Oil and Gas News Briefs
Compiled by Larry Persily
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[Oil prices could climb even higher when China returns to growth]

(Bloomberg; June 10) - Oil bulls are starting to picture a world in which China, the engine of demand growth, comes back to the market. And if their analysis is right, the summer is going to be painful for oil consumers everywhere who are already facing spiraling prices. Over in China, renewed travel and commerce restrictions in Shanghai point to a bumpy path ahead, but the world's biggest oil importer is tentatively emerging from its latest battle with COVID-19. That's set to add consumption to a market that has traded around $120 a barrel for its longest period in years — with little help from China.

"I've never seen this combination of circumstances in my career over the last 50 years," said Gary Ross a veteran oil consultant turned hedge fund manager at Black Gold Investors. "The world has very little spare capacity, the economy is strong outside of China, China is now coming back and we're in the midst of a global oil interruption." OPEC+ officials said this week there's little extra supply they can add, while constraints at oil refineries worldwide have consumers facing prices rising even faster than crude.

Many share the bullish take. Goldman Sachs expects Brent to peak at $140 a barrel in the coming months. Morgan Stanley said its most bullish scenario of $150 could go higher. The record is $147.50, set in 2008. China National Petroleum Corp. estimates the country's consumption could jump 12% in the third quarter. Bank of China International said it expects a modest recovery in the third quarter and a stronger fourth. "We are at $120 without China, so when China comes back, oil is going to go higher," Amrita Sen, chief oil analyst at consultant Energy Aspects, said at an event in Calgary.

[UAE warns oil prices 'nowhere near' peak as supply cannot keep pace]

(Bloomberg; June 8) - Oil prices are "nowhere near" their peak as an impending rebound in Chinese demand threatens to strain a global market already pinched by tight supplies, said key OPEC member United Arab Emirates. The comments serve as an acknowledgment that last week's decision by the OPEC+ coalition to bolster output will give consumers little respite from the soaring cost of energy. Meanwhile, the Organization of the Petroleum Exporting Countries is struggling to restore production as planned, with spare capacity confined to just a few members, the UAE minister said.

"With the pace of consumption we have, we are nowhere near the peak because China is not back yet," Energy Minister Suhail Al-Mazrouei said at a conference on June 8 in

Jordan. “China will come with more consumption.” Al-Mazrouei warned that without more investment across the globe, OPEC+ can’t guarantee sufficient oil supplies as demand fully recovers from the coronavirus pandemic. Prices could reach “unseen” levels if Russian oil and gas is completely taken off the market, he said.

OPEC+ agreed last week to open its oil taps a little faster this summer. That modest supply boost amounts to just 0.4% of global demand over July and August and comes after several months in which the group has struggled to hit production targets. “We’re lagging by almost 2.6 million barrels a day, and that’s a lot,” Al Mazrouei said. “The situation is not very encouraging when it comes to the quantities that we can bring.”

Lack of investment could strain future oil supply, drive up prices

(S&P Global; June 8) - Oil prices could rise above current levels of $120 per barrel in coming years as supply-side constraints more than offset the impact of a potential global recession triggered by spiraling inflation, said Mark Dunand, head of commodity trading group Mercuria. With growing uncertainty over the future of long-term demand, oil producers have been dialing back billions of dollars in upstream projects since 2020, setting the stage for an acute supply crunch in the coming years, according to Dunand.

"The bigger problem for me is the lack of big investments in the upstream industry in general. The uncertainty brings a reduced amount of investment. We are reaching a crazy moment where cash flows being generated by listed oil producers this year are close to $1 trillion, but only a small percentage is being reinvested in upstream. The rest is being returned to shareholders (through share buybacks)," Dunand told a S&P Global Commodity Insights event in London.

"The short-term price could be going higher if you have a crisis in some producing regions, but I am more worried about next year or the year after due to the lack of investments. That could mean we stay in a higher-price environment for the foreseeable future," Dunand said. In addition, growing uncertainty over future oil demand — as producers and investors look at worldwide targets and goals to reduce oil consumption — is crimping upstream spending needed to replace mature field declines.

