Oil and Gas News Briefs
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Falling oil prices will put pressure on OPEC+ at Nov. 26 meeting

(Financial Times; London; Nov. 16) - Oil prices slumped to their lowest levels since early July on Nov. 16, putting pressure on OPEC+ to consider extending and deepening production cuts when they meet in 10 days in Vienna. Brent crude, the international oil benchmark, fell 5.2% — one of the biggest daily declines this year — taking prices just under $77 a barrel, below the $80 level at which government budgets start to strain for Saudi Arabia and Russia. U.S. benchmark West Texas Intermediate fell 5.5% to $72.48.

The drop in prices builds pressure on Saudi Arabia, Russia and other members of OPEC+ ahead of their meeting on Nov. 26, when they will consider how to respond to weakening oil prices and concerns that a potential stumble in global growth could hold back demand for crude. "Our current expectations are that the Saudi cut gets extended fully to the first half of next year, with no expectation of group cuts," said Daan Struyven, head of oil research at Goldman Sachs.

Oil has been under pressure for much of 2023, but prices started to rise in the summer after Saudi Arabia and Russia led OPEC+ by making additional cuts to output and exports. But supply has continued to grow outside of OPEC+ nations, with the U.S., Guyana and Brazil all boosting their oil output. "It's now up to OPEC+ to give strong signals in their upcoming meeting," said Bjarne Schieldrop, chief commodities analyst at SEB. On Nov. 14, the International Energy Agency said the oil market should return to surplus in early 2024, even if Saudi Arabia extends its production cuts this year.

Saudi Arabia, OPEC+ weigh further production cuts in 2024

(Financial Times; London; Nov. 17) - Saudi Arabia is preparing to prolong oil production cuts into next year as OPEC+ weighs further reductions in response to falling prices and rising anger over the Israel-Hamas war. After prices hit a four-month low of $77 a barrel this week, four people familiar with the Saudi government's thinking said it was highly likely to extend its cutback of 1 million barrels a day at least until the spring. The voluntary measure, due to expire at the end of this year, was introduced in the summer as a temporary step on top of wider cuts by the oil-producers cartel.

At present, Saudi Arabia produces about 9 million barrels a day, compared with a maximum capacity of about 12 million barrels a day. Further cuts, which could inflame tensions with the U.S., are under discussion by OPEC+ as it prepares to meet in Vienna on Nov. 26. While the oil price drop is the main cause, members are also indignant at Israel’s war on Hamas and the humanitarian crisis in Gaza.

An additional OPEC+ cut of up to 1 million barrels a day is possible, one person said, describing the cartel as “galvanized” by the conflict. “You should not underestimate the level of anger there is and the pressure leaders in the Gulf feel from their populations to be seen to respond in some manner,” said another person close to senior OPEC figures. Christyan Malek at JPMorgan said OPEC+ could carry out a cut of an additional 1 million barrels a day to pre-empt “potential demand weakness” in the first half of next year, with Saudi Arabia looking to other members to “share the load” of any further cuts.

International group will craft voluntary rules for methane emissions

(Bloomberg; Nov. 15) - Some of the world’s biggest gas exporters and importers will craft a framework for measuring, monitoring and verifying the emissions of methane across the fuel’s supply chain under an international working group the Biden administration announced Nov. 15. The formal effort was unveiled hours after European Union negotiators agreed on a plan to limit methane emissions from imported oil and gas. It also comes weeks before the U.N.-sponsored COP28 climate summit.

The new international working group is the result of about half a year of informal talks between the U.S. government, energy producers, LNG exporters and other stakeholders. Formalizing the process represents the next step to creating global benchmarks for identifying, tracking and verifying emissions of methane and other greenhouse gases as natural gas is extracted, processed and shipped to market.

Members — including Australia, Canada, Germany and Japan — will work through 2024 to develop “guidance, protocols and tools for voluntary use in natural gas markets,” according to the U.S. Energy Department. Methane is a powerful greenhouse gas that has more than 80 times the warming power of carbon dioxide during its first two decades in the atmosphere. Curbing methane emissions from the oil and gas sector — where it’s vented intentionally from wells, burned off as a waste product or simply leaks from equipment — is seen as critical to reducing the climate impact of those fossil fuels.

