

Oil and Gas News Briefs

Compiled by Larry Persily

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Global oil demand on track to overtake pre-COVID level in 2022

(S&P Global Platts; Dec. 23) - Even as cases of COVID's Omicron variant continue to spiral around world, most market watchers remain sanguine that 2022 will be the year that global oil demand finally catches up and overtakes pre-COVID levels. The consensus appears to be that outbreak of the highly transmissible mutation may dent the pace of oil demand recovery but won't derail its trajectory.

Underlying oil demand fundamentals remain strong going into 2022. Pent-up demand is already stretching supply lines to the limit, while vaccination booster jabs and previous infections lower the chance of serious harm from the virus. Despite the recent Omicron headwinds, both the International Energy Agency and OPEC expect oil demand to exceed the 100 million-barrel-per-day mark in the summer of 2022, thus returning to the level before the COVID-induced slump in the first half of 2020.

Damien Courvalin, head of energy research at Goldman Sachs, sees Omicron as a short-term risk to prices, with 2022/2023 remaining a "structural bull market" supported by the fact the global economy has become more resilient to the crisis. "We've already had record-high demand before this newest variant, and you're adding higher jet (fuel) demand and the global economy is still growing," Courvalin said on Dec 17. "We will average a new record high in demand in 2022, and again in 2023." Ever bullish Goldman Sachs forecasts Brent to stay around \$85 per barrel in 2022 and 2023.

Russia expects crude production to reach pre-pandemic level by May

(S&P Global Platts; Dec. 24) - Russia's production of crude and condensate in 2022 is expected to rise by 5% on the year to 11.045 million barrels per day, Deputy Prime Minister Alexander Novak said Dec. 24. The country's oil production is set to reach its pre-pandemic level by May next year, he previously said, as the OPEC+ alliance continues to increase output monthly to meet rising demand.

By the end of 2021, Russia's production of crude and condensate will have increased by 2.1% on the year to average 10.52 million barrels per day. The Russian government does not provide breakdowns of crude and condensate output, but condensate usually accounts for about 8% of production. Novak expects global oil demand to fully recover to its pre-pandemic level by the end of 2022. "Demand will continue to recover as it is growing in the world even though the pandemic has not gone anywhere and still comes in waves, but countries have learned to live with it," he said.

Oil prices will likely remain at the same "stable" level in 2022, Novak said, as the market remains balanced and there were currently no risks to substantially impact the price. "We see the current level of \$75 as quite stable. Plus or minus 10%, such parameters may remain the next year. ... I do not see what risks can lead to serious deviations."

Brent ends week at \$76; OPEC+ meets Jan. 4 to set February output

(Reuters; Dec. 24) - Brent crude futures snapped a three-day rally on Dec. 24 in light trading before the Christmas holidays, but the benchmark ended the week higher, with the market focusing on next steps by OPEC+ and the impact of the Omicron variant. Brent crude futures settled 71 cents lower at \$76.14 a barrel. Oil prices have recovered this week as fears over the impact of the highly infectious Omicron variant on the global economy receded, with early data suggesting it causes a milder level of illness.

"The Omicron-is-mild rally could well continue into January now, but reality will bite in February I believe, as the end of the Fed taper moves into sight," OANDA analyst Jeffrey Halley said. The U.S. Federal Reserve said last week it would end its pandemic-era bond purchases in March, paving the way for three interest rate increases that most Fed policymakers now believe will be needed next year.

The Organization of the Petroleum Exporting Countries and allies including Russia, known as OPEC+, will meet on Jan. 4 to decide whether to go ahead with a 400,000 barrels-per-day production increase in February. Russia believes oil prices are unlikely to change significantly next year, with demand recovering to pre-pandemic levels by the end of 2022, Deputy Prime Minister Alexander Novak said on Dec. 24.

