Oil and Gas News Briefs
Compiled by Larry Persily
June 7, 2021

Russian oil companies expect OPEC+ will boost production

(Bloomberg; June 3) - The bosses of two of Russia's main oil companies expect OPEC+ to raise output further this year as the market heats up, perhaps as soon as its July meeting. The group, of which Russia is the joint leader with Saudi Arabia, is currently restoring about 2 million barrels a day of idle production in monthly installments that end in July. The alliance may need to keep ramping up output in August or September to feed the demand recovery, said Gazprom Neft CEO Alexander Dyukov.

"It's important not to allow the market to overheat," Dyukov said at the St. Petersburg International Economic Forum on June 3. "An oil price in a range of $65 to $70 a barrel isn't stable in the long term." The Organization of the Petroleum Exporting Countries and its allies gave few hints about output beyond July when they met on June 1. Russian Deputy Prime Minister Alexander Novak has been a consistent advocate for more production, but his Saudi counterpart has favored keeping a tighter rein on supply.

"We'll have to see demand before you see supply," Saudi Energy Minister Prince Abdulaziz bin Salman said. However, with Brent crude already above $70 a barrel, it's necessary to raise output as consumption grows, said Vagit Alekperov, CEO of Lukoil, Russia's second-largest producer. Russia's Novak said he sees global oil consumption recovering to pre-pandemic levels next year. Alekperov would like to see OPEC+ raise output by at least 500,000 barrels a day each quarter to satisfy the additional demand.

Petrostates warn against rapid move away from oil and gas

(Bloomberg; June 3) - The world's largest petrostates have rejected calls for a rapid shift away from oil and gas, warning that starving the industry of investment would harm the economy. If the world were to follow the International Energy Agency's controversial road map, which said investment in new fields would have to stop immediately to achieve net-zero carbon emissions by 2050, "the price for oil will go to, what, $200? Gas prices will skyrocket," said Russian Deputy Prime Minister Alexander Novak.

His warnings were echoed by the energy ministers of Qatar and Saudi Arabia, who said they will keep expanding their oil and gas facilities and warned others against the consequences of starving the industry of cash. The "euphoria" around the transition to clean energy is "dangerous," Qatar's Energy Minister Saad Sherida Al Kaabi said at the

St. Petersburg International Economic Forum in Russia on June 3. “When you deprive the business from additional investments, you have big spikes” in prices.

It’s no surprise that top officials from the world’s largest fossil-fuel exporters want to see the industry continue for decades to come. Their comments are illustrative of the vast gulf between the world’s current carbon-based energy system and the changes required to prevent damaging climate change. Saudi Energy Minister Prince Abdulaziz bin Salman has already dismissed the IEA road map, which would limit the average increase in global temperatures, calling it a “la-la-land” scenario.

OPEC+ expects global oil stockpiles will continue to decline

(Reuters; June 7) - OPEC and its allies expect global oil inventories to fall further in the coming months, OPEC's secretary general said on June 7, suggesting that efforts by the producer nations to support the market are succeeding. Oil stockpiles in developed nations fell by 6.9 million barrels in April, Mohammad Barkindo said in a virtual appearance at the Nigeria International Petroleum Summit, 160 million barrels lower than the same time one year ago, making the figure public for the first time.

"We expect to see further drawdowns in the months ahead," he said. The Organization of the Petroleum Exporting Countries and allies — known as OPEC+ — decided in April to return 2.1 million barrels per day to the market from May through July. The producers stuck to that decision at a meeting last week, sparking a rise in oil prices. "The market has continued to react positively to the decisions we took, including the upward adjustments of production levels beginning in May this year," Barkindo said.

While he noted that vaccine rollouts and the "massive fiscal stimulus" aided an upbeat outlook, he said uneven global vaccine availability, high inflation, and continued COVID-19 outbreaks pose continued risks to oil demand. OPEC+ cut its output by a record 9.7 million barrels per day last year as demand collapsed when the COVID-19 pandemic first struck. As of July, the curbs still in place will stand at 5.8 million barrels per day.