New EU emissions rules could be challenge for U.S. LNG sales

(Reuters commentary; Nov. 16) - As Europe's top supplier of liquefied natural gas, the United States has been the main beneficiary of the pivot by utilities to replace sharply lower Russian pipeline gas supplies with LNG imports. But following the European Union deal on Nov. 15 to put methane limits on Europe's oil and gas imports from 2030, U.S. LNG sellers will be anxious that their lucrative European market may be at risk due to the enduring high levels of methane emissions throughout the U.S. gas supply chain.

In 2022, U.S. exporters sold $33 billion of LNG to European buyers, over triple the value in 2021 before Russia severed pipeline flows to Europe. But now, as part of efforts to reduce overall emissions and measure pollution from their own energy suppliers, EU members have agreed to impose maximum methane intensity values on all producers sending fuels to Europe. That means U.S. LNG suppliers will be at risk of losing sales if the methane intensity of the gas fails to meet the standards the EU will set.

The U.S. oil and gas sector has room for emissions improvement compared to several other major producing nations. What's more, it is unclear where EU lawmakers will draw the line at what methane intensity levels are acceptable. Regardless of the final EU decision, it’s in the interests of all U.S. oil and gas producers to drastically cut emissions associated with their operations, as even U.S. consumers are demanding cleaner energy. That means that if gas is to remain a key component in electricity generation, and a valuable export, the entire supply chain for U.S. gas must get cleaner, and fast.

EU curbs on methane emissions could help LNG over coal

(Bloomberg; Nov. 16) - New rules on curbing methane emissions in Europe’s energy sector may boost the case for liquefied natural gas and shouldn’t affect exports from the U.S. “All of the progress around emissions reduction is positive for the gas business,” Peter Clarke, senior vice president for global LNG at ExxonMobil, said at the Wood Mackenzie oil and gas conference in London. “It delivers what we are selling … a lower greenhouse gas-intensity fuel and takes coal out of the picture if you do it properly.”

His comments come as the environmental impact of methane — the main component of natural gas and one of the most potent greenhouse gases — comes under increasing global scrutiny. As European Union negotiators this week struck a deal to curb and track methane emissions in the energy sector, a group of U.S. lawmakers were pushing the Biden administration to assess the climate threat of massive natural gas export terminals being developed along the Gulf Coast. Minimizing emissions across the gas industry is “absolutely achievable,” Clarke said Nov. 15.

Methane leakage is mainly linked with gas production and transportation. And while methane emissions associated with coal production are similar, if not higher, than gas and LNG, coal has a bigger global warming impact than gas due to much higher carbon emissions when it’s burned to generate power, according to Christopher Goncalves, managing director at Berkley Research Group in Washington.

Environmentalists call on banks to end support for Mozambique LNG

(Reuters; Nov. 17) - Banks and other financiers should withdraw their support of TotalEnergies' $20 billion liquefied natural gas terminal in Mozambique, environmental lobby groups urged in a letter sent to more than two dozen project funders on Nov. 17. The letter, seen by Reuters, comes at a crucial juncture for the French energy company as it prepares to relaunch Africa's largest foreign direct investment project.

Activists warn the project may worsen climate change and fuel human rights abuses in the impoverished southern African nation. The letter was endorsed by more than 100 organizations, including ActionAid International and Greenpeace France. Last month, lawmakers in the Netherlands said they would insist on being consulted on safety and human rights concerns before they can approve a 1 billion euro ($1.06 billion) loan guarantee for the project, which has been stalled since April 2021.

TotalEnergies said financing arrangements for the project remain in place despite a force majeure halt in 2021 when Islamist militants threatened the work site. Financing agreements were struck in 2020 with direct and covered loans from eight export credit agencies, 19 commercial banks and the African Development Bank. Some $15 billion in financing is currently being reviewed as part of restarting work, said a credit official with knowledge of negotiations. The U.S. Export-Import bank, which is guaranteeing $5 billion, said it was conducting due diligence on plans to resume construction.

