a string of petrochemical investments in the Yamal Peninsula in the Arctic. But there is room for more, and Novatek now proposes to build a liquefied natural gas export plant on the Kola Peninsula. Murmansk LNG is to have a capacity of 20.4 million tonnes per year and be ready in 2027.

The project includes a pipeline connection to Volkhov, the gas distribution hub located near St. Petersburg, and it will take advantage of cheap electric power from the Kola nuclear power station, the newspaper Kommersant reports. The building of the pipeline with a capacity to transport up to 1 trillion cubic feet of gas per year will require close cooperation between Novatek and gas producer Gazprom. The former is also likely to depend on the latter for supplies of the needed gas volumes.

Climate change activists target insurance for U.S. LNG terminals

(Energy Wire; June 5) - Environmentalists have been pushing insurance companies for years to stop covering fossil fuel companies. Now, they're expanding their fight to gas exports. A coalition led by Public Citizen and Rainforest Action Network is launching a campaign to get companies to stop insuring liquefied natural gas export terminals along the Gulf Coast. Their Exhibit A will be Freeport LNG, in Texas. There was a blast at the facility a year ago, and campaigners have obtained an insurance certificate showing that some of the world's largest insurers have issued policies to the facility.

While the companies haven't committed to stop insuring all fossil fuel companies, they do have goals for net-zero greenhouse gas emissions. Covering giant LNG export terminals, in the environmentalists' opinion, violates at least the spirit of those goals. "Insurers aren't going to make changes to how they cover fossil fuels, and especially LNG, on their own," said Kerrina Williams, with Public Citizen, a consumer advocacy group. "Pressuring the industry to make the changes is vital to slowing climate change."

The groups want to make it difficult, or at least much more expensive, for LNG exporters to get insurance for the facilities that take natural gas, refrigerate it to temperatures so low it turns into a liquid, and load it on ships for delivery worldwide. They want insurance companies to stop underwriting new plants and the expansion of existing ones. The

U.S. is the world’s largest LNG exporter. The insurers and the exporters defend LNG as a valid — and needed — part of the global transition to lower-emissions energy.

Canadian government provides more loan guarantees for oil pipeline

(Bloomberg; June 1) - The Trans Mountain pipeline received additional support from the Canadian government after the cost to expand the controversial Alberta-to-British Columbia oil line jumped 44% in March. The government, which guaranteed loans last year that allowed the project to secure C$10 billion of private financing, has since provided an additional C$2.5 billion to C$3 billion for the expansion in two separate backstops, according to information on the Export Development Canada website.

One guarantee was issued in March and the other in May. Last year’s loan guarantees were extended after the costs of the project increased 70%, and the finance minister said no more public money would be invested in Trans Mountain. The project has faced repeated cost increases and regulatory delays since it was first proposed a decade ago.

In March, it was announced that the cost of expanding the system’s capacity to 890,000 barrels a day had risen to C$30.9 billion — the latest in a series of increases — due to inflation, supply chain challenges, floods in British Columbia, unexpected archaeological discoveries and challenging terrain. Prime Minister Justin Trudeau decided to nationalize the system in 2018, paying Kinder Morgan $4.5 billion after the company threatened to cancel the expansion amid fierce local opposition and rising costs. Last June, Canada’s budget watchdog said the line would be a “net loss” for taxpayers.

Canada pledges US$9 billion to clean up oil sands carbon emissions

(Bloomberg; June 5) - Canada is staking billions of dollars of public money on an oil industry plan to transform one of the world’s dirtiest crudes into one of the cleanest. But it’s relying on a technology with a checkered track record. The tar that infuses the sands in Alberta is so sticky the region’s Indigenous people traditionally used it to waterproof their canoes. It wasn’t much use for anything else until the 1960s, when an oil company found a way to refine the bitumen into crude oil that could be sold on the global market.

Today, Canada is the world’s fourth-largest oil producer, but the amount of energy it takes to extract and process oil sands barrels makes many of its grades among the most polluting crudes of all. A grade called Canadian Cold Lake, for instance, released four times the emissions than a barrel from Saudi Arabia’s Ghawar field. Under pressure to neutralize carbon emissions by mid-century while also supporting the domestic oil industry, Prime Minister Justin Trudeau’s government has so far pledged C$12.4 billion (US$9.1 billion) in tax credits for building carbon-capture systems.