IEA says oil demand holding up better than expected to high prices

(S&P Global; June 8) - Oil demand is already being hit by elevated crude prices but there are positive signals that consumption will hold up for now, the head of the International Energy Agency's oil market division Toril Bosoni told S&P Global Commodity Insights in an interview. "We believe that current prices are already impacting economic growth and oil demand," Bosoni said on the sidelines of the S&P Global Executive Petroleum and Energy Conference held June 7 and 8.

She acknowledged demand destruction was already a feature of the oil market, but noted consumers are adjusting their demand to energy prices, incomes and the value of competing energies. The IEA has been ratcheting down its 2022 oil-demand forecast since the start of the year amid rising oil prices. The dated Brent benchmark started the year below $80 before climbing to a peak of close to $140 in March on fears of reduced supply due to lost Russian barrels and tight oil-product markets.

Bosoni believes there are good reasons for demand to be resistant to triple-digit oil. "Demand in the U.S. and Europe has been holding up better than expected. ... High savings rates and strong pent-up demand for travel is providing an offset to the impact of surging fuel prices for now," she said. With demand for summer travel likely to boost jet fuel demand, the U.S. driving season set to guzzle gasoline and the summer use of air conditioners in the Mideast, demand pressure is going to get greater before it eases.

U.K. pivots back to oil and gas, calls it essential for energy security

(Bloomberg; June 9) - The U.K. government got together with Shell in London this week to talk up North Sea oil and gas, the latest sign of the country's pivot back toward domestic fossil fuels since Russia's invasion of Ukraine. Comments by Shell CEO Ben van Beurden and U.K. Business Secretary Kwasi Kwarteng underscore the deep shift in energy policy. A government that was focused on renewables in the run-up to last year's global climate talks is now working to boost investment in oil and gas fields.

Regulators last week gave Shell approval to develop the Jackdaw natural gas field in the North Sea, having previously rejected the project on environmental grounds. The energy major also has a stake in the controversial Cambo oil development, which was put on ice last year amid climate protests. "Responsibly produced, local gas plays an essential role in the U.K.'s energy security and the transition to net-zero emissions," Van Beurden said to staff on June 7, the text of which was posted on Shell's website.

Kwarteng, present at the Shell event, said in a post that the U.K. has to be "realistic" about its energy needs in light of soaring commodity prices. "We want to ensure we don't squander the resources we are blessed with in the North Sea, because our oil and gas reserves will ensure our national security," he said. Shell has committed to spend as much as $31 billion in Britain this decade, 75% of which will be allocated to cleaner sources of energy. Shell plans to build 5 gigawatts of floating wind turbines off Scotland and is looking to develop a carbon-capture and hydrogen site in Aberdeenshire.

Japanese government bank suspends loans to Russian LNG project

(The Wall Street Journal; June 8) - A $21 billion natural gas export plant under construction in Siberia suffered another setback June 8 when a Japanese government-owned bank said it has suspended loans to the venture. The Arctic LNG-2 project, operated by Russian energy company, Novatek aims to ship liquefied natural gas to East Asian nations, particularly China and Japan, and has targeted 2023 for start-up.

France’s TotalEnergies, an investor both in the development and in Novatek itself, took a $4.1 billion accounting charge in April on its stake in the project. Total CEO Patrick Pouyanné said it was “difficult to believe that it can be built with the sanctions,” referring to Western and Japanese sanctions on Russia over its invasion of Ukraine. Until now, Japan’s government and Arctic LNG-2 investor Mitsui have maintained their support for the plant, saying the LNG from Siberia would help diversify energy-poor Japan.

However, on June 8, the government-owned Japan Bank for International Cooperation said it has suspended its loans to Arctic LNG-2. The bank agreed last November to lend up to €1.71 billion, equivalent to $1.83 billion, to the project. Although the loans represented only a fraction of the total development cost, which Novatek has put at $21.3 billion, it adds to other challenges including the difficulty of importing materials and bringing in skilled personnel during the sanctions on Russia. The bank declined to say whether any money had been disbursed since the November 2021 agreement.