Tokyo Gas invests in offshore wind fund

(Bloomberg; Nov. 17) - Tokyo Gas will invest in a €3.5 billion ($3.8 billion) offshore wind fund set up by U.K.-based Octopus Energy Group, the Japanese city gas provider said. Tokyo Gas will invest €220 million in the fund, Octopus Energy Offshore Wind Fund, which has bought a 5% stake in a project in Netherlands. The Japanese company is a shareholder in Octopus Energy, which has grown to become one of the U.K.’s biggest utilities and plans to spend $20 billion on offshore wind by the end of the decade.

The investment comes amid turmoil in the wind-power industry, which has been hit by rising material costs and interest rates that have hammered on projects. Contracts are being renegotiated or canceled in the U.S. and Europe, while Japanese firms are exiting from projects in Taiwan. Tokyo Gas and Octopus Energy have a Japanese retail venture. The Japanese utility also has a goal to acquire and trade 6 gigawatts of renewable power by 2030, it said in a statement on Nov. 17.

Chinese and Japanese LNG buyers look to resell excess gas

(Bloomberg; Nov. 16) - North Asia’s top liquefied natural gas buyers are looking to resell shipments due in part to high inventories, a move that is bound to push spot-market prices lower. Chinese importers, including PetroChina, are offering to sell LNG cargoes for December delivery, according to traders with knowledge of the matter. That’s on top of Chinese firms already reselling at least five cargoes for November, the traders added.

Some Japanese importers are also offering shipments. That’s partly to optimize portfolios, according to traders, and comes as LNG inventories held by power companies have risen to the highest levels since May. The moves indicate that Asia is well situated for winter, and is unlikely to aggressively compete with Europe for gas shipments. The market has been on edge due to the possibility of colder weather or disruptions threatening to tighten global supply.

Mitsubishi holds stakes in two North American LNG projects

(S&P Global; Nov. 16) - Diamond Gas International, the Singapore-based LNG trading subsidiary of Mitsubishi, expects a final investment decision for the expansion of Cameron LNG project in Louisiana in 2024 and it anticipates that the LNG Canada project in British Columbia will start production next year, Jun Nishizawa, CEO of Mitsubishi’s natural gas group, said at DGI's 10th anniversary celebration Nov. 15.

Cameron LNG is a three-train export facility on the U.S. Gulf Coast with a capacity of 12 million tonnes per year. It is operated by Sempra with a share of 50.2%, TotalEnergies 16.6%, Japan LNG Investment (a joint venture of Mitsubishi and shipping company NYK Line) at 16.6%, and Mitsu the remaining 16.6%. Cameron LNG was Mitsubishi's first LNG project investment in the U.S., according to the company’s website. Mitsubishi has been selling about 4 million tonnes per year of LNG to customers in Japan and other countries. Cameron’s expansion project will add 6.75 million tonnes per year of capacity.

Nishizawa said LNG Canada, with Shell as the lead partner, is moving toward start-up in 2024. The liquefaction plant modules, which were built in China, are on site in Kitimat, British Columbia, and are being installed. Mitsubishi has a 40% stake in the Montney shale gas development that will supply gas to LNG Canada. Its majority-owned subsidiary Diamond LNG Canada has a 15% stake in LNG Canada.

Polish energy firm goes to arbitration against U.S. LNG supplier

(Reuters; Nov. 15) - Polish oil and gas firm Orlen is preparing to file for arbitration against U.S. LNG project owner Venture Global for failing to supply contracted cargoes, three sources familiar with the matter told Reuters. Shell, BP, Edison and Repsol earlier this year filed arbitration cases against the U.S. developer over its failure to supply cargoes from its Louisiana plant that has been running since March 2022.

Venture Global LNG has rejected the claims and said the Louisiana plant is not fully operational due to faulty power equipment, which is being repaired. The company said it is allowed to sell "commissioning" cargoes during the work, while denying cargoes under its long-term contracts. The company has sold more than 200 cargoes into the spot market at higher prices than it would have earned under the long-term contracts.

