Oil and Gas News Briefs
Compiled by Larry Persily
November 13, 2023

U.S. may have hard time limiting Iran’s oil sales to China

(Bloomberg; Nov. 9) - Washington’s hawks are demanding that the Biden administration tighten U.S. sanctions on Iran as punishment for its support of Hamas, the militant group behind the attacks on Israel. Tehran, they argue, has been exporting more oil over recent months than it has in years. But fresh measures and tougher enforcement will struggle to curtail the Islamic Republic’s key source of income — thanks to China’s appetite for discounted crude, and what traders, analysts and oil industry executives describe as expanded payment and transport networks that the U.S. cannot reach.

Washington had threatened sanctions against countries which did not reduce their Iranian oil to zero. But over the past three years, even accounting for underreporting after 2018, oil shipments have steadily climbed, thanks to easing U.S. pressure and Chinese demand. Iran is once again closing in on the No. 3 spot among producers in the Organization of the Petroleum Exporting Countries, and the vast majority of its barrels — well over 90% — are heading to the world’s second-largest economy.

What’s unclear is whether Washington can actually do much to counter the effect of China’s support for Iran. “The trade is very sophisticated, with multiple middlemen, which makes it a lot more difficult for the U.S. to sanction,” said Homayoun Falakshahi, senior oil analyst at data and analytics group Kpler. “It’s hard to know who to go after,” he added. Raffaello Pantucci, a senior fellow at the S. Rajaratnam School of International Studies in Singapore, explained: “The (oil) trade with China is probably something the U.S. would struggle to entirely shut down,”

China’s imports of Iranian oil up 60% since 2017

(Reuters; Nov. 10) - China's oil imports from Iran have hit record highs as Iran ramps up output despite the threat of further U.S. sanctions. China, the world's largest crude importer and Iran's top customer, bought an average 1.05 million barrels per day of Iranian oil in the first 10 months of 2023, according to shiptracking data from Vortexa. This is 60% above pre-sanction peaks in 2017. China's October imports from Iran are estimated at around 1.45 million, the highest monthly level ever, Vortexa data showed.

Imports jumped this year after Tehran raised output and offered steep discounts. Almost all Iranian oil entering China is branded as originating from Malaysia or other Middle Eastern countries. The oil is carried by a "dark fleet" of older tankers that typically switch off their transponders when loading at Iranian ports to avoid detection. Other tactics

used by such ships include faking locations and conducting ship-to-ship operations at locations outside of authorized transfer zones and sometimes in poor weather to conceal activities, raising fears among nations over potential pollution.

Giant state refiners Sinopec and PetroChina were once key Iranian oil clients, with investments in oil fields in the country. But they have stopped lifting Iranian oil since late 2019, after the U.S. reimposed sanctions on Tehran's petroleum exports. The sanctions initially led to a sharp drop in flows to China, but volumes have rebounded as more independent refiners joined the purchases.

PetroChina takes over from Exxon as lead contractor at Iraq oil field

(Reuters; Nov. 11) - Iraq has signed a settlement agreement with ExxonMobil to finalize its exit from the West Qurna 1 oil field and allow PetroChina to become the field's lead contractor, a senior Iraqi oil executive said on Nov. 11. PetroChina will hold the largest stake in the field after the departure of Exxon. Iraq has also signed a "sale agreement" arranging the financial issues needed to finish the process of acquiring ExxonMobil’s stake in West Qurna 1 by Iraq's state-run Basra Oil Co. (BOC), said Hassan Mohammed, deputy manager in charge of oil fields and licensing rounds affairs.

The sale agreement includes a commitment to resolve in further talks the tax value that Exxon must pay for selling its stake in the field, he said. "The tax issue is not resolved yet and according to the sale agreement we have two options, either to reach a tax settlement or we resort to arbitration," said the executive. Last year, Indonesia’s state-owned oil and gas firm Pertamina bought 10% of ExxonMobil’s stake in Iraq’s West Qurna 1 oil field, increasing its share to 20%, while BOC bought 22.7% of the field.

