Oil and Gas News Briefs
Compiled by Larry Persily
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China saved billions by buying crude from Russia, Iran, Venezuela

(Reuters; Oct. 11) - China has reaped savings this year of nearly $10 billion through record purchases of oil from countries under Western sanctions, according to Reuters' calculations based on data from traders and ship trackers. An unintended consequence of sanctions imposed by the U.S. and others on Russia, Iran and Venezuela has been to lower the oil import costs for refiners in top economic rival China. Reuters' analysis of China's savings on oil buys from the three sanctioned countries compares what Chinese importers would have paid by purchasing similar grades from non-sanctioned nations.

The lower-priced imports have been a boon by bolstering throughput and margins for the world's second-largest oil consumer and refiner, especially small independent operators known as "teapots," and facilitating lucrative exports by state-owned refiners of diesel and gasoline. China's purchases are also a lifeline for Moscow, Tehran and Caracas, whose economies are curtailed by sanctions and a decline in investment. China imported a record 2.765 million barrels per day of crude from Iran, Venezuela and Russia in the first nine months of 2023, according to data by tanker trackers.

The three countries accounted for 25% of China's oil imports between January and September, double their 12% share in 2020, Reuters' analysis found, displacing cargoes from the Middle East, West Africa and South America. China has this year saved $4.34 billion by importing Russian oil, based on Reuters' comparison of the price differentials. For imports of Venezuelan oil, China saved an average of $10 a barrel, the calculations based on trader data showed. China saved roughly $15 a barrel buying Iranian crude.

U.S. clampdown on Iran could benefit Saudi Arabia

(Bloomberg commentary; Oct. 10) - The Hamas attack on Israel that derailed Saudi Arabian Crown Prince Mohammed bin Salman's principal diplomatic initiative — a three-way deal with the U.S. and Israel — and scrambled the regional political landscape has left one thing unchanged: Riyadh's influence over the global oil market. For the past year, Saudi Arabia has cut production to boost prices, including a unilateral 10% reduction in output on top of OPEC-negotiated curbs.

Although the market has relentlessly focused – wrongly — on perceived weakness in demand growth, the truth is Riyadh faced unexpected oil supply from countries under Western sanctions, notably Iran but also Venezuela and Russia. Since October 2022, Iran has boosted its production by as much as 700,000 barrels per day — the second-largest source of incremental oil supply this year, behind only U.S. shale. The reason? Washington turned a blind eye to rising smuggling of Iranian crude.

The extra barrels from weak sanctions enforcement translated into a huge windfall for Tehran. According to my calculations, Iran is making about $1.5 billion a month more at current oil prices than if its output remained capped at the October 2022 level. Over a year, that's about $18 billion. Which brings us to Prince Mohammed and the opening created if, as I think, Washington is forced to clamp down on Iranian oil exports. Under such a scenario, Riyadh could achieve two policy objectives that today look irreconcilable: Boost production significantly and keep oil prices close to $100 a barrel.

Oil supply could come up short if nations crack down on Iran

(Wall Street Journal; Oct. 9) - Hopes that oil supply might ease a bit next year, and inflationary pressures with it, are fading after the Oct. 7 attack on Israel. Neither Israel nor Gaza are major oil producers, so there isn't an immediate effect. However, Iran's Islamic Revolutionary Guard helped Hamas plan the assault, The Wall Street Journal reported. If Tehran's involvement is confirmed by U.S. officials, the Biden administration will likely take a much harder line on Iranian oil supply than it has in recent months.

At the start of this year, Iran was producing around 2.5 million barrels of oil a day, according to the International Energy Agency. By August, that had risen to 3.1 million as the U.S. and Europe eased enforcement of sanctions on Iran's oil exports — probably they were worried that rising energy prices would lead to another bout of inflation. If a lax approach to Iranian shipments is now untenable, an oil surplus expected in the first quarter of 2024 probably won't materialize and the market could be short up to 2 million barrels a day later in 2024, according to Warren Patterson, head of commodities at ING.

