Oil and Gas News Briefs
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IEA report says growing oil production will create surplus next year

(The New York Times; Dec. 14) - Oil production is on the verge of exceeding demand this month, potentially easing pressure on prices, the International Energy Agency said Dec. 14. “Much needed relief for tight markets is on the way,” the Paris-based forecasting group said in its Monthly Oil Report. Oil prices have roughly doubled the past year, leading to higher prices at the pump for refined products like gasoline, which have been large contributors to soaring inflation in the U.S. and other countries.

The agency modestly trimmed its forecasts for demand for both 2021 and 2022 in response to the emergence of the Omicron variant, but said that the surge in new coronavirus cases would likely “temporarily slow” rather than “upend” the ongoing recovery in oil consumption. The group said the key factor in its improved supply outlook was rising production in the U.S., Canada and Brazil. Meanwhile, if OPEC+, which includes Saudi Arabia and Russia, continues to raise production, substantial surpluses of oil could accumulate next year, the monthly IEA report said.

The IEA said that Saudi Arabia and Russia — the leaders of OPEC+ — could set production records if the alliance continues its policy of unwinding production cuts implemented last year when the pandemic’s global economic impact at its worst. That steadily rising output may combine with slightly lower demand than previously expected to create a 1.7 million-barrel-a-day surplus in the first quarter of 2022.

Saudis advise traders not to bet on lower oil prices

(Bloomberg; Dec. 13) - Saudi Arabia’s energy minister warned traders against shorting oil prices and betting on a drop, saying OPEC+ could react quickly to any fall in prices. OPEC+, a 23-nation group led by Saudi Arabia and Russia, decided on Dec. 2 to raise daily oil output by 400,000 barrels in January. But it kept the meeting open and said it would be able to reconvene at short notice to change course, if needed.

“I call my friends every day, we chat and share notes,” Prince Abdulaziz bin Salman said in Riyadh, referring to fellow OPEC+ ministers. “So, the meeting is truly not suspended. It continues to be in session.” That strategy has helped bolster crude prices by making traders warier of taking short positions, according to analysts.

While oil prices soared about 45% this year with economies rebounding from the worst of the coronavirus pandemic, they slumped more than 10% on Nov. 26, the day after

Thanksgiving. That was mainly due to the discovery of the Omicron variant. Brent crude has since recovered some of its losses, trading around $75 barrel on Dec. 13. "Thanksgiving was a Thanksgiving day for the speculators," the minister said. "But let them dare to do another Thanksgiving. They will be ouching like hell."

Saudis continue to warn of underinvestment in oil and gas

(Bloomberg; Dec. 13) - Saudi Arabia's finance minister echoed warnings from the kingdom's oil officials that a slowdown in fossil fuel investment globally will cause spikes in energy prices. "We have very serious concerns that the world could run short of energy if we are not careful in managing the transition," Mohammed Al-Jadaan said. "In Saudi Arabia, we have an interest in maintaining demand. We are also worried that demand is increasing and there are no alternatives to fill that gap and we don't want oil prices to go too high."

Al-Jadaan's comments underscore the alarm among some major oil producers that Western governments and energy companies are pulling back from fossil fuels too quickly. The chief executive officer of state energy firm Saudi Aramco said last week the energy transition was "chaotic" and higher prices could trigger "social unrest." While companies such as Aramco were making rapid progress developing renewable forms of energy, he said, it would be decades before they could fully take over.

Energy Minister Abdulaziz bin Salman has argued this year's surge in natural gas, coal and oil prices demonstrates the need for more spending on production. These views differ from what most climate activists say is necessary to slow global warming. The International Energy Agency, which advises rich countries, has called for a stop to new investment in fossil fuels if the world is to neutralize carbon emissions by 2050.

Saudi Arabia expects budget surplus next year

(Reuters; Dec. 13) - Saudi Arabia said on Dec. 12 it expected to post its first budget surplus in nearly a decade next year, as it plans to restrict public spending despite a surge in oil prices that helped to refill state coffers emptied by the pandemic. After an expected fiscal deficit of 2.7% of gross domestic product this year, Riyadh estimates it will achieve a surplus of 90 billion riyals ($23.99 billion), or 2.5% of GDP, next year — its first surplus since it went into a deficit after oil prices crashed in 2014.

The world's biggest oil exporter plans to spend 955 billion riyals in next year's budget, a nearly 6% expenditure cut year on year. Revenues this year jumped by almost 10% to 930 billion riyals from the budgeted 849 billion, driven by higher crude prices and oil production hikes as global energy demand recovered. Next year, the kingdom expects revenues of 1.045 trillion riyals.