IEA says oil and gas industry not investing enough in clean energy

(Bloomberg; June 2) - The oil and gas industry is set to boost its investments in clean energy this year, but that still won’t be enough to put the world on a path to limit a dangerous rise in global temperatures. That’s the view of the International Energy Agency, which expects traditional fossil-fuel companies to increase climate-friendly investments to at least 4% of their capital spending, up from just 1% last year, according to a report June 2.

The figure underscores both the rapid pace that investment is tilting toward low-carbon sources as well as the scale of the challenge. The IEA said earlier this year that the world needs to stop development of new oil and gas fields as well as coal mines to limit global temperature increases. "Much greater resources have to be mobilized and directed to clean-energy technologies to put the world on track to reach net-zero emissions by 2050," said Fatih Birol, the IEA's executive director.

Overall, the IEA expects global investment in energy to reach $1.9 trillion in 2021, a nearly 10% gain that will almost make up for the decline caused by pandemic last year. Spending on power generation will increase 5% this year to a record of more than $820 billion. Renewables including solar and wind will provide about 70% of new capacity. Despite pressure to cut emissions, the IEA expects less than 45% of overall investment in the sector to go toward clean energy. That includes spending on renewables, transmission, nuclear power, batteries, carbon capture, and energy efficiency.

Report says Norway could have earned more in green stocks

(Reuters; June 2) - Norway's sovereign wealth fund missed out on $125.8 billion in potential returns over a three-year period by investing in oil and gas rather than green stocks, according to research from Global SWF, an industry data specialist. The results showed oil and gas equities held by the $1.3 trillion sovereign fund, the world's largest, lost 11% over the three years to Dec. 31, 2020, while its green stock holdings earned a return of 316%.

That equates to an opportunity cost of $125.8 billion, according to the analysis by Global SWF and non-governmental organization Framtiden (Future in Our Hands) of the 198 so-called black stocks and 91 green stocks the wealth fund held as of Dec. 31, 2020. Norges Bank Investment Management's balance sheet would be 10% larger today if the fund had fully divested from oil and gas stocks and reinvested the money into renewables in November 2017, the research found.

The fund in 2017 proposed dropping oil and gas companies from its benchmark index, an announcement that sent energy stocks worldwide lower at the time. Although it cited a reduction in the exposure of the country's wealth to the risk of a permanent drop in oil prices, environmental campaigners seized on it as example of an investor turning away from oil. The proposal would have affected some 6% of the fund's equity holdings. It was rejected by the Norwegian finance ministry, which instead put forward a plan to remove only dedicated oil and gas explorers and producers from the benchmark index.

[Iran will have to compete to regain customers for its condensate]

(Bloomberg; June 2) - The likely return of Iranian oil is setting up what promises to be an aggressive battle to supply a corner of the coveted Asian market. Iran is a major producer of condensates — ultra-light oil that's a by-product from natural gas fields — and South Korea is Asia's biggest operator of splitters designed to turn it into petrochemicals used to make plastics.

SK Innovation, Hanwha Total Petrochemical and Hyundai Oilbank used to favor Iran's South Pars condensate due to its plentiful supply and relatively low prices, but U.S. sanctions caused those flows to dry up in 2019. The South Korean refiners then turned to condensates from Qatar and Australia, as well as West Texas Light crude and full-range naphtha from Europe and Africa. With the Iranian nuclear accord possibly being revived by August, the Persian Gulf nation will be keen to win back former customers.

While the battle for market share will be centered on Korean buyers, it will also ripple through Asian markets for light crudes and naphtha. "The fight in the condensate market will be fierce," said Armaan Ashraf, an analyst at industry consultant FGE in Singapore. "Iran will need to offer South Pars at discounts to incentivize buyers," he said. The United Arab Emirates, China, and Japan (apart from South Korea) were among the top buyers of South Pars before the sanctions. The grade used to be sold at about $2 a barrel or more below Qatari condensate, making it one of the cheapest feedstocks.

[China has been buying Venezuelan crude mislabeled as Malaysian]

(Reuters; June 3) - Traders are racing to deliver record volumes of Venezuelan crude oil masked as Malaysian bitumen blend to China, ahead of new fuel taxes that look set to upend the lucrative flow of sanctioned oil to the world's top crude importer. China has over the past 12 months bought an estimated $3.5 billion worth of Venezuelan oil relabeled as Malaysian fuel, according to cargo tracking and industry sources, throwing Caracas a vital lifeline while it grapples with a collapsing economy amid U.S. sanctions.

