Oil and Gas News Briefs
Compiled by Larry Persily
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OPEC+ confronts question: How much can members really produce

(Bloomberg; May 14) - OPEC+ is once again grappling with the thorny question of how much oil its members are actually capable of pumping, an issue that poses risks for the group's efforts to stabilize world markets. After a fierce debate on the matter last year — ultimately leading to the exit of Angola — the alliance led by Saudi Arabia commissioned an external review of its members' production capabilities, to be concluded by the end of June. Several major exporters are seeking to have their output levels upgraded, with a view toward securing the right to pump more crude in 2025.

The United Arab Emirates, Kazakhstan, Iraq, Kuwait and Algeria are among countries whose potential to pump more next year is under scrutiny, according to people familiar with the discussions who asked not to be identified because the information isn't public. Some have pushed for an upward revision, causing tough talks with the outside consultants that are judging the matter, they said.

The Organization of the Petroleum Exporting Countries and its partners have been restraining oil output in a bid to stave off a surplus and shore up crude prices. JPMorgan Chase warns that the group — which already holds considerable idle production capacity — could struggle to manage markets next year, when demand growth is set to slow and rival supplies set to climb. The 22-nation alliance is widely expected to prolong its current production curbs into the second half of this year when it gathers on June 1. It may also use the gathering to discuss the capacity review, according to UBS Group.

IEA trims its oil-demand growth forecast for this year

(Bloomberg; May 15) - The outlook for global oil demand growth this year continues to soften amid an economic slowdown and mild weather in Europe, the International Energy Agency said. World fuel consumption will increase by 1.1 million barrels a day this year, about 140,000 barrels less than expected a month ago, the Paris-based adviser said, trimming its projections for the second month in a row. The forecast change reflects a first-quarter demand contraction in rich countries.

"Poor industrial activity and another mild winter have sapped gasoil consumption this year, particularly in Europe, where a declining share of diesel cars in the fleet were already undercutting consumption," said the IEA, which advises most major economies. Oil prices are trading near $83 a barrel in London, having retreated 10% from this year's peak as the fragile economic outlook coupled with abundant U.S. oil supplies offset fears over Middle East conflict and production curbs by OPEC+.

Still, the picture may not be as bearish as the report initially suggests. Consumption remains on track to reach an annual record of 103.2 million barrels a day this year, even with the lower growth forecast, according to the agency. The IEA's oil-consumption estimates are lower than much of the industry, from trading houses to Wall Street banks. Commodities giants like Gunvor and Trafigura project growth closer to 1.4 million or 1.5 million barrels a day of demand growth this year.

U.S. shale drillers add to inventory of unfracked wells

(Bloomberg; May 13) - Oil and gas companies added to the so-called fracklog for a second straight month in the latest signal of slowing growth in U.S. shale oil production. Shale operators drilled more crude wells than they fracked in April, marking the first back-to-back increase in drilled-but-uncompleted projects since late 2022, according to a report from the U.S. Energy Information Administration on May 13.

The tally is a key indicator of near-term crude flows from U.S. shale fields because fracking is one of the final steps in the process of bringing new wells online. Total U.S. shale oil production is forecast to inch higher in June by just 0.2% on a sequential basis to 9.85 million barrels per day, the government analysts wrote. That would still fall short of December's record level of 9.98 million.

Production from shale fields is being closely watched by OPEC and its allies as they prepare to gather next month to evaluate supply flows. Brent crude, the international benchmark, has climbed roughly 8% this year, erasing most of 2023's 10% price slump. Amassing portfolios of unfracked wells provides U.S. oil companies with the flexibility to ramp up output when prices advance.

Japan will need a lot more electricity to power AI and data centers

(Reuters; May 13) - Japan envisages the need for electricity output to rise 35% to 50% by 2050 due to growing demand from semiconductor plants and data centers backing artificial intelligence, the government has forecast. Power output should grow from 1 trillion kilowatt-hours projected for the current decade to about 1.35 trillion to 1.5 trillion kWh in 2050 to meet demand as Japan sets up more data centers, chip factories and other energy-consuming businesses, the government said in a report published May 13.