“We are totally now decoupling the government expenditure from the revenue,” Finance Minister Mohammed al-Jadaan said. “We are telling our people and the private sector or economy at large that you can plan with predictability. Budget ceilings are going to continue in a stable way regardless of how the oil price or revenues are going to happen.” The largest Arab economy suffered a deep recession last year as the coronavirus crisis hurt its burgeoning non-oil economic sectors, while record-low oil prices weighed on its finances, widening the 2020 budget deficit to 11.2% of GDP.

Saudi Arabia and Kuwait want to restore oil production in shared zone

(S&P Global Platts; Dec. 12) - Saudi Arabia and Kuwait are continuing work to increase oil production at the Neutral Zone fields they share, which could be a key source of additional barrels as OPEC+ spare capacity is expected to tighten significantly in 2022. "Coordination is currently underway between companies operating in the divided area and the submerged area adjacent to it," the countries said Dec. 10 in a joint statement.

Crude production in the Neutral Zone's onshore Wafra and offshore Khafji fields has suffered from technical challenges stemming from its lengthy shutdown, sources have told S&P Global Platts, with output ranging from below 200,000 barrels per day some months to as high as 270,000. Before their shutdown in the mid-2010s, the fields typically produced a combined 500,000 barrels per day.

As OPEC+ intends to phase out its production cuts by late 2022 and global oil demand rises in the pandemic recovery, the Neutral Zone may be counted on for incremental supply, though Platts Analytics forecasts that output will be capped at 250,000 barrels per day throughout 2022 due to the operational setbacks. The fields — in onshore and offshore territory shared by Saudi Arabia and Kuwait at their border — were offline for more than four years until 2020, due to a political dispute that was resolved with an agreement in December 2019. Production is divided evenly between the two countries.

Halliburton in talks to take over Exxon’s stake in Iraqi oil field

(Bloomberg; Dec. 12) - Halliburton and ExxonMobil are in talks over the oil company’s stake in the West Qurna-1 field in southern Iraq, the country’s oil minister said. Iraq supports a U.S. partner to take Exxon’s stake in the oil field, Oil Minister Ihsan Abdul Jabbar told reporters in Baghdad. If the talks with Halliburton fail, Iraq will step in to buy the stake, he added. He said a few days ago that Basra Oil Co. could also be a potential buyer. “Basra Oil wants to acquire Exxon stake, but to maintain the balance of partners and market, we support a U.S. partner,“ Abdul Jabbar said.

Halliburton surfaced as a potential buyer more than a month ago. Iraq is OPEC’s second-biggest producer. Exxon was among the first Western oil explorers allowed into

Iraq in 2010 as the Mideast nation sought to rebuild its oil industry following the fall of Saddam Hussein and years of subsequent fighting. Prior to then, Iraq's crude bounty had been off-limits to most foreigners for almost 40 years. Exxon soured on West Qurna amid tough contractual terms, OPEC supply constraints and ongoing political instability.

While Halliburton has long been one of Exxon's primary contractors at the field, taking an actual ownership stake would be a rarity for a company focused on mapping, fracking and rehabilitating assets owned by other companies. West Qurna-1 is a 20 billion-barrel deposit.

New York City Council bans natural gas heat in new buildings

(Reuters; Dec. 15) - The New York City Council voted Dec. 15 to ban natural gas in new buildings, following in the footsteps of dozens of other smaller U.S. cities seeking to shift from fossil fuels to cleaner energy. New buildings in the city of 8.8 million residents will have to use electricity for heat and cooking. In the near-term, the new law will do little to cut carbon emissions in the Big Apple, as numerous older buildings will not be affected, and the new structures would use electricity generated with fossil fuels anyway. Longer-term, however, the state plans to stop using fossil fuels to generate power.

The law will apply to new buildings under seven stories high at the end of 2023 and those over seven stories in 2027. Until now, the most populated U.S. city that has banned natural gas in new buildings is San Jose, California, with about 1 million residents. In 2020, U.S. carbon emissions from fossil fuels fell to their lowest since 1983, but were expected to rise about 7% in 2021 because power providers were burning more coal to generate electricity due to a sharp increase in natural gas costs.