He points out that Russia would potentially benefit from a crackdown on Iranian barrels, as Moscow might step in and supply the Chinese refineries that currently buy Tehran's crude. The latest violence also jeopardizes a White House-brokered deal that would see Saudi Arabia recognize Israel in return for a defense pact with the U.S. During negotiations, Saudi Arabia signaled that it was willing to increase oil production next year as part of the bargain.

Oil market shrugs off latest Mideast fighting

(S&P Global; Oct. 11) - Crude oil futures ticked higher in midmorning Asian trade Oct. 11 as the market shrugged off concerns over potential supply disruptions due to the war between Hamas and Israel. "Oil prices have shown a relatively modest reaction to the recent increase in geopolitical tensions in the Middle East," said SPI Asset Management Managing Partner Stephen Innes said in an Oct. 11 note. "This aligns with the assessment from Middle Eastern risk analysts, who believe the conflict will unlikely impact the oil market's supply and demand balance immediately."

Credible evidence of Iran's involvement in the Hamas attack on Israel has not surfaced, easing concerns that the U.S. would tighten oil sanctions against the country. In a press briefing Oct. 10, U.S. National Security Advisor Jake Sullivan said: "While Iran plays this broad role — sustained deep and dark role — in providing all of this support and capabilities to Hamas, in terms of this particular gruesome attack on Oct. 7 we don't currently have that information. We will continue to look for it."

Meanwhile, OPEC+ crude oil production increased 330,000 barrels per day in September, the second successive monthly jump, as output hikes in Nigeria, Iran and Kazakhstan balanced out ongoing cuts by Saudi Arabia and Russia, the latest Platts survey by S&P Global Commodity Insights has found. Despite the month-on-month production hike, the 19 OPEC+ alliance members with quotas are collectively undershooting their targeted production by 856,000 barrels per day according to the survey, primarily because African producers are unable to pump to their agreed level.

Exxon strikes $60 billion deal to buy Permian producer

(Wall Street Journal; Oct. 11) - ExxonMobil struck a nearly $60 billion agreement Oct. 11 to buy Pioneer Natural Resources in the largest oil-and-gas deal in two decades, tying the energy giant's future to fossil fuels. The deal, at $253 a share, values Pioneer at an almost 7% premium to its closing value of about $55.4 billion Oct. 10. It cements Exxon's status as the dominant player in the U.S. fracking industry, now centered in West Texas, where Pioneer has more places to drill than almost all of its rivals.

The deal is Exxon's largest since its $75 billion merger with Mobil in the late 1990s and is the biggest corporate transaction this year. Exxon's all-stock transaction leans heavily on its higher share price relative to its peers in the past year. The megadeal immediately reshapes the legacy of Exxon CEO Darren Woods. In 2022, as oil and gas prices surged following Russia's invasion of Ukraine, Exxon rocketed to a record annual profit of $55.7 billion, becoming the fourth-most prosperous U.S. publicly traded company.

Its cash windfall and the industry's recovery from the lows of the pandemic spurred Exxon executives to begin looking for transformative deals, particularly in the Permian Basin of West Texas and New Mexico, where Pioneer drills. The companies said the new entity would have an estimated 16 billion barrels of oil equivalent in the Permian, and that complementary acreage would allow horizontal drilling up to 4 miles, resulting in fewer wells and a smaller surface footprint. They said the transaction would allow Exxon's Permian output to double to over 1.3 million barrels of oil equivalent a day.

OPEC increases its forecast of global oil demand to 2045

(Reuters; Oct. 9) - OPEC has raised its world oil demand forecasts for the medium and long term in its annual outlook and said $14 trillion of investment is needed to meet this demand even as renewable fuel use grows and more electric cars take to the road. The view from the Organization of the Petroleum Exporting Countries, in its 2023 World Oil Outlook released on Oct. 9, contrasts with that of other forecasters, including the International Energy Agency, that say oil demand could peak this decade.