The increase in demand would be the first in 20 years and requires large-scale investments in power sources, the document said. Unless Japan increases renewable energy output, stable supply of power could be uncertain, the government said, as it began mapping out a new strategy on decarbonization and industrial policy by 2040 which it plans to finalize by the end of March.

Japan, which relies heavily on the Middle East for fossil fuel supplies, last year passed a law aimed at promoting decarbonization investments totaling more than 150 trillion yen ($962 billion) in the public and private sectors over 10 years. The country is counting on next-generation solar cells, known as perovskite solar cells, floating offshore wind farms, restarts of nuclear power plants and the introduction of next-generation reactors to meet the demand, the paper showed.

Gazprom misses the revenue from selling gas to Europe

(Reuters; May 13) - Kremlin-owned energy kingpin Gazprom, once Russia's most profitable company, could face a long period of poor performance as it struggles to fill the gap of lost European gas sales with its domestic market and Chinese exports. The company recently announced an annual net loss of $7 billion, its first since 1999, following a steep decline in trade with Europe. Gazprom's troubles reflect the deep impact the European sanctions have had on Russia's gas industry, as well as the limitations of Moscow's growing partnership with China.

The impact of international sanctions on oil exports has been easier for Moscow to absorb because Russia has been able to redirect seaborne oil exports to other buyers. Gazprom relied on Europe as its largest market until 2022, when Russia's war on Ukraine prompted the European Union to cut Gazprom gas imports. Russia supplied around 2.25 trillion cubic feet of gas to Europe by various routes in 2022, according to Gazprom data and Reuters calculations, falling to 1 tcf in 2023. That's compared to a peak of 7 tcf Gazprom pumped in 2018 to the EU and other countries, such as Turkey.

Russia has turned to China to boost its pipeline gas sales. Gazprom started supplying China via the Power of Siberia line at the end of 2019. It plans to reach the line's 1.5 tcf annual capacity by the end of this year. Moscow and Beijing agreed in 2022 on exports of 350 billion cubic feet per year from the Pacific island of Sakhalin. Russia's biggest hope is the Power of Siberia 2 pipeline via Mongolia, which is planned to export almost 1.8 tcf per year. But that has hit some pitfalls over pricing and other issues.

Norway's Equinor largest gas supplier to Europe

(Bloomberg; May 13) - When the world's top gas traders met in late April at a canal-side hotel on the outskirts of Amsterdam, the atmosphere was business as usual: coffee, croissants and wrangling over deals for the upcoming winter. Then came news of a leak at Europe's biggest liquefied natural gas plant, located above the Arctic circle in Norway.

The problem — discovered during a planned test of the facility's safety systems — was quickly repaired, but not before it caused a momentary spike in the price of natural gas.

It served as a reminder of the power of a single company, Equinor. In the more than two years since Russia invaded Ukraine, sending energy prices soaring, the Norwegian oil and gas giant has quietly picked up the crown that once belonged to Russia's Gazprom. Norway now supplies 30% of the bloc's gas; Gazprom provided about 35% of all Europe's gas before the war. Of the more than 3.8 trillion cubic feet of gas Norway exported to Europe last year, roughly two-thirds was marketed and sold by Equinor.

So long as the bloc continues to depend heavily on fossil fuels, Norwegian hydrocarbons will be essential to keeping the lights on in Europe. Equinor's visibility "dramatically changed with reduced flows from Russia," said Irene Rummelhoff, the company's head of midstream, marketing and processing. "There was a point in time where (Europe) almost took us for granted. That is no longer the case." The company's new prominence has also raised questions about whether European leaders are, once again, putting their countries at risk by relying too heavily on a single supplier.

