Oil and Gas News Briefs
Compiled by Larry Persily
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Saudis warn OPEC+ cheaters that oil prices could crash

(Wall Street Journal; Oct. 2) - The Saudi oil minister has said that prices could drop to as low as $50 per barrel if so-called cheaters within OPEC+ don’t stick to agreed-upon production limits, according to delegates in the cartel. The statements were interpreted by other producers as a threat that the kingdom is willing to launch a price war to keep its market share if other countries don’t abide by the group’s agreements, they said.

After Iran launched missiles at Israel on Oct. 1, oil prices climbed after weeks of steady declines. There are fears in the West that a wider war could choke oil exports from the Gulf and push prices higher. But geopolitical tensions have persisted for months without a meaningful effect on oil prices, and the declines have been frustrating for the Saudis. During a conference call last week, Saudi Oil Minister Prince Abdulaziz bin Salman warned fellow producers that prices could drop to $50 a barrel if they don’t comply with agreed production cuts, according to OPEC delegates who attended the call.

They said he singled out Iraq, which overproduced by 400,000 barrels a day in August, according to data provider S&P Global Ratings, and Kazakhstan, whose production is set to rise with the return of the 720,000-barrels-a-day Tengiz field. The Saudi message was “there is no point in adding more barrels if there isn’t room for them in the market,” said a delegate. “Some better shut up and respect their commitments toward OPEC+.” The kingdom has shown in the past it can open the spigots if it feels other producers are taking advantage of its efforts to defend oil prices.

The group’s ongoing production cuts mean their share of the oil market has shrunk. This year it reached 48%, down from 50% in 2023 and 51% in 2022. Competition is set to heat up further next year. Planned production increases in the U.S., Guyana and Brazil are expected to add over 1 million barrels a day to global oil supply.

UAE oil minister says OPEC united in goal of stabilizing oil market

(S&P Global; Oct. 2) - OPEC and its allies remain united in their goal of stabilizing the oil market, UAE Energy Minister Suhail al-Mazrouei said Oct. 2, ahead of a meeting of the group's key advisory committee. "We are diverse 22 partners, but our aim and goal is one, which is trying to attain to that balance," he said in an address to an energy markets forum in Fujairah. "The critical element is that this group is staying together."

The OPEC+ alliance has implemented several rounds of oil production cuts, including a "voluntary" reduction of 2.2 million barrels per day by eight countries, including the UAE, which the group aims to begin tapering down in December, bringing more oil to the market. However, slumping prices challenge the group, with many forecasters expecting a market glut in 2025, as demand growth may not keep pace with supply expansion from rival producers outside OPEC+. Tapering down the production cut has already been delayed once, from October, with crude prices stuck in the low $70s per barrel.

The OPEC+ Joint Ministerial Monitoring Committee, on which Mazrouei sits, is scheduled to meet online this week to assess member compliance with production quotas and review market outlooks, while the full alliance is set to meet on Dec. 1. In the long term, Mazrouei expects global oil demand to continue rising and emphasized that the industry must keep pace with investment to meet the world's needs.

Oil prices spike up $5 in two days as Mideast fighting escalates

(Bloomberg; Oct. 2) - Iran's missile attack on Israel restored a war premium to oil markets as the prospect of military escalation between the two Middle East foes calls into question vital flows from the world's top petroleum-producing region. Brent crude surged more than 5% following the assault Oct. 1, exposing speculators who had been more bearish about prices than ever in the weeks before the barrage. Oil rose again Oct. 2 to trade above $75 a barrel, meaning it's added about $5 in two days.

Benjamin Netanyahu, Israel's prime minister, has vowed to retaliate to Iran's attack, creating the risk of tit-for-tat escalation in part of the world that's responsible for a third of the world's supply. Still, analysts and traders say the market hasn't fully priced in the risk of a further attacks on Iranian oil facilities, or the idea that Tehran might try to block the Strait of Hormuz — something it's threatened many times down the years without actually doing so. While numerous recent conflicts and confrontations haven't ultimately resulted in oil-supply disruption, the focus is now shifting to Israel's next move.