That includes a massive project that aims to suck up an annual 10 million tonnes of carbon emissions produced by the massive equipment at oil sands sites by 2030. By 2050, after billions more in investment, the system is expected to capture as much as 40 million tonnes of carbon annually. That's if it works. Though carbon capture and storage technologies have been around for decades, efforts to scale them up have faced problems ranging from debilitating technical faults to prohibitive costs, leaving a trail of expensive, underperforming and sometimes failed projects in their wake.

That makes this a high-risk strategy for the liberal Trudeau, who is unlikely to reap much political gain in conservative Alberta — the capital of the oil sands industry — if the plan succeeds, but will face criticism if it fails to improve Canada's subpar climate record.

Spain on track to reach 50% of electricity from renewables

(Bloomberg; June 7) - Spain is on track to become the first country among Europe's Big Five economies to generate more than 50% of its electricity from renewable sources, according to a forecast by Rystad Energy. The Mediterranean nation is set to consolidate its leadership in the green-energy sector, leveraging substantial investments it made in the past decade. That allowed early deployment of onshore wind, which now accounts for more than 20% of its power output, which has been paired more recently with the development of photovoltaic solar, the Oslo-based research firm said.

The push is in line with the targets set by the government, which aims to increase the share of green power in electricity generation to 74% by 2030, and will allow Spain to exceed the 50% average this year, ahead of France, Germany, Italy and the U.K. The country has also managed to reduce its reliance on fossil fuels. With natural gas as the main source of its fuel-powered output, Spain "has made remarkable progress in phasing out coal-fired generation," according to Rystad analyst Fabian Ronningen.

Rising costs plague wind power projects in Germany

(Bloomberg; June 7) - Germany will allow onshore-wind developers to ditch contracts after a surge in costs made some projects unviable. About 5 gigawatts of onshore projects awarded with subsidies in the past two years haven't been built, the Economy Ministry said as it announced the move. Inflation has dogged the industry and investments are stalling, it said.

The failure of developers to bring plans to fruition has cast doubt on Germany's program for a huge buildout of renewable energy. Wind farms in the country — and around the world — are seeing investment foundations crumble amid soaring costs for materials and rising interest rates. The "exceptionally sharp rise in costs" wasn't foreseeable when the bids were submitted, the ministry said June 7. The government is keen for developers to offer new contracts, with the higher costs better reflected in the rates.

The 5 gigawatts of unbuilt onshore wind roughly equate to the capacity of Germany's last three nuclear plants that were shut down in April. Europe's largest economy, still struggling to replace Russian gas, faces a monumental task to ramp up renewable power to the targeted 80% of generation by 2030. Rocketing costs have also affected offshore wind, with around 6 gigawatts of projects proposed off Germany's coast not moving ahead as planned.

Japan revises energy plan to promote more hydrogen

(Associated Press; June 6) – The Japanese government on June 6 adopted a revision to the country's plans to use more hydrogen as fuel as part of its effort to reduce carbon emissions. The plan sets an ambitious target to increase the annual supply by six times from the current level to 12 million tons by 2040. It also pledges 15 trillion yen ($107 billion) in funding from private and public sources to build up hydrogen-related supply chains over the next 15 years.

Japan's decarbonization strategy centers on using clean coal, hydrogen and nuclear energy to bridge its transition to renewable energy. Russia's war on Ukraine has driven concerns over energy security and complicated that effort, but other advanced Western nations are pushing for faster adoption of renewable energy, such as solar, wind and geothermal. So far, Japan is relying on hydrogen mainly produced using fossil fuels.

Japan's revised plan prioritizes nine strategic areas, including development of water electrolysis equipment, fuel storage batteries and large-size tankers for transporting hydrogen. Japan's leaders say they want to turn the country into a "hydrogen society," but the hydrogen industry is still in its initial stages. The government is still drafting legislation to support building necessary infrastructure and supply chains for commercial use of pure hydrogen and ammonia, another source of hydrogen.

Qatar eases up on contract terms to sign up more LNG buyers

(Bloomberg; June 6) - Qatar is offering shorter and cheaper liquefied natural gas contracts as it attempts to secure customers for supply from expansion projects amid rising competition with the U.S. A deal agreed to last week between Qatar and Bangladesh included more lenient payment deadlines than typically offered, according to people with knowledge of the matter. Qatar is aiming to be more accommodating of the needs of customers, particularly emerging nations in Asia that struggle with high energy costs or are unable to commit to long-term agreements, said the sources.