Freeport LNG shutdown triggers global market worries over supply

(Reuters; June 9) – A shutdown of at least three weeks at Freeport LNG, one of the largest U.S. plants producing liquefied natural gas, is expected to delay cargoes to Europe, further stressing the continent's drive to phase out Russian gas. The outage at the plant, which provides about 20% of U.S. LNG capacity, is due to an explosion at the Texas Gulf Coast facility on June 8. It has triggered alarm bells among players in market already struggling with reduced Russian supplies and resurgent demand in Asia.

The plant had sent most of its cargoes to Japan and Korea but the outage will affect Europe, which has been pulling a larger share of U.S. cargoes this year and paying higher prices as Russia's invasion of Ukraine shifted flows to Europe from Asia. A three-week shutdown will mean the loss of around 13 to 15 LNG cargoes, although Europe should be able to make up its losses from gas storage. But a supply risk remains if the shutdown extends for a longer period, said analysts.

"If the outage lasts months rather than weeks, the total loss can be much greater, and Europe's more comfortable inventory situation will not be quite as reassuring. We would then expect the strong European LNG price premium over Asia to return," said Tamir Druz, managing director at Capra Energy. The news has initially sent U.S. gas futures down as much as 14% as traders anticipated the outage would free up supplies and help rebuild U.S. storage for winter. However, prices recovered as the market focused on air conditioning demand from heat blanketing parts of the U.S., especially Texas.

LNG plant shutdown will make more gas available in the U.S.

(Reuters; June 9) - A three-week shutdown at a Texas liquefied natural gas export facility will relieve supply strains on U.S. utilities that burn gas for power generation and cool domestic prices, analysts said. Freeport LNG's export plant in Texas will remain shut for at least three weeks after a June 8 explosion and fire, the company said, raising the risk of shortages, especially in Europe. A cause has not been determined.

The plant outage means more gas will be available to buyers in the United States, and allow gas and power utilities a chance to rebuild extremely low stockpiles. U.S. storage is about 15%, or 337 billion cubic feet, below normal levels for this time of year, the lowest level since April 2019. The Freeport LNG outage comes amid forecasts for above-normal temperatures across the U.S. South and Midwest. The outage frees up about 2 billion cubic feet per day of gas for utilities and gas-storage operators.

"U.S. power grid operations might actually benefit from this additional supply," said Bernadette Johnson, general manager for power and renewables at Enverus. "However, this is a relatively short-term event and the price impact should be short-lived here," she said. Record temperatures have pushed up demand for air conditioning in the past weeks and contributed to soaring wholesale power prices. The Texas' power-grid operator last month called on residents to cut electricity use because of grid strains.

Renewed interest in term contacts boosts Gulf Coast LNG projects

(Houston Chronicle; June 9) - The war in Ukraine has sparked a race to the U.S. Gulf Coast, where liquefied natural gas companies are clamoring to woo global buyers and get projects built. A flurry of interested customers has descended on the region since Russia invaded its neighbor in late February, yielding contracts to buy around 30 million tonnes of U.S. LNG per year. European buyers that were hesitant to sign long-term contracts as the world looks for cleaner energy sources are suddenly more interested.

Dozens of potential LNG developers — waiting since the global appetite for LNG subsided in the months before the pandemic — are competing for customers and to build the plants needed to satisfy them. It’s unlikely most of them will make it to the finish line. “There’s probably only enough demand for maybe three to five additional LNG export facilities, and there’s far more than that vying for customers right now,” said Ross Wyeno, LNG analyst for S&P Global Commodity Insights.

Front-runners like Cheniere Energy are looking to expand existing plants, while aggressive newcomers like Venture Global and New Fortress Energy devise ways to build projects more quickly — a sure way to curry favor in the market as the gap between global gas supply and demand widens. The global energy crunch is bringing buyers back to the table that had previously walked away from commitments to 15- and 20-year gas contracts, which are necessary for the LNG companies to secure financing.