"No one really knows how far this could spread," Trafigura Group's chief economist Saad Rahim said in a Bloomberg TV interview. "What is the reaction now from Israel, what is the counter reaction then from Iran, do other players start to get involved?" The latest developments come after investors held the most bearish stance on oil prices on record late last month amid a backdrop of demand concerns and supply surplus. OPEC+ is poised to restore more output in December, while drillers outside the alliance are also ramping up production, leaving the market with plenty of wiggle room.

OPEC has spare oil production capacity if Iran taken offline

(Reuters; Oct. 2) - OPEC has enough spare oil capacity to compensate for a full loss of Iranian supply if Israel knocks out that country's facilities, but the producer group would struggle if Iran retaliates by hitting oil installations of its Gulf neighbors. Israel's options include targeting Iranian oil production facilities among other strategic sites, U.S. news website Axios reported on Oct. 3 citing Israeli officials. Iran is an OPEC member with production of around 3.2 million barrels per day or 3% of global output.

Iranian oil exports have climbed this year to near multi-year highs of 1.7 million barrels per day. Chinese refiners buy most of the oil. "In theory, if we lost all Iranian production — which is not our base case — OPEC+ has enough spare capacity to make up for the shock," said Amrita Sen, co-founder of Energy Aspects. OPEC+, which includes OPEC and allies like Russia and Kazakhstan, has been cutting production in recent years to support prices amid weak global demand.

The OPEC+ group is sitting on millions of barrels of spare capacity. Analysts estimate Saudi Arabia is able to raise output by 3 million barrels per day and the United Arab Emirates by 1.4 million. OPEC+ met on Oct. 2 to discuss compliance with cuts. The group did not discuss the Israel-Iran conflict, OPEC+ sources said. "The only thing mentioned about the geopolitical situation and the conflict was the hope for non-escalation," said an OPEC+ source familiar with the discussions.

Partners go ahead with $10 billion Suriname oil and gas project

(Reuters; Oct. 1) - France's TotalEnergies and U.S. APA Corp. on Oct. 1 announced a positive investment decision for Suriname's most promising oil and gas project, Block 58, which is expected to inaugurate the nation's offshore output. TotalEnergies expects flows to start at the $10.5 billion project the first half of 2028. The small South American country wants to follow in the footsteps of neighboring Guyana, where a consortium led by ExxonMobil has discovered more than 11 billion barrels of recoverable oil and gas.

Suriname is working to secure comparatively larger revenues through a legal framework including higher royalties and taxes and signing bonuses that it plans to invest in health care and services. TotalEnergies and APA plan to develop the Sapakara and Krabdagu fields, renamed as "Gran Morgu," with combined recoverable resources estimated above 700 million barrels. The project took only one year from the completion of well appraisal to the final investment decision.

A floating production storage and offloading (FPSO) facility being built in Asia for the project, with a 200,000-barrel-per-day capacity, is expected to be one of the company's largest, TotalEnergies' CEO said. That construction contract, along with others including energy infrastructure builders SBM Offshore and Saipem, represent a total of $7 billion.

TotalEnergies, the project operator, plans to recover about $1.4 billion spent in exploration in the area since 2019.

[Gabon-registered tanker carries Russian crude through Arctic route]

(The Barents Observer; Sept. 27) - The Sai Baba is believed to have loaded oil in the Russian port of Murmansk in mid-September. It subsequently set course for the Arctic route that connects the North Atlantic with the Pacific. On Sept. 18, the tanker was near Kola Bay, according to ship tracking services. Nine days later, it was sailing through the Kara Sea, according to data from Russia's Northern Sea Route Administration. As it makes it farther east, the almost 20-year-old tanker will run into a major layer of multi-year sea ice. The ice in the Chukchi Sea has troubled regional shipments this summer.