Much of it has come in as bitumen blend, a mix of tar-like heavy crudes and refinery residue fuels that doesn't attract China's consumption tax like fuel oil and also isn't subject to China's quotas on oil imports. Bitumen-blend shipments to China have jumped 13-fold since May 2020 with cargo-tracking specialist Vortexa Analytics estimating that 90% of the cargoes over the past year through April were actually heavy oil from Venezuela — 324,000 barrels per day, or 61% of Venezuela's total oil exports.

China's new fuel taxes that kick in on June 12, however, will increase the cost of bitumen blend to importers by 40% to 50%, making it uneconomic and choking off flows. Top Chinese state oil buyer CNPC stopped loading Venezuelan oil from August 2019 due to U.S. sanctions, but private traders and refiners have been willing buyers recertifying and blending the oil as Malaysian following transshipments in Malaysian waters, according to data and industry sources.

Pandemic slowed global LNG trade in 2020 to 0.4% growth rate

(Reuters; June 3) - Global liquefied natural gas trade volumes rose to a record last year led by Asia, though growth was minimal as demand was slammed by coronavirus-induced restrictions, according to a report by the International Gas Union. Overall LNG trade increased to 356.1 million tonnes last year, up by 1.4 million tonnes or about 0.4% from 2019, mostly driven by increased exports from the U.S. and Australia, the group said in its annual report released June 3.

This was smaller than the growth of 40.9 million tonnes, or 11.5%, in 2019, the IGU said. "LNG trade in 2020 was heavily impacted by COVID-19, as markets, cities and producers across the globe wrestled with lockdowns and a multitude of other disruptions," said the IGU, which comprises more than 160 members and advocates for the use of gas. Australia overtook Qatar as the largest LNG exporter in the world, while the U.S. and Russia remained Nos. 3 and 4, respectively, in 2020.

In 2020, the U.S. exported 11 million tonnes, or about 33%, more than in 2019 due to new production from Freeport LNG in Texas, Cameron in Louisiana, and Elba Island in Georgia. For imports, Asia took 70% of the world's overall volumes, with growth mainly driven by China, India, Taiwan, and South Korea. COVID-19 also severely impacted liquefaction development plans, with companies delaying final investment decisions on projects to 2021 and later because of the uncertain economic climate, IGU said.

Louisiana LNG project signs up second 10-year customer

(Reuters; June 3) - Liquefied natural gas developer Tellurian said June 3 it had signed a 10-year sale-and-purchase agreement with commodity trader Vitol for 3 million tonnes per year of LNG from the proposed Driftwood plant in Louisiana. It is the second 10-year, 3 million-tonne agreement Tellurian has announced in a week, following a deal with commodity trader Gunvor Group. Each deal is worth about $12 billion in revenue over the contract period.

The LNG would come from Tellurian's proposed Driftwood export project in Louisiana. Tellurian Executive Chairman Charif Souki said in a video this week that the company remained "highly confident we will start construction this summer and issue notice to proceed to Bechtel in the first quarter of next year." Tellurian has a contract with Bechtel to build the liquefaction plant. Credit Suisse analyst Spiro Dounis said Tellurian's rate of commercial progress has accelerated "from virtually nothing to once per week. One more deal of this size supports the two-plant FID (final investment decision)."

Tellurian has said the first phase of Driftwood would cost about $16.8 billion and produce about 16.5 million tonnes per year of LNG. The Vitol and Gunvor deals are price indexed to a combination of the Japan Korea Marker for LNG delivered to Asia and the Dutch Title Transfer Facility benchmark for European sales.

Tanzania official says LNG project construction could start in 2023

(Bloomberg; June 3) - Tanzania wants to begin construction of a delayed $30 billion liquefied natural gas project in 2023, following the resumption of talks with partner companies including Norway's Equinor. Construction is expected to take about five years, Energy Minister Medard Kalemani told lawmakers on June 3. The project gained momentum after President Samia Suluhu Hassan took office in March and directed her administration to fast-track delayed investments.