The nation is building the world’s biggest LNG expansion project, estimated at $50 billion, which aims to boost Qatar’s output more than 60% by 2027, but has so far only signed long-term deals for a fraction of that supply. It’s seeking buyers at the same time that U.S. exporters have also been raising production and cementing a flurry of contracts with some of the industry’s most flexible contracts.

Qatar is traditionally known to include strict terms in supply deals, such as clauses that require delivery to specific ports, and favors contracts that last for decades. That’s deterred some buyers in Japan and Europe from committing to new deals, as they plan for a shift from fossil fuels to renewable energy that could make rigid, lengthy supply deals problematic. Qatar is now offering some Asian nations deals of less than 20 years, according to sources. Bangladesh’s deal was signed for 15 years at a price linked to Brent crude oil — and at a lower pricing factor than recent deals.

Total makes preparations in advance of restarting Mozambique LNG

(Bloomberg; June 6) – TotalEnergies hasn’t confirmed a timeline for officially restarting construction at its $20 billion liquefied natural gas project in Mozambique, but it’s reinforced security at the site. Tall fences topped by razor wire are dotted with lookout towers staffed by Mozambican soldiers who get food, housing and extra pay from the company. Inside the perimeter, bulldozers and front-end loaders are clearing the way for facilities that will process gas from fields offshore. Jets again ferry workers to an airstrip built for the project, and an expansion to accommodate bigger planes is in the works.

Nearby, a group headed by ExxonMobil aims to build a similar facility, which it now says could export more gas than anticipated — despite criticism from environmental groups who say the Mozambique projects will dramatically increase the country’s greenhouse gas emissions. The two installations would augment production from a floating platform anchored just south of Palma, which shipped its first LNG cargo to Europe in November.

Together the projects could produce up to 31 million tonnes of LNG annually, about a third of the European Union’s imports last year — making the region an important new source for Europe as it seeks to wean itself from Russian energy. Total suspended work on its Mozambique project more than two years ago after insurgent attacks in the area threatened the safety of workers and contractors. As security has improved and the attacks abated, the company is close to making a decision to resume work, though Total says it still needs to resolve cost issues on the project.

QatarEnergy to start negotiations on $10 billion LNG carrier order

(Doha News; Qatar; June 5) - South Korea’s top three shipbuilders, HD Hyundai Heavy Industries, Hanwha Ocean and Samsung Heavy Industries, collectively referred to as the “Big 3,” are on the verge of commencing substantial negotiations this month for a multibillion-dollar order from QatarEnergy for liquefied natural gas carriers to handle Qatar’s $50 billion expansion of its LNG production capacity, according to reports.

The deal, valued at 14 trillion won (US$10.7 billion), is set to engage the industry giants in negotiations aimed at procuring LNG vessels for QatarEnergy, according to inside sources and international media reports. QatarEnergy had previously engaged the Big 3 in the initial phase of the project in 2020, during which 54 vessels were ordered — 17 from HD Hyundai, 19 from Hanwha Ocean and 18 from Samsung Heavy. In the forthcoming round of negotiations, about 40 vessels are expected to be ordered.

During the first phase of procurement in 2020, each LNG vessel was valued at around US$215 million. The current market projections indicate that each vessel in this phase is likely to exceed US$230 million. QatarEnergy is expected to finalize contracts with the ship owners that will operate these vessels by the year’s end. The LNG producer expects to have the first phase of its production expansion online in 2026.

Japanese company buys stake in 2nd Papua New Guinea LNG project

(LNG Prime; June 5) - France’s TotalEnergies, one of the world’s largest LNG players, has sold a small stake to Japan’s JX Nippon Oil & Gas Exploration in the planned Papua LNG export project in Papua New Guinea. JX Nippon Oil & Gas is an affiliate of Eneos and already holds a 4.7% interest in the ExxonMobil-led PNG LNG project, which started operations in 2014. The Total-led project is due to come online in late 2027 or early 2028, with a planned production capacity of 5.6 million tonnes per year.

The Japanese firm said in a statement on June 2 that it has concluded a farm-in agreement with a unit of TotalEnergies for a 2.58% participating interest. This transaction remains subject to the approval of Papua New Guinea’s Department of Petroleum and Energy. JX Nippon did not provide the price tag of the deal. The project will be JX Nippon’s fourth LNG investment following Malaysia LNG Tiga, Tangguh LNG in Indonesia, and PNG LNG.