The Sai Baba has a light ice-class rating. It carries the flag of Gabon and appears to be managed by a company from the United Arab Emirates. Judging from the Northern Sea Route Administration, it has permission to sail without icebreaker escort in light sea-ice conditions from Sept. 10 to Oct. 31. The 899-foot-long tanker was built in 2006 and used to operate for a Belgian shipper. It was sold in 2022 and has since sailed under the name Sai Baba. It is due to arrive in the Chinese port of Huizhou on Oct. 15.

The Sai Baba is not the only Gabon-registered tanker that now sails through the Arctic waters of the Northern Sea Route. As it embarked on its voyage to China, two other Gabon-registered tankers were waiting in the waters outside Murmansk to be loaded. The Nordic and Baltica are likely to follow in the wake of the Sai Baba. Since Moscow launched its war against Ukraine and the international community introduced sanctions against the Russian oil and gas industry, the small West African state has offered shelter to a quickly expanding fleet of shadow vessels that carry sanctioned Russian oil.

[Japan’s economy minister calls for more nuclear power]

(Bloomberg; Oct. 2) - Japan’s new economy minister said the country will need to maximize use of existing nuclear power plants as artificial intelligence and data centers are expected to boost electricity demand. It’s “natural” for Japan to pursue both atomic and renewable energy in order to meet the growing needs without increasing carbon emissions, said Yoji Muto, who was appointed to the role Oct. 1. The new administration will eye restarting as many reactors as possible so long as they are safe, he said Oct. 2.

Muto’s comments point to a continuation of former Prime Minister Fumio Kishida’s work that shifted Japan back toward nuclear energy as a major power source, with many reactors still offline in the wake of the 2011 Fukushima disaster. His successor, Shigeru Ishiba, had said during his campaign that Japan should reduce its dependence on the energy source but later said that he would support the restart of existing nuclear plants.

The move is part of a global revival as countries turn to nuclear power for stable and emissions-free electricity to meet demand. Muto also said that Japan will need to protect its atomic industry by developing next-generation reactors. The nation is in the process of revising its strategic energy plan that will dictate the power mix, which is currently 70% fossil fuels such as natural gas and coal, beyond 2030.

Japan's LNG buyers want government help to negotiate flexible terms

(Bloomberg; Sept. 30) - Japan's liquefied natural gas buyers — among the world's biggest — are struggling to ensure supply contracts are flexible enough and need the government to help negotiate better terms, according to the head of an industry lobby group. So-called destination clauses that limit the on-selling of shipments make it harder for companies to commit to decades-long contracts considering uncertainty about future demand, Japan Gas Association Chairman Takashi Uchida said Sept. 30.

Such restrictions are common in contracts with Qatar's state-owned producer, among others, which don't want resold gas damping demand in other markets. "We've been asking the government to help with making contracts destination-clause free," said Uchida, who is also chairman of Tokyo Gas Co. The private sector alone can't secure flexible agreements, he said.

Japanese utilities have been reluctant to sign new contracts with Qatar, which has an ambitious plan to ramp up LNG production and ensure it remains a major force in the global market. But recent buyers from the Middle Eastern producer have hinted that there may be some flexibility in those terms. Currently, Japan uses about two-thirds of the LNG it buys and resells the remaining one-third abroad. However, about 40% of its long-term contracts are expected to still have destination clauses in 2030, according to an analysis conducted by Japan Organization for Metals and Energy Security.

Kazakhstan in talks to sell more pipeline gas to China

(Bloomberg; Sept. 30) - Kazakhstan is in talks with China about increasing gas exports and is even considering building an additional pipeline to boost flows, underscoring the growing significance of its role in the region's fuel market. Kazakhstan will be competing with neighboring countries including Turkmenistan and Russia for Chinese demand. Moscow's invasion of Ukraine led to it cutting off major buyers in Europe, with China becoming a key alternative market even amid sputtering economic momentum.

"We hope to reach a consensus on increasing our export volumes to China and possibly other countries like Uzbekistan," said Sanzhar Zharkeshov, CEO at Kazakhstan's national gas operator QazaqGaz. The discussions with China involve "significantly higher volumes" than current Kazakhstan exports, he added. The world's largest landlocked country is seeking to boost gas production to cover growing domestic demand as well as increase revenue from exports. It currently sends about 140 billion cubic feet of gas per year to China, while consuming almost 750 bcf itself.