Another decade or more of rising consumption would be a boost for OPEC, whose 13 members depend on oil income. The group says oil should be part of the energy transition, and it cited decisions by some governments and companies to slow their retreat from fossil fuels. "Recent developments have led the OPEC team to reassess just what each energy can deliver, with a focus on pragmatic and realistic options and solutions," OPEC Secretary-General Haitham Al Ghais wrote in the report's foreword.

"Calls to stop investments in new oil projects are misguided and could lead to energy and economic chaos," he added, putting the required oil sector investment at $14 trillion out to 2045, up from $12.1 trillion estimated last year. OPEC expects world oil demand to reach 116 million barrels a day by 2045, 6 million higher than expected in last year's report, led by growth in China, India, other Asia nations, and Africa and the Middle East.

Santos CEO 'not sure the world can leave fossil fuels behind'

(Australian Financial Review; Oct. 9) - The chief executive of the $24 billion Australia-based oil and gas group Santos says the world will always need fossil fuels in some form, and there will be a large role for gas beyond 2050. Kevin Gallagher predicts Australian policymakers will shift their viewpoint further toward that of the United States and the United Kingdom and realize that gas will be central in a smooth and sensible transition to a lower-carbon economy — and still be needed after that.

Demonizing gas as Australian policymakers are doing will not help, he said. "I'm not sure the world can leave fossil fuels behind," Gallagher told The Australian Financial Review Energy & Climate Summit on Oct. 9. The Australian government last week released a discussion paper on gas strategy, outlining its objectives as supporting the decarbonization of the economy; promoting Australia's energy security and affordability; maintaining trade relationships; and helping trading partners reach net-zero emissions.

The paper omitted the role of Australian gas in bolstering energy security for its Asian allies, leaving some producers annoyed that it underplays a key driver for investment in the sector and will reinforce Japanese gas buyers' fears that Australia is "quietly quitting" LNG. Gallagher said there was a clear difference between aspirations and what would occur around the world. "I'm very confident the reality ... of what the world wants, versus what it says it wants, will mean there's a very big place for gas in the future," he said. "Australia is behind the rest of the world around how it views gas."

Kremlin gives priority to Murmansk LNG, calls it 'strategic project'

(High North News; Oct. 10) - Russian natural gas producer Novatek's latest liquefied natural gas project, Murmansk LNG, received priority approval from the Kremlin on Oct. 9. President Vladimir Putin instructed lawmakers to include the project in the planned liberalization of LNG export rules. The opening of the sector will remove mentions of specific license areas, broadening Novatek's ability to export more LNG.

"We believe that Murmansk LNG is a strategic project. It was considered at a meeting with the president twice. We have an instruction to add it to the strategy — this will be a strategic project. There is an instruction from the president to speed up the consideration of the federal law, which gives the right to export LNG," explained Energy Minister Nikolai Shulginov after the meeting. Murmansk LNG is planned for just over 20 million tonnes annual capacity, slightly larger than Novatek's first two export plants.

The law is now expected to take effect in November, clearing the way for Novatek's Murmansk project. Construction on the first liquefaction train could begin as early as summer 2024. The company will rely on the same gravity-based platforms it started using for its Arctic LNG-2 project, which is near start-up. Rather than constructing the liquefaction plant on site in the Arctic, which proved costly with Novatek's first project, Yamal LNG, the company now pre-assembles the modules at a massive yard outside Murmansk on floating platforms which are towed and anchored in place at the project.

Qatar signs up TotalEnergies for 27-year LNG supply deal

(Reuters; Oct. 11) - Qatar on Oct. 11 secured its largest and longest European gas supply deal from Doha's massive production expansion project, providing France's TotalEnergies with up to 3.5 million tonnes of liquefied natural gas a year for 27 years. Affiliates of QatarEnergy and TotalEnergies signed two long-term sales and purchase supply agreements for delivery to the Fos Cavaou LNG receiving terminal in southern France, with deliveries expected to start in 2026, said a statement by QatarEnergy.