More Asian LNG contracts linked to U.S. Henry Hub natural gas prices

(S&P Global; May 13) - As international LNG prices show signs of stabilizing following market fluctuations triggered by Russia's war on Ukraine — coupled with several contracts nearing expiration around 2024 and 2025 — Asian buyers have initiated negotiations for long-term contracts, or LTCs, since the beginning of 2024. According to market data, approximately 10 LTCs have been signed since January, with three or more involving linkage to the U.S. benchmark gas price at Henry Hub, Louisiana.

Several market sources indicated that Asian buyers signing contracts based on terms linked to Henry Hub have negotiated contract slopes ranging between 119% and 121% — covering 100% of the gas that is to be liquefied, plus additional for the gas that is consumed at the liquefaction plant. The pricing mechanism includes a constant factor to cover liquefaction and freight costs, estimated at around $4.50 per million Btu, partially tied to the consumer price index.

Since January 2024, Japan-Korea Marker LNG prices have fallen below Brent oil-linked contracts for LNG. As buyers become increasingly aware that LNG market fundamentals are not necessarily aligned with global crude oil prices — which are more susceptible to geopolitical risks — there is a growing interest in diversifying price exposure. Consequently, buyers are considering signing more contracts with non-Brent oil linkages, such as LNG pricing linked to U.S. gas prices plus liquefaction costs.

China forecasts record LNG imports this year

(Reuters; May 15) - China's liquefied natural gas imports could hit a record in 2024, a PetroChina official said on May 15. The world's top importer of the fuel is seen shipping between 78 million to 80 million tonnes of LNG this year, with industrial and commercial sectors driving demand, Zhang Yaoyu, global head of LNG and new energies for PetroChina International, said at an industry conference in Bangkok. Zhang's forecast would be a 9% to 12% rise from the 71.2 million tonnes imported in 2023, according to China's customs data. China imported a record 78.8 million tonnes in 2021.

He said China has shipped nearly 20 million tonnes of LNG already in the first quarter of this year, with the chemicals, paper, steel and cement industries driving demand growth. "Besides, we haven't seen winter (demand) yet." For power plants in China, however, LNG prices would need to drop to below $6 per million Btu for consumption to pick up, added Zhang, who spoke on the sidelines of the Future Energy Asia conference.

Asia spot LNG prices had traded as low as around $8 per million Btu in February, its lowest in nearly three years, amid weak demand in Asia and Europe. But hotter weather and supply concerns have since pushed prices to $10.50. Zhang said he expects coal to support grid stability in China and did not see greater LNG use in power generation amid rising renewable energy use. "You can't solely rely on renewable power. The reliability, that's not going to be easy. But having said that, the base is still coal."

Chinese ship moves production modules for Russian LNG project

(gCaptain; May 11) - Just days after the U.S. Department of the Treasury sanctioned four heavy-lift vessels for carrying LNG technology to Russia, a thus-far unsanctioned vessel, the Wei Xiao Tian Shi, is headed to Murmansk. The ship is carrying the first two modules for the third production train of Novatek's Arctic LNG 2 project. The vessel, owned by Chinese Hainan Smiling Angel Shipping Co., departed from China's Wison Offshore & Marine Zhoushan Fabrication Yard at the end of March and is expected to arrive at Novatek's Belokamenka construction yard near Murmansk by the end of May.

Sources at Wison Offshore confirm the ship is carrying pipe rack modules. The modules are traditionally the first units to be installed and will form the core of the third production line. Each production line consists of 14 modules assembled atop a massive floating gravity-based concrete structure. In February, Arctic LNG 2 stakeholder TotalEnergies said construction of the third train had been put on hold. However, the shipment of initial modules suggests that Novatek may intend to complete the final production line.

"The rumor mill will really be churning now, given that Train 3 modules are on their way," explains Ben Seligman, a project specialist for Arctic oil and gas. "Earlier statements suggested Train 3 of the Arctic LNG 2 project had been abandoned and the whole train could eventually be repurposed for Murmansk LNG," he said. Novatek has yet to make a final investment decision to build an LNG plant at Murmansk. While U.S. sanctions have had some success in slowing down construction at Arctic LNG 2, they have been unable to stop the transport of prefabricated modules from Chinese shipyards.