Boosting fuel deliveries abroad could help QazaqGaz compensate for unprofitable domestic sales, where the government keeps sales prices low. The operator is working with multiple producers to raise output, including working with Qatari investors on projects that will add 120 bcf of annual output by 2029, as well as exploration activities with Chevron. In addition, QazaqGaz plans to build a second pipeline, feeding into a larger pipe to China. The new pipe feeding into it would cost between $3 billion to $6 billion, and could take two to three years to build, with a decision due late this year.

China building up its shale gas production

(U.S. Energy Information Administration; Sept. 30) - China is a major gas importer by pipeline and the world's largest importer of liquefied natural gas. In the past 10 years, the Chinese government has actively supported the development of unconventional gas resources to reduce import dependence and enhance energy security. According to a report from S&P Global Commodity Insights, the China National Petroleum Corp. in 2023 produced Sichuan Basin shale gas from a depth exceeding 14,760 feet, marking the first time that commercially viable gas was produced from this deeper formation.

S&P Global reported that the Zi 201 well initially produced 26 million cubic feet per day, a rate that could signify the entry of the Cambrian formation into a new phase of large-scale shale gas development. Currently, only two of China's national oil companies — CNPC and the China Petroleum and Chemical Corp. (Sinopec) — produce shale gas, mainly from the Silurian Longmaxi formation of the Sichuan Basin. At an average depth of 11,500 feet, the Silurian Longmaxi shale formation is shallower than the latest find.

China's domestic shale gas production averaged 2.51 billion cubic feet per day in 2023, up from 0.02 bcf per day in 2013, according to data compiled by S&P Global. Since 2013, Chinese companies have gained a greater geological understanding of shale formations and deployed more advanced hydraulic and automation techniques, steadily growing shale gas production. However, the U.S. Energy Information Administration estimates that shale gas accounted for just 12% of China's domestic production of 21.7 bcf per day in 2023 as geological and cost issues have hampered faster development.

Shell halts low-carbon hydrogen project due to lack of demand

(S&P Global; Oct. 2) - Shell has put the Aukra low-carbon hydrogen project in Norway on hold due to what the company said was a lack of demand for blue hydrogen to support an associated pipeline to Germany. The Aukra Hydrogen Hub, being developed with partners Aker Horizons and CapeOmega, was to have a power-generating capacity of 2.5 gigawatts, producing 1,200 tonnes of hydrogen per day by 2030, avoiding 4 million metric tonnes per year of carbon dioxide emissions.

Shell said it did not see "enough market pull" for blue hydrogen "to sustain financial support to the Gassco-led study" for a hydrogen pipeline from Norway to Germany. "We have also chosen to put the Aukra-project on hold for the same reasons," a spokesperson said. According to media reports, Equinor has also cancelled plans to export blue hydrogen to Germany.

So-called blue hydrogen is produced when the CO2 created from burning natural gas to generate power is sequestered underground. The electricity is used to power the electrolysis process that separates hydrogen from water. Green hydrogen uses renewable energy to power the electrolysis process.

Sanctioned Russian LNG carrier heading to North Asia

(Bloomberg; Sept. 30) - A Russian liquefied natural gas carrier sanctioned by the U.S. is currently heading to potential buyers in North Asia after sailing thousands of miles through the Arctic Ocean. The Asya Energy passed the southern tip of the Kamchatka Peninsula in Russia's Far East, carrying a shipment from the Arctic LNG 2 plant. It will be closely watched to see if it will continue sailing to an import terminal in the region, or will try to cloak its identity in a bid to protect end-users from U.S. retaliatory measures.

Washington put restrictions on the ship and Arctic LNG 2 as part of efforts to stem Russia's plans to expand gas exports and tap funds for its war in Ukraine. While Arctic LNG 2 started shipments in August via vessels with opaque ownership that were hiding their location, characteristics of a shadow fleet that are used to circumvent Western restrictions, none have yet docked at another country's port.