Orlen has 20-year contracts with Venture Global to acquire 5.5 million tonnes per annum of LNG between Venture Global's Calcasieu Pass and Plaquemines LNG export facilities. The Polish company agreed to purchase 1.5 million tonnes per year from Calcasieu Pass and 4 million tonnes per year from Plaquemines LNG when it completes construction in late 2024, making it one of Venture Global's largest customers.

Proposed Canadian LNG project lines up South Korean shipyard

(S&P Global; Nov. 16) - The Haisla Nation and Pembina Pipeline, partners in the proposed Cedar LNG project on the west coast of British Columbia, have announced the signing of a heads of agreement with South Korea's Samsung Heavy Industries and global engineering firm Black & Veatch to secure access to shipyard capacity and to support construction and delivery of a floating LNG production vessel for their project.

The parties are expected to finalize a lump-sum engineering, procurement and construction agreement in December. The Indigenous majority-owned project, proposed for Kitimat, British Columbia, would have the capacity to export up to 3 million tonnes per year of LNG. Commercial operations are targeted for 2027, pending an investment decision, financing and other thresholds.

South Korean buyers of U.S. LNG bypass Panama Canal for Suez

(S&P Global; Nov. 16) - South Korean lifters of U.S. LNG have started bypassing the Panama Canal, with at least two carriers heading to the Suez Canal, according to S&P Global Commodity Insights shipping data, in an effort to meet their winter demand in light of tightening restrictions at the key waterway. The Hyundai Princepia chartered by Korea Gas was expected to arrive at Port Said, the northern entrance of the Suez on Nov. 16 after having left Sabine Pass in Louisiana on Oct. 30, according to S&P.

KOGAS officials confirmed to S&P Global that the company is using the Suez Canal to import a Sabine Pass LNG cargo as a result of increasing restrictions on transits at the Panama Canal caused by historic drought conditions. 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 from Dec. 1 until Dec. 31, and then five from Jan. 1, 2024, the Panama Canal Authority has said.

KOGAS imports roughly 2.8 million tonnes per year of LNG from Cheniere's Sabine Pass terminal under a long-term contract. "We have not fixed yet future cargo shipping routes and we will decide (while) closely monitoring situations in the Panama Canal," a KOGAS official said. In a similar move, an SK E&S-owned LNG carrier is sailing in the North Atlantic toward the Suez Canal, having loaded up at the Freeport LNG terminal in Texas on Nov. 8. SK E&S, South Korea's major LNG importer and power utility, has a contract to lift 2.2 million tonnes per year of Freeport LNG.

Panama Canal restrictions add to U.S. LNG shipping costs to Asia

(Bloomberg; Nov. 16) - The gap between liquefied natural gas prices in Asia and Europe is increasing as tighter restrictions at the drought-stricken Panama Canal threaten to make journeys costlier from U.S. supply points. The Asian gas price premium to Europe for summer 2024 has more than doubled since Oct. 30, when the canal announced it would further restrict passage, while the winter 2024 spread has also widened. The number of slots available for ships the size of LNG carriers will be reduced by half come January, according to BloombergNEF.

The price move illustrates how drought and rising costs to transit the Panama Canal are already reverberating across energy markets, as well as their vulnerability to maritime choke points. Traders will now be forced to avoid the Panama link and send Asia-bound cargoes from the U.S. and Trinidad & Tobago via Africa’s Cape of Good Hope or the Suez Canal, increasing time and shipping costs for the journey.

“The margin for U.S. LNG to the Pacific will keep shrinking, given the longer voyage days and higher shipping cost,” said Xi Nan, head of LNG research at Rystad Energy. “East Asia spot price will have to provide a premium to attract U.S. supplies to Asia instead of to Europe.” For example, congestion costs for an LNG cargo from Sabine Pass in Louisiana to Futtsu in Japan surged by $1.5 million from last week, making the total shipping cost of spot cargo $6.2 million more expensive, data from Spark Commodities show. The figures factor in 29 days of gridlock for a return journey.