The LNG volumes will be sourced from the two joint ventures between QatarEnergy and TotalEnergies that hold interests in Qatar's North Field East and North Field South projects. TotalEnergies' partnership in the expansion projects includes a 6.25% share in the NFE project and a 9.375% share in NFS. Qatar's two-phase expansion plan will raise its liquefaction capacity to 126 million tonnes a year by 2027 from 77 million.

Qatar is among the world's top LNG exporters, and competition has ramped up since the beginning of the war in Ukraine, with Europe in particular needing vast amounts to help replace Russian pipeline gas that used to make up almost 40% of the continent's imports. The first European supply deal from Qatar's expansion project was signed in November to deliver around 2 million tonnes a year to Germany for at least 15 years.

Italy’s Eni may build second offshore Mozambique LNG terminal

(Reuters; Oct. 10) - Italy's Eni hopes to reach a final investment decision on its second floating liquefied natural gas project in Mozambique by the end of June 2024, two sources directly involved with the project said on Oct. 10. Eni’s first LNG project —Coral Sul — made the impoverished African country a global producer and exporter of LNG in November 2022. A second project would further bolster Mozambique's output and could also boost Eni's gas output from Africa which it can sell to Europe, helping diversify Europe's gas supply in the next few years, CEO Claudio Descalzi said in January.

"Job done? Not yet. It is 90% done and we are aiming to have the FID (final investment decision) during H1 in 2024," one of the sources said, adding the floating LNG ship would start producing and exporting within four years. A final investment decision is a point in a project's development where a major investment commitment is taken and is effectively seen as the final go-ahead.

Eni is the operator of Coral Sul, which is two-thirds owned by Eni, ExxonMobil and China's CNPC. Portuguese energy firm Galp, Korean Gas and Mozambique's state oil company ENH are minority partners with 10% each. The gas field in Mozambique's offshore Rovuma Basin is estimated to hold more than 17 trillion cubic feet of gas. Coral Sul is currently producing 3.5 million tonnes of LNG a year and a second liquefaction ship could double the output. Eni’s offshore venture is separate from two onshore LNG terminals proposed by different partnerships led by Total Energies and ExxonMobil.

U.S. natural gas production, LNG exports continue setting records

(Reuters; Oct. 11) - U.S. natural gas production and demand will rise to record highs in 2023, the U.S. Energy Information Administration said in its Short-Term Energy Outlook on Oct. 11. EIA projected dry gas production will rise to 103.72 billion cubic feet per day in 2023 and 105.13 bcf per day in 2024 from a record 99.60 bcf a day in 2022. The agency also projected domestic gas consumption would rise from a record 88.46 bcf a day in 2022 to 89.17 bcf in 2023 before sliding to 88.38 bcf in 2024.

If correct, 2024 would be the first-time output rises for four years in a row since 2015, and 2023 would be the first time demand rises for three consecutive years since 2016.

The agency forecast U.S. liquefied natural gas exports would reach an average of 11.62 bcf a day in 2023 and 13.15 bcf in 2024, up from a record 10.59 bcf in 2022.

Japan’s LNG buyers look to diversify supply

(Nikkei Asia; Oct. 8) – As Russia’s war in Ukraine squeezes global liquefied natural gas supply, Japanese energy traders have begun seeking additional sources in Qatar, Indonesia and elsewhere to further diversify supply. Mitsui is considering acquiring an equity stake in Qatar’s North Field, where two LNG expansion projects are underway and production is set to start up in 2026. The projects will boost Qatar's LNG production capacity to 126 million tonnes a year, surpassing the U.S. and Australia.