Activist investors increasingly target oil companies

(Financial Times; London; Dec. 23) - For decades, campaigners have picketed oil and gas offices, blockaded refineries and disrupted operations. Now the sector is facing a new kind of activism: from its own shareholders. Over the past year, activist investors have targeted oil supermajors ExxonMobil and Shell, commodity giant Glencore and Scottish energy group SSE. Other institutional and retail investors have also pushed for change, voting in higher numbers than ever before for climate-related resolutions.

The investors vary in profile and objectives, but have all tied their campaigns to what they say has been management's failure to plan appropriately for the energy transition. Third Point, the U.S. hedge fund calling for Shell's break-up, said in October that the supermajor had "too many competing stakeholders" resulting in "an incoherent, conflicting set of strategies attempting to appease multiple interests but satisfying none."

The arrival of climate-inspired activist investors in the sector at this moment of global energy upheaval is “no surprise,” said Nick Stansbury, head of climate solutions at Legal and General Investment Management, the U.K.’s largest asset manager. “This is an industry which has both allocated capital badly and generated poor shareholder returns for a very long period of time,” Stansbury said.

“From a long-term active owner perspective, the activists may or may not be good news,” said Natasha Landell-Mills, head of stewardship at Sarasin & Partners, a U.K. asset manager. “It’s all about their motivation.”

Qatar moves to sign up LNG customers as it expands production

(Natural Gas Intelligence; Dec. 23) - State-owned Qatar Energy is moving aggressively to secure long-term contracts to supply liquefied natural gas to buyers throughout Asia as it plows ahead with a plan to significantly boost its output and preserve its leading role in a growing global market. Over the past year, Qatar has signed at least 10 long-term sales and purchase agreements, committing to supply 17.8 million tonnes per year of LNG for 10 to 20 years. Five contracts were signed with China, while five contracts were inked with Bangladesh, Pakistan, Taiwan, Singapore and South Korea.

“There has been a lot of conjecture about Qatari strategy. ... They have a lot of product coming on in the next few years and want to nail down as much long-term sales as they can in an era of decarbonization when the net-zero Organization for Economic Cooperation and Development countries may not be willing or able to commit,” said senior research fellow Jonathan Stern of the U.K.’s Oxford Institute for Energy Studies.

“In addition, they want to get in ahead of new U.S., and maybe Australian, Russian and East African projects, as high prices are emboldening investors to go to final investment decisions,” Stern said. About two-thirds of Qatar’s LNG exports are delivered throughout Asia. Australia surpassed Qatar last year for the first time as the world’s leading exporter. Qatar, with the lowest LNG production costs in the world, is undertaking a \$30 billion expansion project to boost its output capacity by more than 40% by early 2027.

Big jump in U.S. LNG headed to Europe

(Bloomberg; Dec. 23) - The number of tankers crossing the Atlantic with U.S. liquefied natural gas jumped 50% in just 24 hours as Europe’s energy crisis deepens. They are now at 15, up from 10 on Dec. 22, shipping data compiled by Bloomberg show. Plus, there are an additional 11 U.S. LNG cargoes with undeclared destinations whose paths suggest they are headed for Europe, including one that was in the Indian Ocean in mid-November when it was rerouted toward Europe last week.

Europe's energy crises has intensified in recent days after halted nuclear reactors in France and low wind power output in Germany worsened a shortage that's forcing countries to burn more coal and even oil to keep the lights on and homes warm. Of the 15 LNG tankers that have declared their ports, four each are heading to the U.K., France and Spain, with the Netherlands, Gibraltar and Malta getting one each.

Shell's floating LNG production facility could be closed for months

(Offshore Energy; Dec. 24) – Regulators have ordered Shell to shut down its Prelude floating natural gas liquefaction facility offshore Western Australia, following a Dec. 2 fire. Shell had temporarily suspended production at Prelude, but Australian safety regulator NOPSEMA has ordered the company to keep the plant shut down until all its safety systems are fully operational. The order most likely will keep the facility closed down for some months.

The floating LNG factory has the capacity to produce 3.6 million tonnes per year, in addition to condensate and liquid petroleum gas (mostly propane). The shutdown comes after the 1,600-foot-long Prelude had achieved steady production after a string of problems in its first few years. The plant was built in South Korea and towed to Australia in mid-2017, 18 months behind schedule. It did not produce LNG for another two years while problems with the complex facility were fixed.