Plans for an LNG plant on Tanzania's southern coast and a pipeline from offshore fields have been under consideration since 2014. Talks, however, stalled for more than a year under Hassan's predecessor. The announcement comes months after Total suspended work on a similar plan in next-door Mozambique following insurgent attacks. Tanzania's project, which has lagged Mozambique, is set to benefit from Hassan's push to boost investment and economic growth in a nation where policy uncertainty stifled business.

Hassan ordered the resumption of negotiations with the companies in May, about four months after Equinor's decision to take a $982 million impairment charge on the project following failure to settle fiscal and commercial terms with Tanzania. "We expect to conclude negotiations for a host government agreement and review production-sharing agreements" by the end of June 2022, Kalemani said. Tanzania and the companies are discussing a proposed two-train onshore LNG plant to export gas from the East African nation. Other partners include Shell, ExxonMobil, Sophi Energy, and Pavilion Energy.

Liquefaction terminals may pose bigger safety risk of explosion

(Washington Post; June 3) - As fracking turned the U.S. into a major producer of gas over the past decade, federal regulators approved the construction of liquefied natural gas export terminals along the Atlantic and Gulf coasts while relying on industry safety calculations that critics say significantly understate the potential force of a specific type of accidental explosion. The event that worries engineers outside the business has a very low probability of happening but could have destructive consequences if it does.

Under new leadership since January, the federal Pipeline and Hazardous Materials Safety Administration said intends to draw up rules next year that would deal with the risk in question. The danger is one the U.S. more or less backed into. It developed export terminals amid the shale gas boom, and an early assessment said that these liquefaction facilities were no more hazardous than the terminals built to import LNG back when the United States consumed more gas than it produced.

Eventually, regulators and industry engineers came around to the understanding that the terminals pose inherent new dangers, almost as an afterthought. But even now federal regulators accept at face value the industry's calculations regarding a vapor cloud explosion. Critics here and abroad — engineers — have argued the calculations seriously underestimate the destructive potential of such an event. Over the years those arguments have been enhanced by greater specificity and documentation.

The danger is not the natural gas, though that also poses risks. The threat of a vapor cloud explosion comes from the heavier hydrocarbons used to chill the gas into a liquid for loading aboard tankers. In the right conditions a major leak of volatile refrigerants on a windless day could lead to the buildup of a cloud of ground-hugging vapor until a spark sets it off. One study by British experts found that a hypothetical vapor cloud explosion could be up to 15 to 20 times more powerful than what the planners modeled.

Brazil buys record U.S. LNG as drought cuts hydropower capacity

(Bloomberg; June 3) - Brazil's worst water crisis in almost a century is turning Latin America's biggest economy into a hot spot for liquefied natural gas imports. As hydropower output declines, South America's most populous nation is turning to the super-chilled fuel to keep the lights on for its 212 million people. Brazil has already imported a record number of LNG cargoes just from the U.S. this year while state-run oil company Petrobras is tapping the spot market for even more.

The drought comes as Brazil faces declining gas production from major supplier Bolivia. The conditions are also affecting other countries in South America. This isn't the first time Brazil has faced a hydropower crunch. In 2001, a severe drought cut reservoirs to critical levels, prompting the government to implement a power-rationing plan. The share of hydropower in Brazil's energy mix is set to drop to 49% by 2030, down from up to 70% now, according to the energy ministry. Gas will be a big beneficiary.

"South America is running out of hydropower because of dry weather, and I wouldn't be surprised if buyers all across the region were buying more LNG," said Henning Gloystein, global director of energy and natural resources at consultants Eurasia Group. Hydropower currently accounts for about 70% of Brazil's electricity mix, and the lack of rainfall has forced the country to import 34 U.S. LNG cargoes over the past six months to bridge the power-supply gap, shipping data compiled by Bloomberg show.