Papua LNG partners are targeting a final investment decision by the end of 2023 or early 2024. TotalEnergies currently has a 40.1% operating stake in the LNG project. ExxonMobil has 37.1% and Santos owns a 22.8% interest. The government of Papua New Guinea may exercise a back-in right of up to a 22.5% interest in the project.

Trinidad restructures LNG project ownership to restart idled unit

(Reuters; June 7) - Trinidad and Tobago aims to restart an idled liquefied natural gas unit by the first quarter of 2027 after agreeing to restructure the facility's ownership and negotiate new gas supplies, according to people with knowledge of the plans. Trinidad is Latin America's largest LNG exporter, but its joint venture company Atlantic LNG has not been able to access enough supply in recent years to keep its four liquefaction units running. Trinidad and Tobago has the capacity to process 4.2 billion cubic feet per day into LNG, petrochemicals and power, but its gas production is about 2.7 bcf per day.

The government has pressed gas producers to increase offshore output to restart the dormant liquefaction unit, at 500 million cubic feet per day, which was suspended at the end of 2020 due to a lack of gas supply. The restart will follow a proposed revamp of Atlantic LNG's ownership and its gas-supply provisions, the sources said.

In December, after four years of negotiations, the partners of Atlantic LNG agreed to restructure ownership from one in which Trinidad's National Gas Co., BP, Shell and the Chinese Investment Corp. held different equity stakes in the different liquefaction units to a new combined shareholding. In simplifying the project's structure, Shell and BP each will own a 45% stake in the plant's four units, with the National Gas Co. holding the remaining 10% of each, the sources said. The changes would eliminate China’s 10% stake in one of the liquefaction units.

U.S. oil production continues growing, even as demand slows down

(Reuters; June 6) - U.S crude oil production this year will rise faster, while demand increases will cool compared to prior expectations, the U.S. Energy Information Administration said on June 6. U.S. total petroleum consumption will rise only by 100,000 barrels per day to 20.4 million this year, compared with an estimated gain of 200,000 barrels per day in the May forecast, it said. While services and travel should boost gasoline and jet fuel demand growth this year, diesel fuel consumption is set to decline as manufacturing becomes less of a factor in the economy, the agency said.

EIA projects U.S. crude oil production will climb by 720,000 barrels per day to 12.61 million this year, above a prior forecast calling for a gain of 640,000. U.S. oil production gains have slowed due to investor demand for increases in dividends and share buybacks over capital spending. But U.S. output is still set to hit annual production records in 2023 and 2024, EIA said.

Property tax exemption in its 42nd year for New Brunswick oil depot

(CBC News; Canada; June 7) – New Brunswick property taxes of nearly $600,000, levied on Irving Oil's deep-water crude oil tank farm in March, was an error that did not signal an end to a four-decade-old tax exemption on the site, according to the provincial government. Instead, the exemption has been reactivated and the tax bill retracted. The director of communications for Service New Brunswick said the property briefly lost its tax exemption classification in an inadvertent internal computer incident.

For the first time in 42 years, the province this year charged Irving Oil provincial property taxes on a number of parcels that comprise the Canaport oil terminal. All commercial and industrial properties in New Brunswick, from corner stores to nuclear plants, pay two property taxes, local and provincial, unless specifically exempted by legislation. The tank farm pays full municipal property taxes to Saint John, but in 1981 it was awarded an exemption from paying provincial property tax.

The facility can hold six million barrels. It receives shipments from oceangoing tankers that arrive from around the world multiple times each month. The tank farm feeds the crude to Irving Oil's Saint John refinery, about five miles away by pipeline. The property-tax exemption was meant to help Irving Oil weather a significant drop in North American oil demand caused by the 1979 oil crisis. That crisis was resolved long ago, but the tax exemption has persisted. There have been repeated calls for the exemption to end.

Iran storing 50 million barrels of crude and gas condensate at sea

(Iran International; June 4) - Unsold Iranian oil stored on tankers and in ports is at 50 million barrels. Kpler, a data and analytics firm, shows that Iran currently has 19 million barrels of gas condensate and over 30 million barrels of unsold crude on vessels, the Persian Service of Radio Free Europe in Prague reported. Iran’s state news agency quoted Oil Minister Javad Owji on June 2 as claiming that since Ebrahim Raisi's administration took office, the process of selling 78 million barrels of gas condensate stored on oil tankers has started and has now reached zero.

However, figures obtained from Kpler indicate that Iran’s stockpiled condensate on tankers was at 19 million barrels, down from 44 million barrels 18 months ago. The crude oil stored at sea also is lower than it was at the end of 2021. The news agency said some of the tankers were stranded at sea for over three years.