West Qurna 1, in southern Iraq, is one of the world’s largest oil fields with recoverable reserves estimated at more than 20 billion barrels. It currently produces around 560,000 barrels per day, said the field officials. Following its exit from West Qurna 1, Exxon will have no presence in Iraq's energy sector, said Basra Oil Co. officials.

Number of tankers coming to load up on U.S. crude continues to grow

(Bloomberg; Nov. 10) - The record number of supertankers sailing toward U.S. shores is getting ever larger. There are 51 ships headed to the nation’s ports over the next three months. That’s the most in at least six years, climbing by three from the previous week’s record. About 80% of the vessels are empty, indicating that they intend to pick up cargoes in the U.S.

The growing volume comes after U.S. crude exports surged this year to a record. Overseas shipments have averaged 4.1 million barrels a day, based on the Energy

Information Administration's weekly data, up from 3.5 million barrels per day in 2022. That's helped offset some of the global supply losses arising from output curbs by the Organization of the Petroleum Exporting Countries and its allies.

Earnings for giant tankers capable of hauling 2 million barrels of crude jumped last month, in part led by higher demand for shipments from the U.S. Gulf. They climbed above $30,000 a day, the highest since June. Earlier this week, London-based shipbroker EA Gibson said the glut of ships also included vessels heading to the region on a speculative basis, without any cargo bookings.

Renewable-energy projects confront economic reality

(Wall Street Journal; Nov. 12) - The energy transition is getting a dose of reality. Offshore wind projects are being scrapped, and renewable-energy companies' share prices are tanking. Meanwhile, the oil and gas industry is embarking on a round of megadeals enabled by soaring profits and is pushing more forcefully the idea that fossil fuels will be around for a long time. Climate-warming carbon emissions are expected to climb to a record this year, some researchers say.

"There will be no easy solution or quick fix to the energy transition," James Yardley, an executive at pipeline operator TC Energy, said at an energy-transition conference in Houston this past week. Forecasts show gas, oil and renewables "all play significant roles out to 2050." Still, the shift away from oil and gas is happening. Solar and wind capacity is growing fast, governments are rolling out policies to support low-carbon technologies and billions of dollars are flowing into projects including hydrogen.

But with headwinds ranging from high interest rates and inflation to geopolitical tensions driving an increased focus on energy security, the path to a low-carbon future looks less straightforward, rockier and more expensive than it did just a few years ago. "I think the transition to a more ESG (environmental, social and governance commitments), solar, wind et cetera world is going to take a lot longer," said Jeffrey DiModica, president of Starwood Property Trust, during an earnings call this past week.

A big chunk of the clean-energy industry's woes are macroeconomic. Some of the worst-hit companies started big, expensive projects before supply chain bottlenecks helped send the cost of materials such as steel soaring. Interest-rate increases made financing more expensive. In the U.S., dozens of renewable-power developers have boosted their prices for electricity and rewritten contracts to try to recoup costs.

TC Energy wants to control spending after costly gas line project

(Canadian Press; Nov. 8) - With its Coastal GasLink pipeline mostly complete, TC Energy said its goal for the next few years will be to live within its means and control its capital expenditures. The Calgary-based company announced on Nov. 8 the mechanical completion of its 416-mile project, which has been under construction for the past five years. The pipeline will transport gas from Western Canada to the Shell-led LNG Canada processing and export facility currently being built in Kitimat, British Columbia.

The pipeline is one the largest energy infrastructure projects in recent Canadian history and its successful completion is a significant accomplishment for TC Energy. But the project has also put pressure on the company's balance sheet. Throughout the course of construction, the project's budget ballooned from an initial C$6.2 billion to C$11.2 billion and then increased again to C$14.5 billion ($US10.5 billion).