[Chinese shipyard nears completion of first LNG carrier for Qatar]

(LNG Prime; May 13) - China's Hudong-Zhonghua is nearing completion of the first liquefied natural gas carrier which is being built as part of QatarEnergy's massive shipbuilding program. According to a statement by Hudong-Zhonghua, the LNG carrier Rex Tillerson left the dock at China's Huarun Dadong yard on May 9 after the bottom of the ship was sprayed with silicone-based anti-fouling paint.

The shipbuilder launched the LNG carrier in October last year, saying this is the first such vessel it will build for Japan's MOL and China's Cosco Shipping Energy Transportation. In April 2022, QatarEnergy signed charter deals for four LNG carriers with MOL, completing the first batch of charter contracts awarded under Qatar's massive shipbuilding program to handle its major expansion of LNG production.

QatarEnergy said in a statement in February that it had named the first LNG carrier to be delivered as part of its new LNG fleet expansion as the Rex Tillerson, in recognition of the former chairman and CEO of ExxonMobil. The firm said the LNG carrier is expected to go into service in September. QatarEnergy recently signed a huge deal worth about $6 billion with Hudong-Zhonghua for 18 of the giant vessels.

[New EU sanctions on Russian LNG will complicate shipping]

(Bloomberg; May 13) - Since the start of Russia's invasion of Ukraine, Europe and its allies have looked for ways to curb Moscow's fossil fuel revenues without inflicting higher energy costs on their own citizens. The latest plan: Ban the use of European Union ports for re-exporting liquefied natural gas. Russian producer Novatek relies on stopovers in the EU to move Arctic fuel from ice-class ships onto conventional tankers.

While choking off its access won't prevent cargoes from reaching Europe — where LNG imports from Russia have actually increased in the aftermath of the war — it will make it harder to send them onward to countries in Asia, potentially angering key buyers such as China or India. EU policymakers are discussing the move as part of their 14th package of sanctions against Russia. While it isn't an outright ban, it would mark the first time Europe has enforced concrete measures against Russian LNG.

To optimize shipping, Russia's Arctic-based Yamal LNG relies on the ports of Zeebrugge in Belgium and Montoir in France to transfer cargoes from its 15 ice-class vessels onto conventional tankers. Typically, an arriving ship discharges at the terminal and a standard LNG carrier loads at about the same time. That will no longer be possible under the ban. For Yamal, the stopovers are needed to allow highly specialized vessels to return to the Arctic plant, where conditions are too harsh for regular carriers.

Ship-tracking data indicate that up to eight Russian cargoes are transshipped in Europe in some months, although the number varies and drops significantly during summer and fall when the Northern Sea Route across the Arctic has less ice and provides faster direct access to China. The sanctions would further complicate shipping logistics for Russia and force the costly vessels to travel over longer routes to deliver their cargoes.

U.K. receives report of Russian oil exploration in Antarctica

(Newsweek; May 14) - Russia has discovered huge oil reserves in British territory in Antarctica, according to evidence submitted to the U.K. House of Commons Environment Audit Committee. The reserves uncovered contain around 511 billion barrels worth of oil, equating to around 10 times the North Sea's output over the past 50 years. According to documents discussed in U.K. parliament last week, the discovery was made by Russian research ships in the Weddell Sea, which falls under the U.K.'s claim in Antarctic territory. That claim overlaps with those of Chile and Argentina.

Despite having no territorial claims in Antarctica, Russia, along with the U.S. and China, has been gradually escalating its presence in the region in recent years through various scientific campaigns, establishing five research stations in the territory since 1957. Antarctica is governed by a treaty signed on Dec. 1, 1959, which states that no single country owns the territory and designates the region as a continent devoted to peace and science, meaning all oil developments in the area are prohibited. But experts now claim Russia could be prospecting parts of Antarctica for oil and gas, violating the treaty.