Concluding that Shell has not shown an ability to manage such a complex asset, NOPSEMA ordered that Prelude must be shut down until the operator can convince regulators "that the facility can safely recover essential power and associated essential services following a loss of power, and that the safety systems and essential support systems operate to maintain safety of personnel."

Uzbekistan launches first gas-to-liquids plant

(Reuters; Dec. 25) - Uzbekistan launched its first gas-to-liquids plant on Dec. 25, a \$3.6 billion project to extract value from domestically produced gas and reduce its dependency on imports of oil products. The UzGTL plant in the southeastern Qashqadaryo province will produce 1.5 million tonnes a year (about 10 million barrels) of synthetic liquid fuels, such as kerosene, diesel, liquefied petroleum gas and naphtha from natural gas, production director Kidirbay Kaypnazarov said.

Speaking at the launch ceremony, Uzbek President Shavkat Mirziyoyev said the plant would refine gas worth \$500 million into products valued at \$1.5 billion from the first quarter of 2022. It will reach full capacity by the end of next year. Uzbekistan currently imports oil and gas products worth \$1 billion a year. The plant will consume about 125

billion cubic feet of gas per year from the nearby Shurtan gas field and processing plant, where the authorities on Dec. 25 launched a project to triple output.

Marcel Krause, UzGTL technical director, said South Africa's Sasol, involved in the construction of the first gas-to-liquids plant in Qatar, was UzGTL's technology partner, alongside U.S. energy major Chevron.

Japan, China work together on renewable alternative to natural gas

(Nikkei Asia; Dec. 26) - Japan and China will work together to develop a renewable alternative to natural gas for industrial and household use. Japanese engineering company Hitachi Zosen and China's Yulin Chemical will oversee the trial project in an industrial park in Shaanxi Province, aiming to start operations by 2025. Hitachi Zosen will build a plant that produces methane — the main component of so-called city gas — from hydrogen and carbon dioxide, which will be supplied from local factories by Yulin.

The project is part of an initiative set for approval Dec. 27 at a bilateral forum on energy conservation and the environment, backed by Japan's Ministry of Economy, Trade and Industry and China's National Development and Reform Commission. The plant, capable of producing almost 18,000 cubic feet of synthetic methane an hour, will be among the largest of its kind. Plans call for eventually raising output to almost 180,000 cubic feet per hour, or 4.2 million cubic feet per day.

Global shipping industry looks for cleaner fuels

(The Korea Times; Dec. 20) - A growing number of shipbuilders are turning to eco-friendly vessels as the shipping industry will face strengthened requirements on carbon emissions in the coming years. Shipping accounts for about 3% of the world's annual carbon emissions. The International Maritime Organization has ordered shipping companies to cut their greenhouse gas emissions by at least 30% by 2025 compared to 2008. Emission levels need to be cut by 70% by 2050.

Currently, the most widespread alternative fuel is liquefied natural gas. Korea's three major shipbuilders — Korea Shipbuilding & Offshore Engineering, Daewoo Shipbuilding & Marine Engineering and Samsung Heavy Industries — have focused on building LNG-fueled vessels. Out of total newbuild orders received by the three this year, 60% were for ships fueled by LNG and liquefied petroleum gas.

Methanol is another alternative fuel. Korea Shipbuilding received a 1.65 trillion won (\$1.39 billion) order in August to build eight methanol-powered containerships for Denmark's Moller-Maersk. The vessels will be the world's first large-size ships powered by methanol. Other alternative fuels include ammonia and hydrogen, which do not emit

greenhouse gases when burned. Hyundai Mipo Dockyard, Samsung and Daewoo have received approvals for ammonia-powered ships from the British quality assurance firm, Lloyd's Register. They plan to commercialize the tankers as early as 2024.