Executives from Novatek, the majority owner of Arctic LNG 2, have been traveling around the world to find buyers for the sanctioned LNG, and have pursued deals in China and with other Asian buyers. Novatek has denied that the company is involved in creating or managing the shadow fleet. The Asya Energy passed the Koryak floating LNG storage unit in Russia on Sept. 29, the ship data show, which means the LNG shipment likely won't be offloaded at the facility. Three of Arctic LNG 2's six cargoes so far have been delivered to Russian storage units, while the others remain on the water.

First LNG cargo leaves floating production facility in Gulf of Mexico

(Reuters; Sept. 30) - U.S. energy infrastructure company New Fortress Energy on Sept. 30 shipped the first export of liquefied natural gas from Mexico, following the inauguration of output at its floating facility off the country's Gulf Coast, the company said. New Fortress in early August completed preproduction at the first train of its Fast LNG project in Altamira and said a first partial cargo from the $1 billion facility would be delivered to its La Paz power plant in Mexico.

The Marshall Islands-flagged LNG tanker Energos Princess, which carried that cargo in late August from Mexico's Atlantic Coast to the Pacific Coast through the Panama Canal, is now setting sail with a new shipment bound for Europe, according to the company and LSEG vessel tracking data. The vessel will reach its destination around Oct. 18, the data showed.

The company faced delays since last year to complete infrastructure at the 1.4-million-tonnes-per-year project, which gets its feed gas by pipeline from the U.S. It’s Mexico’s first LNG plant, though a larger facility is under construction on the West Coast.

End of coal-fired power in U.K. could help U.S. LNG exporters

(Reuters columnist; Sept. 30) – U.S. exporters of liquefied natural gas are likely cheering the shutdown of the last coal-fired power plant in the U.K., as the move locks in long-term gas demand by the world's sixth-largest economy. By closing the 2,000-megawatt coal plant in Nottinghamshire, Britain has become the first G7 country to end coal-fired power production and make significant progress against energy transition and pollution reduction targets.

But the move also elevates gas to the U.K.'s most essential power fuel and means the country will likely need to boost imports going forward even as power firms continue to roll out renewables and other forms of clean power. That's good news for U.S. LNG exporters, which are the world's largest suppliers and are targeting growth in European markets which are quicker and cheaper to serve than more distant buyers in Asia.

Pipeline capacity restrictions from Norway, combined with a drive to improve energy security, has spurred a steady rise in U.K. LNG imports over the past decade. LNG imports allow power firms to increase the amount of gas in storage, which can act as a hedge against price and supply volatility. Between 2018 and 2023, annual U.K. LNG imports jumped by 171% from 254 billion cubic feet to 685 bcf, according to the Energy Institute. This climb in U.K. LNG demand came at a perfect time for U.S. LNG exporters, who have been on a drive to diversify LNG sales beyond Asia.

Germany loses some LNG cargoes to higher-priced Asia market

(Bloomberg; Oct. 1) - Some liquefied natural gas traders are opting to pay reservation and penalty fees for cargoes they initially intended to send to Germany but instead diverted to Asia in order to chase higher profits there, according to Germany's state-owned LNG import terminal operator. "There are two, three cargoes that have not come recently, where you can see traders saying, 'Oh, I'll pay the fee for the terminal, but I'd rather go to Asia,'" said Peter Röttgen, managing director of Deutsche Energy Terminal.

While Germany has ample fuel stockpiles as it heads into the heating season, the development shows how easily it can be left without cargoes when demand in other regions soars. BloombergNEF estimates that U.S. LNG exports for the coming months are currently more profitable to Asia than to Europe. Germany has tried to avoid cargo diversions by including a delivery obligation in some of its contracts, with a fine corresponding to around 1% of an LNG cargo's value, around $300,000.

The import terminal operator also charges a regasification fee in take-or-pay contracts — a reservation fee to manage capacity at the facility — even if cargoes are not delivered. Germany relies on a number of global suppliers — mostly from the U.S. — to meet its fuel needs after Russia curbed pipeline flows during the energy crisis. The recent cargo diversions highlight Germany's risky reliance on supplies that can be diverted to other markets if the supplier sees a profit opportunity.