In a meeting last week, Professor Klaus Dodds, professor of geopolitics at the U.K.'s Royal Holloway College, told the Commons Environment Audit Committee that Russia's actions in the region could "signal a potential threat to the permanent ban on mining." He added, "There is a worry that Russia is collecting seismic data that could be construed to be prospecting rather than scientific research."

Qatar energy minister predicts more LNG will be needed past 2030

(Bloomberg; May 15) - Demand for natural gas will keep growing and more supply projects will be required globally beyond 2030, Qatar’s energy minister said. The comments from one of the world’s biggest suppliers of liquefied natural gas come amid fears of a potential glut later this decade as more projects, including in Qatar, come online. The Middle Eastern country is pressing on with its multibillion-dollar LNG expansion and may consider adding further capacity if more gas becomes available, minister Saad Al-Kaabi said in Doha.

“If we have a reasonable economic growth going forward, I think you’ll see all that supply and demand will catch up and you’ll need another phase of development of gas in the 2030s,” he said at the Qatar Economic Forum. “I don’t think gas is going away anytime soon.” The LNG market has been tight since Russia’s invasion of Ukraine knocked out piped gas supplies to Europe, forcing the continent to import more liquefied fuel. It’s likely to flip into a surplus as a wave of new LNG developments brings fresh supply from about 2026, despite some projects in the U.S. facing delays.

Qatar is boosting its LNG capacity to 126 million tonnes a year by 2027 from 77 million a year currently. It’s targeting 142 million a year by the end of the decade. Projects by other countries, including in Africa, are also planned. Al-Kaabi said the new supply won’t be enough as expanding economies and populations drive up demand. Electricity from gas, for example, provides reliable backup to intermittent renewable energy, he said.

Qatar says it continues to sign up long-term LNG buyers

(Reuters; May 15) - Qatar has not had difficulty securing long-term liquefied natural gas contracts and will sign more this year, QatarEnergy CEO and State Minister for Energy Saad al-Kaabi said at an economic forum on May 15. "We've actually secured 25 million tonnes of long-term LNG sales (in the past 12 months) and I can tell you also on this podium that we're signing more this year," he said.

State-owned QatarEnergy has been signing supply deals with European and Asian partners for gas that is expected to come onstream from its massive North Field expansion, part of the world's largest natural gas field which Qatar shares with Iran, which calls it South Pars. Qatar, one of the world's largest LNG exporters, announced an additional expansion of its LNG production in February that will add 16 million tonnes per year to its original plans, bringing total capacity to 142 million tonnes from 77 million.

Kaabi re-iterated that should technical evaluations show Qatar could further expand production it would. "If there is more, we probably will do more," he said.

New Mexico opens hearings on regulating fracking water

(Associated Press; May 13) - Environmental officials in New Mexico took initial steps May 13 toward regulating the treatment and reuse of oil industry fracking water as the state grapples with scarce water supplies and fossil fuel producers confront shrinking opportunities for wastewater disposal. A state water quality commission opened a weeklong series of hearings as the nation’s No. 2 state for petroleum production begins to build out a series of rules that initially prohibit the release after treatment of so-called produced water from oil and gas production while still opening the way for pilot projects.

“The rule is prohibitive when it comes to any type of release of any type of produced water, whether treated or untreated,” said Andrew Knight, assistant general counsel to the state Environment Department, in opening statements. “At this point, we couldn’t even tell you what testing would be needed to determine that a certain treatment technology or combination of technologies would be protective.” He said the agency’s initial rule would be “as protective as possible, while still allowing the science to advance through pilot and then demonstration projects.”

The proposal is generating public protests of undisclosed contaminants used in oil and gas drilling. At the same time, oil producers and at least one water service provider say the regulations don’t provide specific water quality standards that might help effective treatment projects move forward. The Environment Department “apparently wants a regulation to be able to deny a permit based on the source of the water, not its quality,” said Liz Newlin Taylor, an attorney for Select Water Solutions, a Houston-based water-management company for energy producers with operations in New Mexico.