New York's move could mean a higher price tag for buildings using electricity for heat than those relying on natural gas. This winter, the average household in the U.S. Northeast is expected to pay $1,538 to heat their home with electricity, compared with natural gas at about $865. "Using gas to produce power and then subsequently heat buildings is less efficient than using gas for heating directly," analysts at energy consultancy EBW Analytics Group said.

European governments spend billions to help with high energy bills

(Bloomberg; Dec. 15) - Europe's energy crunch is straining budgets as governments boost spending to help consumers and companies weather a spike in heating and electricity costs that risks extending beyond the winter. Record-high power prices have quickly become one of the continent's biggest political challenges, with European Union leaders, who have already spent big on pandemic stimulus, set to discuss the issue again at a summit on Dec. 16.

Of the bloc's 27 members, 20 have acted to soften the blow for the most vulnerable consumers and households — most effectively via tax cuts —according to the European Commission. Relief including income support, vouchers and other time-limited tools will exceed 3.4 billion euros ($3.8 billion) and help lower energy bills for about 41 million customers and 7.6 million small companies, it said in a document sent to governments.

Italy will set aside an extra 1.8 billion euros to protect consumers, people familiar with the matter said. Total enacted and planned actions by EU nations will reach tens of billions of euros, the Bruegel think-tank in Brussels estimates. "These are sizable measures," said Simone Tagliapietra, a senior fellow at Bruegel. "Such numbers suggest that the public-finance sustainability of these measures can't last long, and that a protracted energy-price crisis will dent governments' capacity to shield consumers."

EU may allow member nations to jointly buy and store natural gas

(Reuters; Dec. 13) - The European Union is expected to propose a system this week to allow countries to jointly buy strategic stockpiles of natural gas, a measure drawn up in response to soaring energy prices. Benchmark wholesale European gas prices rose by more than 500% this year, hitting record highs in October as tight supplies coincided with strong demand in economies recovering from the COVID-19 pandemic. While prices have retreated from their peak, they remain high.

Most European governments responded with emergency measures, such as subsidies or tax breaks, to protect households from higher energy bills. Countries including Spain and France have also called for the EU to allow them to jointly buy gas and form strategic reserves to bolster their supplies. The European Commission will propose a reform of EU market rules this week. EU energy policy chief Kadri Simson said it will include a framework to enable joint procurement of strategic gas stocks. A commission document, seen by Reuters, said any joint buying among countries would be voluntary.

The EU has the capacity to store more than 4.1 trillion cubic feet of gas, roughly a fifth of its annual needs, according to Gas Infrastructure Europe. Storage sites are typically salt caverns or depleted gas fields. Storage is needed to balance fluctuations in daily and seasonal demand. Storage can ensure gas supply in times of disruptions, major outages at infrastructure, or high demand in cold spells. Storage capacity in the EU is unevenly distributed with large facilities in France, Germany, Italy and the Netherlands, but pipelines mean member states can use gas stored in neighboring countries.

Spot-market LNG prices in Europe move past Asia

(Bloomberg; Dec. 14) - Europe has become a premium market for liquefied natural gas, increasing the likelihood of a supply boost to help get the continent through its winter energy crunch. In a rare move during peak winter demand, spot liquefied natural gas prices in north Asia slipped below rates on the Dutch Title Transfer Facility hub, Europe's biggest trading benchmark.

The Japan-Korea-Marker, the spot Asian LNG benchmark, was assessed at $39.021 per million Btu on Dec. 14, according to S&P Global Platts. The front-month contract on Europe's benchmark hit a record high at $42.44. European gas prices are up almost 600% from the start of the year, as inventories have remained slow to build, while Russia has reduced pipeline exports into the region. Geopolitical tensions involving Moscow and its new Nord Stream 2 pipeline have whipsawed the fuel in recent weeks.

By contrast, Asian buyers seem better prepared for the winter, having started their LNG purchasing campaign earlier in the year, while mild weather in parts of Asia and the approaching Lunar New Year holiday are curbing gas demand in the region. "European and Asia markets have somewhat dislocated in recent weeks," said Luke Cottell, an analyst at S&P Global Platts. The European gas premium means that that uncommitted Atlantic Basin LNG cargoes will look to deliver into hard-pressed Europe over the first quarter, "potentially offering some relief to stressed European balances," Cottell added.

Mild start to winter has helped Asia, Europe refill coal, gas stockpiles

(Bloomberg; Dec. 13) - Weeks of anxiety around a power squeeze in Asia this winter have been offset by mild weather and the restocking of coal and natural gas inventories, providing some respite ahead of the colder months. Asia had been grappling with coal and gas shortages since the previous winter, but the crisis became more acute globally around October. That led to a raft of forecasts for additional oil demand on the grounds more crude and oil products would be used for power generation. The squeeze also led to surging coal and gas prices, making alternatives such as fuel oil more attractive.