Mitsui will make a final decision based on such factors as the duration of the Qatari contract, price and profitability. The plan is to form a Japanese consortium to purchase a North Field interest. Power supplier JERA is also considering taking part. In Indonesia, Mitsubishi, Japanese energy group Inpex and others are expanding LNG production from the Tangguh gas field to 11.4 million tonnes per year. Of that, Kansai Electric will take up to 1 million tonnes to fuel power plants. In British Columbia, Canada, Mitsubishi is a partner with Shell and others in an LNG export project set to come online by 2025.

Japan, one of the world's two largest LNG importers, along with China, purchased 72 million tonnes in 2022, with 10% coming from Russia. There are other geopolitical risks too. Australia, on which Japan relies for 40% of LNG imports, considered limiting LNG exports in 2022 amid a domestic gas shortage. Japan has also been increasing its purchase of LNG from the U.S., reaching about 6% of its imports. Meanwhile, Qatar is active at the negotiating table to extend its relationship with Japan. But Qatar prefers large long-term contracts, and Japanese buyers remain cautious about such contracts.

Shut-in of Israeli offshore gas field will affect LNG supply

(S&P Global; Oct. 10) - The loss of imports of Israeli gas from the shut-in Tamar platform is expected to further impact Egypt's ability to export LNG, International Energy Agency gas analyst Gergely Molnar said Oct. 10. Tamar field operator Chevron was instructed by the Israeli energy ministry to shut in gas production from the offshore platform after Hamas attacks on Israel on Oct. 7.

Egypt imports Israeli gas from the Tamar and Leviathan fields in the Mediterranean Sea off the coast of Israel to help meet domestic demand and for LNG exports from its two liquefaction plants. Molnar said Tamar is "very important" when it comes to Israel and the region's supply balance. "Closing the field temporarily can have impacts both on gas deliveries to the domestic market in Israel but also on the country's export capability," he said. Leviathan began production in 2019 and Tamar in 2013. Israeli gas production totaled 773 billion cubic feet last year, a record high for the country.

"When we are looking at the upstream sector in Egypt, we have already seen that it is struggling to keep up pace with rapidly rising domestic consumption as well as LNG exports," Molnar said. "If we take out Israeli pipe gas imports from that equation, it will harm the ability of Egypt to export LNG." Egypt exported only one LNG cargo in August and none in September due to high summer domestic gas demand, according to data from S&P Global Commodity Insights. Chevron, meanwhile, said it is rerouting offshore Israeli gas shipments to Egypt through a pipeline in Jordan.

Workers at Chevron's Australia LNG projects set Oct. 19 strike date

(Bloomberg; Oct. 9) - Workers at Chevron's liquefied natural gas facilities in Australia gave notice Oct. 9 to resume strikes starting Oct. 19, a move that threatens to disrupt supplies and send prices higher. Union members intend to begin new actions at the company's Gorgon and Wheatstone plants, Chevron said in a statement. Workers are required to give seven working days' notice before stoppages commence.

Workers voted last week to reinstate strikes after they criticized Chevron's efforts to finalize an agreement on pay and conditions. Both sides had last month pledged to implement a proposed settlement put forward by the Fair Work Commission, Australia's labor regulator. Chevron has asked for additional assistance from the regulator to help complete drafting of a final agreement, and to resolve "a small number of items that the parties interpret differently," the company said in its statement.

Renewed strike action revives the risk of interruptions to shipments from Australia — one of the world's biggest LNG exporters — at a crucial time of year. Still, no LNG cargoes were missed during previous strikes, and it's unclear if a new round of walkouts would impact exports.

Court could decide FERC jurisdiction over smaller LNG terminals

(Energy Wire; Oct. 11) - A federal appeals court Oct. 10 grilled federal energy regulators on their responsibility to govern certain types of liquefied natural gas facilities that are preparing the fuel for export. During oral arguments, a three-judge panel of the U.S. Court of Appeals for the District of Columbia Circuit questioned the Federal Energy Regulatory Commission's finding that it lacked jurisdiction to regulate a smaller onshore facility that did not directly transfer LNG produced on site into tankers.