TC Energy has been under significant scrutiny from investors and credit-rating agencies for its heavy debt load as well as the spiraling costs of Coastal GasLink. The company has embarked on a large-scale asset divestiture program to pay down some of its debt. TC Energy also announced this year its plans to split into two companies by spinning off its 3,000-mile oil pipelines business, which includes the critical Keystone system that transports oil from Alberta to refining markets in the U.S. Midwest and Gulf Coast.

LNG shippers increasingly opt to bypass Panama Canal

(Bloomberg; Nov. 9) - Liquefied natural gas shippers increasingly are opting to travel up to two weeks longer and almost 7,000 miles further to bypass the Panama Canal as transporters of other fuel pay nearly $4 million to jump the long queue. For the first time in two years, LNG shippers preferred using the Cape of Good Hope more than any other route, BloombergNEF data show. The preference to long journeys illustrates how drought and rising costs to transit the canal are changing global energy trade routes.

The canal's low water levels have led authorities to restrict the number of slots available for shippers. There also is less market incentive to pay millions of dollars to jump the backlog of waiting vessels — on top of the usual canal transit fee — given Asian spot LNG prices are not trading at a level that would justify paying such record fees, and prices in Europe are much lower than the record highs seen year ago. Asian demand for the fuel has been lackluster given the absence of an economic rebound in China.

Keeping LNG vessels laden on the water — known as floating storage — also has risen to record high levels for the second winter in a row, according to BNEF research. The route around the Cape of Good Hope at the southern end of Africa is a longer option to moving cargoes between the U.S. Gulf and Atlantic Basin to Asia.

Liquefied petroleum tanker pays $3.98 million to transit Panama Canal

(Bloomberg; Nov. 8) - A logjam at the Panama Canal is leaving shipowners hauling everything from fuels to grains between the U.S. and Asia with no good options — spend weeks waiting at sea, sail around South America, or pay an exorbitant amount to jump the queue. Japan's Eneos forked out $3.98 million in an auction Nov. 8 to secure a crossing, bidding documents show. Shipbrokers said Sunny Bright, the company's liquefied petroleum gas tanker, got a slot to cross the congested waterway into the Caribbean Sea on Nov. 15. It had previously discharged its cargo in China.

The additional fee will be on top of the regular transit charges, which can amount to hundreds of thousands of dollars. The congestion is being caused by a drought in Panama, which has lowered water levels on the canal, disrupting trade between the U.S. and Asia in the weeks ahead of Christmas and beyond.

Another option is to sail around South America. At least one other shipowner took the costly decision to divert its tanker from the canal to the longer journey. Shipbrokers said the Pyxis Pioneer, also an LPG tanker, is heading south and may travel through the Strait of Magellan, which will add about a month to its schedule. "You are getting close to $4.5 million to use the canal, so that is pricing out a lot of ships," Oystein Kalleklev, CEO of Flex LNG and Avance Gas Holding, said during a conference call Nov. 8.

Japanese buyers of U.S. LNG consider options to Panama Canal

(S&P Global; Nov. 10) - Japanese lifters of U.S. LNG are considering alternative options for shipping their winter cargoes in light of tightening restrictions through the Panama Canal, including LNG cargo swaps or routes via the Suez Canal or Cape of Good Hope, company sources told S&P Global Commodity Insights. The deteriorating situation via the key shipping waterway is also likely to see Japanese lifters review their routes for 2024. Although the U.S. is not among Japan's largest LNG suppliers — just 8% of total LNG imports so far this year — shipping delays could have impact winter supplies.

"We are considering options in the Atlantic side including via the Suez Canal in case we cannot transit the Panama Canal," said one Japanese lifter, with other sources mentioning the Cape of Good Hope route around Africa as well as the potential for LNG cargo swaps. From the U.S. Gulf, the Suez Canal route takes a little over a month to Japan while the Cape of Good Hope route is about 40 days. This compares with just over 20 days to reach Japan via the Panama Canal.