Novatek lacked enough ice-class tankers for Arctic transit in May

(Bloomberg; June 3) - Russia's largest liquefied natural gas producer plans to start shipments to Asia across the Arctic in mid-June, one month later than last year, following a shortage of tankers for the journeys. Novatek, which in 2020 made history by sending the earliest-ever cargo to Asia across the Arctic in mid-May, could not repeat the feat this spring because of its limited fleet of tankers to serve the Asian market.

While the Arctic provides a shorter passage to Asia, it's riskier in spring than the traditional route through the Suez Canal due to thick ice. "I wish I could do the same this year," Novatek's CEO Leonid Mikhelson told reporters at the St. Petersburg International Economic Forum on June 3. "Yet we simply had no tanker capacity in May for the shipments." With Arctic ice warming faster than the rest of the world, Russia aims to make its Northern Sea Route a rival to the Suez Canal.

The producer has a fleet of 15 ice-class tankers to ship the increased LNG volumes, Mikhelson said. To speed up the tanker turnaround, Novatek relies on transshipments, with cargoes arriving at European terminals from Yamal on ice-class tankers, then reloading to regular LNG vessels and shipped to Asia through the Suez Canal. The 3,000-mile arctic route between the Barents Sea, near Russia's border with Norway, and the Bering Strait in the Pacific, is the shortest possible route between Asia and Europe.

Total takes stake in Russian LNG transshipment terminals

(S&P Global Platts; June 3) - TotalEnergies, the newly renamed French energy major, said June 3 it had signed a deal with Novatek to acquire 10% of Arctic Transshipment, which owns and will operate two liquefied natural gas transshipment terminals in northern Russia. It comes as Novatek, with the French company as a partner, prepares to start up its second major LNG export project, Arctic LNG-2, in 2023, for which long-term supply deals were signed earlier in the week with China's Zhejiang Energy Gas Group and trading company Glencore.

Russia's LNG growth is being spearheaded by Novatek, with TotalEnergies and Chinese and Japanese companies as partners. Novatek plans to use its chartered ice-class fleet to export LNG to transshipment centers for loading onto conventional LNG tankers, limiting the use of the costly ice-class tankers. The terminals are located at Murmansk for westward shipping, and Kamchatka in the Far East for supplies to Asia.

Each complex features a floating storage unit and two ship-to-ship transshipment stations. Novatek has said operations would begin at the terminals by early 2023 and each will have capacity to handle 10 million tonnes per year. TotalEnergies cooperates extensively with Novatek, holding a 20% stake in Yamal LNG, launched in 2017, and a

10% stake in Arctic LNG-2, planned for almost 20 million tonnes annual output capacity. It also holds a 19.4% stake in Novatek itself.

[Argentina adds second LNG import facility to meet winter demand]

(Natural Gas Intelligence; June 4) - Gas-rich Argentina is back to importing natural gas from two ports with the start-up of Excelerate Energy's Exemplar floating storage and regasification unit at Bahia Blanca. The new liquefied natural gas import facility adds to the existing Excelerate floating import unit now stationed at Escobar, also in Buenos Aires province.

The Exemplar has been leased for the 2021 winter season in Argentina and could extend through September. Last winter Argentina's Integracion Energetica Argentina purchased 28 LNG winter cargoes to meet demand. The number of cargoes is expected to rise to at least 37 in the upcoming Southern Cone winter as demand heats up and domestic production continues to lag pre-coronavirus levels.

On the back of higher imports, Argentina's government in May approved a price hike to the regulated natural gas price distributors are allowed to charge customers. In March, natural gas production was down 9.6% year on year, according to the country's Energy Secretariat. In an effort to boost gas production, the country has started offering operators higher prices through 2024, in hopes of spurring more domestic production.

[Opponents step up criticism of proposed Australia gas project]

(Australian Financial Review; June 3) - Conservation groups have issued an investor-beware warning over Woodside Petroleum as the company's call on whether to proceed with its US$11 billion Scarborough gas project goes down to the wire. The Conservation Council of Western Australia and the Australia Institute have renewed their attack on Woodside and partner BHP over Scarborough, with the release of research showing it would release more greenhouse gases than the Adani coal mine in Queensland.