A ruling against FERC could require the agency to extend its oversight to a broader array of gas facilities as the U.S. becomes a global leader in LNG exports. "It seems what FERC wants to regulate is safety," said Judge Florence Pan. "Why does it matter where the facility is if the purpose of regulation is safety?" The advocacy group Public Citizen sued FERC in 2022 to block a proposed project in the Florida Panhandle that would have required moving LNG produced offsite by truck to a marine export terminal.

The D.C. Circuit pressed FERC to explain why the agency could not regulate a facility that did not pump LNG directly into tankers. Judge Gregory Katsas said the practical effect of FERC's action was to draw a "regulatory distinction" between facilities filling tankers by pipeline and sites loading the fuel from LNG containers delivered by truck. "Why might someone want to treat those differently?" asked Katsas. The judges also asked whether they should even reach a ruling in the case, since the developer of the LNG facility canceled the project in July and currently has no plans to revive it.

Enbridge CEO calls for First Nations to take equity in projects

(The Canadian Press; Oct. 6) - The CEO of Enbridge is calling on the government to create a national Indigenous loan guarantee program to help First Nations communities in Canada acquire equity stakes in resource and infrastructure projects. In an interview following a speech to the Toronto Region Board of Trade on Oct. 6, Greg Ebel said Canadian companies are increasingly willing to offer equity stakes to Indigenous communities whose traditional lands are crossed by pipelines and other projects.

But Indigenous communities often don't have the necessary access to capital. While Alberta, Saskatchewan and Ontario all have provincial programs offering financing to Indigenous communities for commercial ventures, Ebel said a Canada-wide solution is needed. "The problem is, much of our infrastructure in this country crosses jurisdictions, it crosses boundaries. … You need a national program," he said. "It's hard for a province to provide loan guarantees for the benefit of people who live in a different province."

While private companies have been partnering with Indigenous communities on projects for decades, early agreements typically involved guarantees of construction jobs or other financial benefits for the community. That's changing. Last fall, Enbridge signed what was at the time North America's largest energy-related partnership between a private company and Indigenous people. The company sold an 11.57% interest in seven Alberta pipelines to 23 First Nation and Metis communities in a C$1.1 billion deal backed by a $250 million loan guarantee from Alberta's Indigenous Opportunities Corp.

First Nation continues objection to oil pipeline route change

(The Canadian Press; Oct. 8) - A Secwepemc law says that if you disrespect the land and don't take care of it properly, the land and the sky will turn on you. "It's a serious law," said Mike McKenzie, a Secwepemc knowledge keeper. He wonders "how much further” people want to go in violating it. McKenzie was talking about the Trans Mountain pipeline project, which last week resumed construction close to Pipsell, or Jacko Lake, near Kamloops, British Columbia, after a federal regulator approved a route change.

McKenzie has been a vocal critic of the pipeline expansion. “Without that place, we lose a big part of ourselves,” said McKenzie, who noted the Secwepemc creation story takes place in Pipsell, and their laws and customs are born from that land. “This is our Vatican. This is our Notre Dame. This is a place that gives our people an identity and kept our people grounded since time immemorial.” The Canada Energy Regulator approved Trans Mountain’s application to modify the pipeline’s route in late September — a decision that could spare the government-owned pipeline from a nine-month delay.

The regulator made the ruling just one week after hearing oral arguments from Trans Mountain and Stk’emlupsemc te Secwepemc Nation, which opposed the route change. The pipeline will move more oil sands production to an export terminal on the British Columbia coast. The Nation supports the project but not the route change. Trans Mountain said the change is needed because it ran into tunneling difficulties in the area. The regulator decided the route could deviate from what was planned for an 0.8-mile stretch of pipe, and the company could change its construction method for that section.