The need to weigh options comes in the wake of growing restrictions on transits announced by the Panama Canal Authority due to low water levels caused by the worst drought in seven decades. The number of booking slots available for transiting the Neopanamax locks (for ships including LNG carriers and container ships) will be reduced from the current seven slots to six a day from Dec. 1 until Dec. 31 and then five starting Jan. 1, 2024, the canal authority said.

Multiple pipelines under construction for expanding U.S. LNG exports

(U.S. Energy Information Administration; Nov. 9) - More than 20 billion cubic feet per day of natural gas pipeline capacity under the jurisdiction of the Federal Energy Regulatory Commission or Texas regulators is under construction, partly completed or approved to deliver gas to five U.S. liquefied natural gas export terminals under construction, according to the U.S. Energy Information Administration’s project tracker.

The pipelines under construction will serve LNG export terminals in Texas and Louisiana, including the ExxonMobil/Qatar project in Texas; expansion of Cheniere Energy’s LNG terminal in Corpus Christi, Texas; Rio Grande LNG, in Brownsville, Texas; Port Arthur LNG, also in Texas; and several lines to serve Venture Global’s Plaquemines export terminal about 20 miles south of New Orleans.

Russia says U.S. sanctions will not deter its LNG expansion plans

(Reuters; Nov. 9) - Russia will not abandon its plans to increase liquefied natural gas production to 100 million tonnes a year because of U.S. sanctions, Foreign Ministry spokeswoman Maria Zakharova said Nov. 9. In a new package of sanctions announced this month, the U.S. targeted a major Russian entity involved in the development, operation and ownership of a massive project in Siberia known as Arctic LNG-2.

Russia is seeking to boost production of seaborne gas as its pipeline gas exports to Europe, once a key source of revenue for Moscow, have plummeted amid sweeping Western sanctions imposed over its war in Ukraine. "No one in our country is going to abandon large-scale plans for this project or for similar projects. The development of LNG infrastructure is our priority in the energy sector," Zakharova told a weekly briefing. Russian companies have already learned to overcome such obstacles, she added.

Arctic LNG-2 would be Russia's third large-scale LNG project and is designed to help Russia achieve its goal of supplying 20% of the global LNG market by 2035, up from around 8% currently. A U.S. State Department spokesperson said on Nov. 8 that the Biden administration was working closely with partner countries over sanctions as a January deadline looms on a wind-down of transactions with the plant. Novatek, Russia's largest LNG producer, has a 60% stake in the project, and plans to start production by the end of this year.

TotalEnergies sees little risk from U.S. sanctions on Russian LNG

(Reuters; Nov. 9) - U.S. sanctions against a major Russian liquefied natural gas project in which French oil major TotalEnergies is a shareholder do not appear to pose a big risk to European gas supplies, Finance Minister Bruno Le Maire told Reuters on Nov. 9.

Le Maire said France was in contact with U.S. authorities over the impact of the new sanctions announced last week. "As of today, it looks that these sanctions do not pose any major risk for European gas supplies," Le Maire said.

TotalEnergies, which has a direct 10% stake in Arctic LNG-2 and a total interest of 21.5% via its holding in Russian gas producer Novatek, also said last week it was assessing the impact of the U.S. decision on its investments in the project. As the sanctions were imposed last week, the Office of Foreign Assets Control, part of the U.S. Treasury Department, also issued a general license that authorizes the wind-down of transactions involving Arctic LNG-2 by Jan. 31, 2024.

Asked if the French oil firm should remain in the venture, Le Maire said it was too early to say. "We are monitoring the situation and assessing the consequences of the U.S. decision," he said. "We are in constant contact with the U.S. authorities on this," he added. In addition to Total, Japanese and Chinese interests hold a combined 30% stake in Arctic LNG-2, which is scheduled to start production by the end of the year.