China's coal stockpiles have swelled to a two-year high, while Japan's utilities are currently sitting on the highest natural gas inventories for this time of the year since at least 2016. In Europe, cold weather has led to some oil-powered units being utilized, but overall use across six key economies has recently been low.

It's early in the winter and Asia and northwest Europe have yet to experience the coldest months — typically January and February — which could lead to spiking energy demand and quickly draining inventories. But gas-to-oil switching has been "underwhelming" so far, Energy Aspects said in a report at the end of last month.

China loosening restrictions on energy consumption

(Reuters; Dec. 13) - China will loosen blanket restrictions on energy consumption in order to ensure that environmental and climate targets do not erode economic growth, according to a policy document issued Dec. 10 after an agenda-setting meeting of the country's top leaders. China will also move toward capping carbon dioxide emissions from overall energy use to meet its environmental goals, rather than setting energy consumption targets, said a statement after the Central Economic Work Conference.

China, the world's biggest coal consumer and greenhouse gas emitter, has set rigorous national and regional targets for total energy consumption use and energy intensity — the amount of energy consumed per unit of economic growth. But some high energy-consuming provinces have struggled to meet their targets, and restrictions imposed last year caused widespread power outages, cutting off supplies to industries and residents.

To help guarantee energy supplies, newly added renewable capacity and "feedstock energy" would now be exempt from any energy consumption cap, the conference statement said. The document did not specify what would be included in "feedstock energy," but analysts from CITIC Futures said the move could signal a relaxation of restrictions on heavy industries like coal-chemicals and petrochemicals. The new approach reflected a "rethinking" in China's campaign to curb carbon emissions over the past few months, Nomura economists Ting Lu and Jing Wang said in a note.

China produced record amount of coal in November

(Reuters; Dec. 15) - China's coal output hit a record high in November as Beijing continued to urge miners to ramp up production to ensure sufficient energy supplies for the winter heating season. China, the world's biggest coal miner and consumer, produced 370.84 million tonnes of the dirty fossil fuel last month, data from the National Bureau of Statistics showed on Dec. 15.

That compares to a previous record of 357.09 million tonnes set in October and was up 4.6% from the same period last year. For the first 11 months of 2021, output reached 3.67 billion tonnes, up 4.2% on last year. The central government has repeatedly stressed the need to ensure supplies of energy, including coal and natural gas, for heating and power generation over the winter.

Coal miners have been ordered by authorities since October to run at maximum capacity as Beijing strived to tame red-hot coal prices and prevent a recurrence of September's nationwide power crunch that disrupted industrial operations and added to factory gate inflation. Coal prices, however, have been boosted by concerns that recent crackdowns on illegal mining in China's top coal producing region could limit the country's ability to increase its output.

Sinopec adds to reserves at shale gas field

(Reuters; Dec. 14) - China Petroleum and Chemical Corp., known as Sinopec, said on Dec. 14 it has added 3.7 trillion cubic feet of newly proven natural gas reserves at the Baima Block in Fuling shale gas field in China's southwestern Sichuan basin. The new reserve, certified by the Ministry of Natural Resources, drives the field's total proven reserve to nearly almost 32 tcf, accounting for 34% of China's total proven shale gas reserves, Sinopec said in a statement. The Fuling shale gas field has launched 643 wells, churning out almost 1.5 tcf over its life, so far. Fuling is China's first commercially developed large-scale shale gas field.

Taiwan will vote on new LNG import terminal

(Reuters; Dec. 13) - Taiwanese voters will decide Dec. 18 on a new LNG terminal considered key for the chipmaking-powerhouse nation to secure its energy supply, though the project is facing attacks from conservationists and from an opposition party eager to wrong-foot the government. The environmentalist-favored referendum, which seeks to relocate the project away from an ancient algal reef and would likely delay it for years, has a reasonable chance of passing, some polls have shown.

At stake for the government is not just averting future power cuts, like those in May during a drought and heat wave, but an environmental policy that moves away from polluting coal and nuclear power, toward greener and renewable alternatives. "If we can't build this third LNG terminal, we will really have an electricity supply problem," Economy Minister Wang Mei-hua told reporters last month.