Report warns push for more LNG undermines climate-change efforts

(S&P Global; June 10) - The likelihood that more U.S. LNG projects will be built because of the war in Ukraine should prompt U.S. regulators to pay closer attention to climate impacts, according to a report from an environmental advocacy group. The June 9 report from the Environmental Integrity Project underscores the concerns among some environmental groups that regulators will overlook the environmental impacts of LNG as the White House faces pressure from industry groups and their allies to speed permitting to relieve high natural gas prices abroad and an energy crisis in Europe.

The report, "Playing with Fire: The Climate Impact of the Rapid Growth of LNG," said a "dramatic increase in global reliance on LNG" could undermine efforts to fight climate change. "Although there is pressure to hurry up approvals of these LNG projects, government regulators should be careful and thoughtful in considering their significant environmental impacts," report co-author Alexandra Shaykevich said. "A dramatic increase in global dependence on LNG could be risky, from a climate perspective."

From the Russian invasion of Ukraine on Feb. 24 through June 5, U.S. LNG developers secured at least 19 supply deals totaling almost 24 million tonnes per year, the report said. The flurry of activity has boosted expectations that the U.S. is on the cusp of the next supercycle of LNG project development. Gas market analysts have made a case that Europe's shift from Russian gas to other supplies stands to be a net climate benefit because of the greater emissions profile associated with Russian gas.

Qatar announces TotalEnergies as first partner in LNG expansion

(Agence France-Presse; June 12) - Qatar on June 12 named France's TotalEnergies as its first foreign partner to expand the world's largest natural gas field and eventually help ease Europe's energy fears. The French energy major will spend an estimated $2 billion for a 6.25% share of the giant North Field East project that will help Qatar increase its liquefied natural gas production capacity by more than 60% by 2027, TotalEnergies CEO Patrick Pouyanne said. Qatar's Energy Minister Saad Sherida al-Kaabi called the joint venture "a marriage more than an engagement" as it will last until 2054.

Other firms will also take stakes in the expansion with state-owned Qatar Energy, said Kaabi, who did not reveal names. Industry sources say ExxonMobil, ConocoPhillips and Shell are all in line to take part in the $29 billion first-phase expansion, which Qatar had originally wanted to finance alone. "We have finished the selection process and we have signed the agreements," Kaabi said, adding that names would be revealed in the "near future.” The first phase will add four liquefaction trains, taking capacity from 77 million to 110 million tonnes a year; the second phase will increase it to 126 million tonnes.

LNG from North Field is expected to start coming on line in 2026. Pouyanne said the company's biggest deal with Qatar would help make up for the company's withdrawal from Russia in the wake of the Ukraine invasion. “Qatar Energy certainly drove a hard bargain. But for the biggest global LNG players like Shell and TotalEnergies, Qatar is too good to pass up. A stake in these LNG trains delivers scale, low-cost supply, great marketing opportunities, and a good partner," said Ben Cahill, an energy security specialist at the Center for Security and International Studies in Washington.

Tanzania takes another step toward LNG project

(Reuters; June 11) - Tanzania signed a framework agreement on June 11 with Norway's Equinor and Britain's Shell that will bring closer the start of construction of a $30 billion liquefied natural gas export terminal, live video from the event showed. Energy Minister January Makamba said the signing would pave the way for a final investment decision in 2025 on the project, construction of which near huge offshore gas discoveries in deep waters off Tanzania's southern coast has been held up for years by regulatory delays.

"Today's step is very important," Makamba said in a speech during the signing ceremony at the state house in Tanzania's capital Dodoma, also attended by President Samia Suluhu Hassan and top officials from energy companies. Equinor, which had in 2021 booked a $982 million write-down on the project after deciding it would not be sufficiently profitably, said in a statement it was too early to say whether it would reverse that write-down as a result of the deal announced on June 11.