Sinopec contract for Qatari LNG likely linked to oil prices

(S&P Global; Nov. 9) - The LNG agreement signed between QatarEnergy and China Petrochemical Corp., or Sinopec, was likely priced at around a 12.7% slope to crude oil, market sources said Nov. 9. Sinopec currently operates five LNG terminals in China and more terminals are being proposed, with the contract allowing delivery to multiple terminals. The number of terminals that Sinopec can take the LNG marks a degree of flexibility in long-term LNG contracts that have been announced by QatarEnergy.

The LNG contracts between QatarEnergy and Shell, ENI, TotalEnergies mention individual terminals in Europe where LNG is expected to be delivered, according to statements by QatarEnergy. The contracts between QatarEnergy and Shell, ENI and TotalEnergies likely included exposure to European gas hub pricing, a sign of evolving European LNG markets, S&P Global reported earlier.

The Sinopec’s 27-year contract for Qatari LNG covers 3 million tonnes per year. The reported 12.7% slope pricing on deliveries to Sinopec would mean that if the oil-price index were at $80 per barrel, the LNG would cost $10.16 per million Btu. At $70 oil, the gas would be $8.89, and at $90 the LNG would be priced at $11.43. The unknown is how the oil-price index is calculated, such as an average over a number of months or years. Recent LNG sales contracts in Asia and Europe vary in pricing: Some are linked to oil, some to European gas hub prices, and some to U.S. natural gas prices.

China reselling more imported LNG to profit on price swings

(Reuters; Nov. 10) - China, the world's top importer of liquefied natural gas, is increasingly reselling some of the fuel to other Asian buyers as it looks to profit from price swings. Armed with a growing portfolio of long-term supply deals recently struck with Qatar and U.S. exporters, as well as extensive storage terminal capacity, Chinese companies led by state giant PetroChina are more actively trading LNG but still lag far behind global majors such as BP, Shell and TotalEnergies.

Chinese customs data shows that China reloaded 617,000 tonnes of imported LNG during the first nine months of this year — about 30 billion cubic feet of natural gas — compared with 576,000 tonnes in all of 2022, 26,000 in 2021 and 59,000 in 2020. China's LNG sales have increased along with rising Asian demand after the disruption in Russian exports to Europe sparked price volatility and tightened supplies globally.

Asia spot prices soared to record highs of $70 per million Btu last year. They have since eased to $17, encouraging demand from Asian buyers, but still above single-digit levels seen before Russia's invasion of Ukraine and the COVID-19 pandemic. Top Chinese LNG trader PetroChina is spearheading the reselling. South Korea has been the top buyer so far this year, taking 27% of China's reloads, followed by Thailand, Bangladesh and Japan, as well as Kuwait, Chinese customs data showed. Still, the volume is a small fraction of Sinopec's portfolio, and fluctuates depending on market conditions.

Sierra Club asks FERC to deny extension for LNG project in Louisiana

(Reuters; Nov. 8) - The Sierra Club on Nov. 8 urged U.S. energy regulators to reject a request by liquefied natural gas developer Tellurian for a three-year extension to build its $25 billion LNG export facility. Tellurian received Federal Energy Regulatory Commission approval in 2019 but did not start construction on its Driftwood LNG plant for three years. The company is asking FERC to extend its license into 2029 so that it can fully complete the Louisiana plant that could export up to 27.6 million tonnes a year.

In a filing with FERC, the Sierra Club contended that Tellurian failed to start construction early enough to meet the 2026 deadline. It alleged that canceled delivery contracts and "financial and governance woes" were behind the delays, not the COVID-19 pandemic. Tellurian said in an August securities filing that commodity trader Gunvor had terminated its contract to take cargoes, one of several potential buyers the developer has lost.

The Sierra Club cited planet-heating emissions and possible environmental contamination as reasons to stop the project. If built, the plant would be one of the largest U.S. LNG export terminals. Last week, Tellurian said it remains on target to produce the first LNG at Driftwood in 2027, as it looks for customers.