The research found Scarborough would release 1.6 billion tonnes of greenhouse gas over the life of the project, including customer, or so-called Scope 3, emissions. Woodside is preparing to make a final investment decision and the state government is weighing up final approvals. Western Australia Environment Minister Amber-Jade Sanderson is due to release a decision on Woodside's greenhouse gas abatement plan for Scarborough, which is likely to include a raft of offsets and other measures.

There is also a decision pending on Woodside's plans to build a pipeline on the seafloor in an area now known to contain long submerged indigenous rock art. Opponents claim government authorities have not properly assessed the impact of the development on the climate and Aboriginal heritage. If it goes ahead with the project, Woodside would send Scarborough gas to existing onshore liquefaction facilities for export as LNG.

World’s largest container shipping line supports carbon tax

(Bloomberg; June 3) – The world’s largest container shipping line has called for a $150-a-ton carbon tax on marine fuel that would drive up the costs for an industry that delivers 80% of world trade. Moller-Maersk said such a levy would help bridge the price gap between fossil fuels that vessels consume today and greener alternatives that are currently much more expensive. Fuel costs would effectively almost double if the measure were imposed today because of how carbon dioxide emissions are counted.

While such a shift would be challenging for shipowners at large, Maersk’s scale would enable it to weather such a hike in what constitutes the industry’s single largest cost. Others, notably commodities trading giant Trafigura, have already called for such a tax. The issue will be discussed at a U.N. meeting next week. “It’s not trivial to move to green fuels from a cost perspective,” said Moller Maersk CEO Soren Skou. “We need to somehow level the playing field, and that’s the purpose of a market-based measure.”

Maersk is calling on the International Maritime Organization — shipping’s global regulator — to have a carbon tax for the industry ready by 2025, likely starting at about $50 a ton, then ramping up to at least $150 a ton. While seeking such a tax might seem counterintuitive, Maersk’s call is in part a response to changing business behaviors. Almost half of its top 200 customers have set targets to eliminate carbon emissions.

China is missing its targets to cut energy consumption

(Reuters; June 3) - China's state planner on June 3 warned provincial and regional governments against missing their energy consumption and efficiency targets for 2021 after most fell short of at least some of their goals in the first quarter. Only 10 out of 30 mainland Chinese regions and provinces met their goals to cut energy consumption and energy intensity, or the amount of energy consumed per unit of economic growth, in the first quarter, the National Development and Reform Commission showed in a statement.

The worst offenders were the eastern province of Zhejiang, the provinces of Yunnan and Guandong and the Guangxi region in southern China, which received red ratings, the lowest, both for their consumption and intensity targets. Qinghai and Ningxia provinces received red ratings for their intensity targets and yellow for their consumption, and Jiangsu a yellow rating for its intensity and a red for consumption.

The regions that received warnings should "adopt forceful measures to quickly reverse the passive situation and ensure achievement of the annual targets, especially the energy-intensity goals," the commission said. Beijing vowed to cut energy intensity by about 3% in 2021 to meet its climate goals. China missed its target of slashing energy intensity by 15% during 2016-2020. Electricity use in Zhejiang rose 29.3% and 29.2% in Guangdong in January-April from a year ago.

Chevron CEO says company would consider selling oil sands stake

(Bloomberg; June 2) - Chevron would consider selling its 20% stake in a Canadian oil sands mine as its faces investor pressure to do more to curb emissions and fight climate change. The oil producer's stake in Canadian Natural Resources' Athabasca oil sands project generates "pretty good cash flow" without needing much capital, "but I wouldn't deem it a strategic position," CEO Michael Wirth said at Bernstein's 37th Annual Strategic Decisions Conference.

"We're not in the kind of fire-sale mentality," Wirth said. "But if we got what we think is fair value for an asset like that, we've been willing to transact on things that are of that scale and kind of relative importance in the portfolio." Oil sands are among the most challenged energy assets because of the volume of emissions created when producing crude from mines and from underground wells that require steam injection.

Facing increased pressure to cut carbon emissions, multiple international oil companies, including Shell and ConocoPhillips have divested of their Canadian oil sands holdings in recent years. Those pressures have only intensified in the past week. Chevron shareholders voted on May 26 in favor of a climate proposal to include emissions from customers' burning of fuels in future reduction targets, against the wishes of the board.