Referring to the contract signed between Iran and Venezuela in October 2021 for the monthly export of 2 million barrels of gas condensate, the news agency estimated that 40% of Iran's unsold gas condensate reserves have been delivered to Venezuela. It is not clear if Caracas pays international prices for imports from Iran, but in the past there have been reports of gold deliveries to Iran for fuel purchases. Kpler's figures show that Iran has not had a shipment of gas condensate to Venezuela in three months.

Oil prices not high enough to fund Saudi ambitions

(CNN Business; June 5) - Saudi Arabia surprised traders again on June 4 with an oil production cut of about 1 million barrels a day, roughly 1% of global supply. But oil prices are still hovering around 9% lower than the beginning of the year, meaning Saudi Arabia is in a tight spot when it comes to paying for the gigaprojects that lie at the heart of its Vision 2030 program to transform the economy.

Oil prices are $2 to $3 a barrel lower than the kingdom would prefer, says Amena Bakr, chief OPEC correspondent at Energy Intel. The International Monetary Fund believes the price the Gulf state needs to balance its budget is close to $81. The kingdom has slipped back into a budget deficit this year after reporting a surplus in 2022 for the first time in almost a decade. During the first quarter, it reported a deficit of $770 million as the government ramped up spending 29%.

Saudi Arabia knows that it cannot rely solely on a fluctuating oil market for income. Along with its efforts to raise oil prices, it is also trying to bring in investment from abroad. With deadlines for its Vision 2030 creeping closer, more funding than ever is needed to complete projects such as the $500 billion Neom city in the northwest of the country. “There’s just a lot of pressure as so many of the projects go into the construction phase now. … There’s just a tremendous demand for capital,” says Karen Young, a research scholar at the Columbia University Center on Global Energy Policy.

Saudi production cut a big risk on price and market share

(Wall Street Journal; June 5) - Saudi Arabia over the weekend slashed 10% of the kingdom’s oil output to boost prices, and the returns so far suggest it could be a costly bet. After warning speculators that OPEC+ could cut oil production again, Saudi Energy Minister Prince Abdulaziz bin Salman announced June 4 that the world’s biggest crude exporter would reduce 1 million barrels of its own output in July after other cartel members refused to join the effort.

Despite the Saudis’ effort, oil prices remain about 18% lower than they were when OPEC+ jolted the market in October with output cuts. Saudi officials acknowledged that the slight bump in prices was less than expected by Abdulaziz, who privately defended the move to cut output. The cut, which Abdulaziz said was extendible, will take Saudi Arabia’s output to 9 million barrels a day, the lowest since June 2021 and rarely seen in the past 10 years, suggesting Riyadh is willing to sacrifice market share to boost prices.

That could come at a steep cost, however, as the oil price rise so far won’t compensate for the loss of revenue caused by the drop in output, said officials familiar with the matter. Saudi Arabia also faces the prospect of losing more market share in key markets such as China to the United Arab Emirates and Russia, which continues to pump large volumes of cheaper crude into the market despite promising not to. Analysts estimate Saudi Arabia needs oil prices above $80 a barrel to balance its expansionary budget.

Saudi production cut unlikely to create oil supply problem for Asia

(S&P Global; June 5) - Asia's oil supply is unlikely to tighten following Saudi Arabia's output cuts, as moderate demand growth due to economic turbulence and healthy production outlook outside the OPEC bloc are expected to keep availability concerns at bay for now, trade sources and analysts told S&P Global Commodity Insights on June 5. "The production cuts are of course a concern from the price point of view, but inflows from other suppliers have been growing. U.S. crude sales to Asia have also remained healthy in the early part of the year," said a regional oil trading source.

While none of the bigger Asian oil customers of the Middle East are expecting an immediate reduction in allocations, what could be worrisome for some buyers, such as South Korea and Japan, is a rise in prices as they stay clear of Russian oil. For China and India, however, supplies from Russia, the biggest non-OPEC supplier, would continue to provide a cushion.

"The oil market faces headwinds from an uneven reopening of China's economy, U.S. banking problems, high interest rates and strong oil production growth outside of OPEC+ including from the U.S., Canada, Brazil, Norway and Guyana. In terms of world oil demand and supply fundamentals, the cut will likely expand a previously expected supply deficit in the third quarter of this year," said Jim Burkhard, head of research for oil markets, energy and mobility, at S&P Global Commodity Insights.