Woodside reaffirms first LNG from offshore Australia field in 2026

(Upstream; Nov. 8) - Woodside Energy remains confident it will ship the first liquefied natural gas cargo in 2026 from its $12 billion Scarborough project in Australia, despite growing market sentiment that the schedule could slip following the recent court ruling that overturned regulatory approval for a key 4D seismic survey for the giant gas field development. The environmental approvals process imposes a significant burden and complexity on the project, communities and other stakeholders, the operator admitted.

Woodside has resubmitted its plans to the National Offshore Petroleum Safety and Environmental Management Authority for the proposed seismic survey after consulting with 11 Indigenous groups after the late September court decision. On Woodside's investor briefing day on Nov. 8, CEO Meg O'Neill said the company is continuing to engage with regulators and other stakeholders to progress secondary environmental approvals for Scarborough in support of its targeted first LNG cargo in three years.

She added that construction of Scarborough's floating production unit was 50% complete as of Sept. 30, while fabrication of the subsea lines is already finished. Installation of the nearshore line has begun, while the subsea trees have been delivered and are stored, awaiting installation. Construction of liquefaction modules in Indonesia for the additional train at the Pluto LNG plant in Australia to handle Scarborough gas is progressing well, she said. Scarborough will produce up to 8 million tonnes per year of LNG, at a cost of supply of $5.80 per million Btu delivered to customers in North Asia.

Europe unlikely to get more LNG from Egypt in short to medium term

(Reuters; Nov. 8) - The prospect of the European Union receiving more liquefied natural gas from Egypt in the short and medium term looks unachievable due to tight gas supplies and reduced gas imports form Israel, the Oxford Institute of Energy Studies said. Egypt shipped 80% of its LNG exports to Europe last year as the continent sought to replace Russian pipeline gas after Moscow's invasion of Ukraine.

But due to the Israel-Hamas conflict, Chevron in October shut the Israeli Tamar gas field amid the military conflict and suspended exports through the subsea pipeline that runs from southern Israel to Egypt. Gas inventories in the most populous Arab country, which faces growing demand for gas from its population of 105 million, were already under pressure before the conflict erupted on Oct. 7 as Egypt's own gas production had declined to a three-year low this year.

Egypt has grappled with power cuts that started in the summer and extended to October as heat waves have driven up demand for cooling. High summer demand resulted in very low or zero LNG exports in May-September. Despite resuming LNG exports in October and November, the Oxford report and other analysts believe that the conflict will keep Egypt's LNG exports under pressure. "With tight gas balances and reduced imports from Israel, the prospect of the EU receiving more LNG from Egypt in the short and medium term looks unachievable," OIES said in its report.

Expanded liquefaction capacity will boost Indonesia’s LNG exports

(Argus Media; Nov. 9) - The commissioning of the third liquefaction train at Indonesia's Tangguh LNG terminal is set to bolster exports, which have held below capacity in recent years. BP shipped its first cargo from the new liquefaction train last month. The firm's 75% share of production from the third train is sold to Indonesia's state-owned power utility, PLN, with Japanese utility Kansai Electric taking the other quarter.

The start-up of the third train takes Tangguh's total capacity to 11.4 million tonnes per year, making it the second-largest liquefaction facility in the country after Bontang LNG in East Kalimantan. The expanded Tangguh facility is expected to account for more than a third of Indonesia's gas production, according to BP. The government in December 2022 granted BP a 20-year extension to 2055 to its production-sharing contract at the Tangguh gas field, which feeds the LNG plant.

The third Tangguh liquefaction train initially was supposed to start up in late 2019 but was delayed until the end of this year. BP's expansion project included construction of two offshore platforms, 13 new production wells and an LNG loading facility. Indonesian LNG exports have remained well below the country's liquefaction capacity in recent years because of low feed gas supply. Italian energy firm Eni last month announced the discovery of a gas reservoir in its North Ganal license, which could help feed the Bontang terminal. The reservoir is estimated at almost 5 trillion cubic feet of gas.