Sempra sells 10% stake in LNG assets to Abu Dhabi investment fund

(Natural Gas Intelligence; Dec. 22) – San Diego-based Sempra has agreed to sell a 10% non-controlling interest in Sempra Infrastructure Partners, which holds its liquefied natural gas assets in North America, to the Abu Dhabi Investment Authority for \$1.785 billion. The deal is expected to close sometime next summer. Sempra plans to use the cash to repurchase \$500 million of its stock and for capital expenditures.

The Abu Dhabi transaction implies an enterprise value for Sempra Infrastructure of \$26.5 billion, including asset-related debt of \$8.6 billion. Sempra completed the sale of a 20% non-controlling interest in Sempra Infrastructure to an affiliate of KKR in October. Once the Abu Dhabi deal closes, Sempra would own a 70% controlling stake in Sempra Infrastructure, which was created with a “view toward capturing new opportunities that support the global energy transition,” Sempra said.

The subsidiary was formed earlier this year to unify Sempra’s U.S. and Mexican LNG assets, including Sempra LNG and Infraestructura Energética Nova. Sempra Infrastructure’s portfolio includes the Energia Costa Azul LNG export project under development in Mexico’s Baja California and the Cameron LNG export terminal in Louisiana, which has been operating since spring 2019.

Latest LNG-fueled ship on its way to BC Ferries

(Victoria News; BC; Dec. 23) - BC Ferries’ newest liquified natural gas-fueled vessel has left Europe and begun an almost two-month journey to Victoria, British Columbia. The Salish Heron left a Polish dock on Dec. 22 and is expected to arrive in February, after a scheduled 55-day voyage across the Atlantic Ocean, through the Panama Canal and up North America’s Pacific Coast. The vessel was built in a Polish shipyard. After arriving, the ferry will make a final stop in Richmond for painting, including artwork designed by Coast Salish artist Maynard Johnny Jr. to be applied on the exterior.

The design was inspired by the heron’s tendency to lead people to fishing holes through its prominence on Victoria Island. “Any form of art opens a door to ease people’s tensions and allow for us to express our feelings and concerns,” Johnny Jr. said at an unveiling of the design last month. The ferry will carry up to 138 vehicles and 600 passengers and crew on trips between Victoria and nearby islands come spring. It’s identical to three other LNG-fueled ships that came into service in 2017.

BC Ferries touted how the Salish Heron will run cleaner than diesel-powered vessels, how its hull design creates a small wake and the electric propulsion will help make for quieter rides. In other news, BC Ferries' sixth hybrid-electric vessel, temporarily known as Island 6, arrived in Victoria on Dec. 21 after a 72-day trip from a Romanian shipyard. The six battery-equipped Island-class ferries will be dedicated to Vancouver Island routes and will operate fully electric, once onshore charging infrastructure is in place.

Chinese, U.K. partners work on wind farm to power North Sea oil field

(Offshore Energy; Dec. 24) – A subsidiary of China National Offshore Oil Corp. and a U.K. developer of offshore wind projects, Flotation Energy, are working on a project to electrify a North Sea development with power from a floating offshore wind farm, enabling the reduction of carbon emissions in line with net-zero goals. CNOOC Petroleum Europe is operator of the Buzzard field in the North Sea, one of the largest oil and gas developments on the U.K. continental shelf.

Together with Flotation Energy, CNOOC Petroleum has formed Green Volt Offshore Windfarm, which will be in charge of developing the Green Volt wind farm of up to 30 turbines to help decarbonize the oil and gas industry through the complete electrification of the Buzzard field with the support of a fully connected U.K. grid connection. With a capacity of up to 480 megawatts, the wind farm is expected to be operational by 2026.

Currently, the Buzzard platform uses its own power generation system for oil and gas processing. The plan is to develop the wind farm on a brownfield site previously hosting the Ettrick and Blackbird oil fields, 50 miles east of the coast. The two fields were operated by Nexen — a CNOOC subsidiary — and their cessation of production was approved in 2016 ahead of decommissioning plans. With a recent expansion, Buzzard is expected in 2022 to reach 80,000 barrels per day of oil equivalent.