Abu Dhabi National Oil Co. buys German chemicals company

(Reuters; Oct. 1) - Abu Dhabi's ADNOC has struck a deal to buy German chemicals maker Covestro for 14.7 billion euros ($16.3 billion), including debt, in the energy giant's biggest ever acquisition. The deal is one of the largest foreign takeovers by a Gulf state as countries in the region seek to reduce their dependence on oil amid the global switch to cleaner energy. The cash deal, which will also see ADNOC take on about 3 billion euros in debt, follows protracted negotiations and is a cornerstone of the energy giant's drive to grow in petrochemicals along with gas and renewable energy.

"We believe that the fundamentals of chemicals are strong," Khaled Salmeen, ADNOC head of downstream, marketing and trading, told Reuters, adding that he sees Covestro as a platform for growth. Covestro makes plastics and chemicals for the automotive, construction and engineering sectors. Covestro was created in 2015 after being spun off from Bayer. The Abu Dhabi National Oil Co. (ADNOC) has also been in talks with Austria's OMV to merge their petrochemical joint ventures Borealis and Borouge. ADNOC took a 24.9% stake in OMV in February.

Amid rising demand, Southeast Asia will miss renewable energy goal

(Bloomberg; Oct. 1) - Southeast Asia will miss its renewable energy production goal, highlighting the difficulties in weaning the region off fossil fuels like coal and liquefied natural gas, according to an intergovernmental think tank. Clean power will make up

19% of the regional total by the end of next year, the ASEAN Centre for Energy said in a report, compared with an Association of Southeast Asian Nations target of 23%. Southeast Asia may become a net importer of LNG by 2027, the report said.

Industrial and transport sectors in bigger economies like Indonesia and Vietnam are the main power consumers, but household electrification in smaller countries like Cambodia will also contribute to a more than doubling demand by 2050, said Zulfikar Yurnaidi, head of energy modeling and policy planning at the think tank. By 2025, the ASEAN group will have exceeded its renewable installation target. But limited storage capacity means the region will struggle to consistently dispatch energy into the grid, he said.

To cut emissions and strengthen energy security, governments must push multiple climate-friendly policies at once, the report said. That includes green financing, modernizing national grids, adopting emerging technologies like carbon capture and sustainable aviation fuel, and even updating education programs to prepare workers for green jobs. When it comes to phasing down fossil fuels, the energy transition in the region is a “delicate” balancing act, Yurnaidi said.

Exxon, Chevron, Conoco pay foreign governments more than to U.S.

(Reuters; Sept. 30) - The three largest U.S. energy exploration and production companies paid more than $42 billion to foreign governments last year, about eight times more than what they paid to the U.S. government, according to regulatory filings. The disclosures from ExxonMobil, Chevron and ConocoPhillips were required this year for the first time ever under a new Securities and Exchange Commission requirement.

Transparency advocates had been pushing for the rule for more than a decade to shine a light on Big Oil’s foreign financial transactions in its global quest for oil and to provide a sense of whether U.S. taxpayers are getting a fair share of the value of soaring U.S. production. The U.S. has become the world's largest oil and gas producer, thanks mainly to a boom in the massive Permian Basin in Texas and New Mexico.

About 90% of Exxon’s nearly $25 billion in global payments went to foreign governments in 2023, even though close to a quarter of Exxon’s global exploration and production earnings come from the U.S. The oil giant paid out $22.5 billion in taxes, royalties and other items overseas, with the United Arab Emirates ($7.4 billion), Indonesia ($4.6 billion) and Malaysia ($3.2 billion) topping the list. By contrast, Exxon made $2.3 billion in U.S.-based payments in 2023, including $1.2 billion to the IRS.

In Exxon's SEC report, the company said U.S. government payments totaled $6.6 billion last year when more than $4 billion in state and local taxes are included. Last year, most of Chevron's upstream profits were from international markets — at $17.4 billion compared to $4.1 billion in the U.S. — according to Chevron's 2023 annual report.