The project would make the Datan Power Plant the island's biggest, while advancing the government's goal of boosting the use of LNG to produce half of Taiwan's power by 2025. It would also help to supply the country's semiconductor plants, thrust into the news by a global chip shortage that has crimped supplies of cars and electronics. Chip plants require vast amounts of energy. In 2019, Taiwan Semiconductor Manufacturing's electricity consumption was about 5% of Taiwan's total, according to a Bernstein report.

FERC gives approval for continued start-up of LNG plant in Louisiana

(Reuters; Dec. 13) - U.S. energy regulators on Dec. 13 gave liquefied natural gas project developer Venture Global LNG permission to start commissioning liquefaction systems at another production unit of the company's Calcasieu Pass LNG export plant in Louisiana. The Federal Energy Regulatory Commission approved Venture Global's request to commission the plant's Block 2 liquefaction modules. FERC approved commissioning of the first block in early November.

The plant is expected to start producing LNG in test mode later this year before entering commercial service in early 2022. Venture Global is installing 18 modular liquefaction trains configured in nine blocks at Calcasieu to produce about 10 million tonnes per year of LNG, equivalent to about 1.5 billion cubic feet per day of natural gas. Analysts estimate the plant cost about $4.5 billion; the company has not confirmed the number.

In total, Venture Global has about 70 million tonnes of LNG export capacity under construction or development in Louisiana, including Calcasieu Pass (10 million tonnes, under construction), Plaquemines (20 million tonnes, with production expected in 2024), and two more in the proposal stage. Venture Global has long-term agreements to sell LNG to companies around the world, including China Petroleum and Chemical Corp. (Sinopec), Shell, BP, Edison, Galp Energia, Repsol and Polish Oil and Gas Co.

Egypt's LNG plants at full capacity for first time in more than 10 years

(Natural Gas Intelligence; Dec. 14) - Egypt is moving forward with its plans to become a regional natural gas hub as its two LNG plants are running at full capacity for the first time in over a decade. The Eni-operated Damietta plant, at 5 million tonnes per year output capacity, and the Shell-operated Egyptian LNG plant, at 3.6 million tonnes, recently reached full capacity, taking advantage of high global LNG prices, Petroleum Minister Tarek El Molla said at the East Mediterranean Gas Forum last month.

As Egypt meets its domestic gas needs, the country plans to increase LNG exports, boosted by the discovery of the huge offshore Zohr field, the country's largest gas discovery and the largest discovery in the Mediterranean Sea. At the end of last year, Egypt held 75.5 trillion cubic feet of proven gas reserves, according to BP's 2021 Statistical Review of World Energy.

"There is definitely enough offshore gas available for Egypt to have a good future as a regional LNG hub," said Cyril Widdershoven, founder of the Dutch energy and commodities consultancy Verocy. "And both Israel and Cyprus have agreed to deliver their surplus gas to Egypt's two liquefaction facilities for export," he said. Beginning in 2015, Egypt imported LNG to meet rising domestic gas demand until domestic production rebounded to meet local needs and resume exports. Egypt exported 4.3 million tonnes of LNG in the first nine months of this year, 10 times the volume of 2020.

Erosion causes Ecuador to shut down oil lines, declare force majeure

(Bloomberg; Dec. 13) - Ecuador declared force majeure on all oil contracts, including exports and imports, as the threat of soil erosion forced the shutdown of the country's two pipelines that transport crude across the Andes. The clause, which is invoked to remove liability from failing to honor contracts in the event of disasters, went into effect on Dec. 12, according to a statement on the website of state-owned oil producer Petroecuador. The country's Trans-Ecuadorian Pipeline System and Heavy Crude Pipeline, as well as the Shushufindi-Quito petroleum products pipeline, had to be shut.

Ecuador's third force majeure on oil contracts since the two pipelines snapped last year deals a blow to President Guillermo Lasso, who aims to overcome years of stagnant production in the former OPEC member and more than double oil output to near 1 million barrels a day. River erosion near pipeline infrastructure has accelerated since a nearby hydroelectric power plant was inaugurated in late 2016. A landslide in April 2020 severed both pipelines, triggering spills and a temporary output cut of almost 60%.

International agencies, including the U.S. Army Corps of Engineers, are working to help find a solution to slow the damage from the aggressive erosion. Petroecuador has begun to shut down production in several fields because the oil can't be transported and it has limited storage space. Emergency bypasses are under construction to allow oil pumping to resume. The country's crude output as of Dec. 9 was 482,000 barrels a day, according to Ecuador's oil and mining regulator.