Equinor and Shell, along with ExxonMobil, Ophir Energy, and Pavilion Energy, plan to build the LNG plant in the country's Lindi region. Equinor operates Tanzania's Block 2, in which ExxonMobil also holds a stake and which is estimated to hold more than 20 trillion cubic feet of gas. Shell operates Block 1 and Block 4, with 16 trillion cubic feet in estimated recoverable gas. Tanzania already uses some of its gas discoveries for power generation and to run manufacturing plants.

Poll shows most Canadians support East Coast LNG exports

(Bloomberg; June 7) - Canada’s natural gas companies say there’s growing domestic support for new energy infrastructure to facilitate exports to Europe, even as the country pursues aggressive climate-change targets. Tim Egan, president of the Canadian Gas Association, said he believes the public is beginning to recognize that boosting exports is the most significant way Canada will be able to help counteract Russia’s war against Ukraine. He cited recent polling that shows widespread approval for a shift in policy.

“I think Canadians are seeing what’s going on in Europe and are saying, ‘Look, there must be a way we can help,’” Egan said. The energy crisis has helped Canada’s fossil-fuel sector, which had been hemmed in for years by slumping prices and tightening environmental restrictions. Prime Minister Justin Trudeau’s government is attempting to balance exporting more energy to help world markets while still moving ahead on decarbonizing production. He has targeted a 42% cut to oil and gas emissions by 2030.

While a major exporter of pipeline gas, Canada lacks a liquefied natural gas terminal that could directly supply allied nations across the Atlantic Ocean — though a few have been proposed. A public opinion survey conducted in April by Leger Marketing for the gas association found 58% of respondents supported LNG exports from the East Coast, compared to 17% opposed and the remainder unsure. When Europe and the Ukraine war were specifically mentioned, support rose to 63%, according to the online poll.

[New review finds U.S. methane emissions higher than reported]

(Houston Chronicle; June 8) - Methane emissions from U.S. oil and gas wells are likely far higher than what is reported to the Environmental Protection Agency, according to a new report from the House Committee on Science, Space and Technology. Looking at oil companies' own data, staffers on the committee reported that the industry's emissions rates are "likely significantly higher than official data reported to EPA would indicate." They cited a failure by oil companies to quantify the scale of large-scale methane leaks and to use the latest leak detection technology like satellites and drones.

Methane, the primary component of natural gas, is a potent greenhouse gas with 25 times the global warming effect of carbon dioxide. The report finding was based on the examination of data from 10 oil and gas producers in the Permian Basin. The American Petroleum Institute, the oil sector's largest lobbying group, said: "We support accuracy and transparency in reporting (greenhouse gas) emissions and are continuously improving emissions reporting, including the accelerated deployment of cost-effective direct measurement options."

EPA counts on methane emissions from oil and gas drilling have long been under suspicion. The Environmental Defense Fund produced a series of reports beginning in 2012 claiming actual emissions were 60% higher than reported. The House committee recommended the federal government start conducting large-scale methane surveys of oil and gas fields and create new standards on how companies should detect for leaks.

[India finding it harder to reach discount deals for Russian crude]

(Reuters; June 8) - Russia's Rosneft is holding back on signing new crude oil deals with two Indian state refiners, three sources with knowledge of the matter said, as it has committed sales to other customers. Indian refiners have been snapping up cheap Russian oil shunned by Western companies and countries since sanctions were imposed against Moscow for its invasion of Ukraine.

A lack of new term supply deals with Rosneft may push Indian refiners to turn to the spot market for more expensive oil. It also indicates that Russia has managed to keep exporting its oil despite increasing pressure from Western sanctions to choke Moscow's revenue. Drawn to the discounts offered, three Indian state refiners opened negotiations with Rosneft earlier this year for six-month supply deals. So far only Indian Oil Corp., the country's top refiner, has signed a deal with Rosneft, which will see it buy 6 million barrels of Russian oil every month with an option to buy 3 million barrels more.

Russia is ramping up oil exports from its major eastern port of Kozmino by about 20% to meet surging demand from Asian buyers and offset the impact of European Union sanctions. China has also boosted its purchases from Russia. Rosneft has awarded 900,000 tonnes (6.66 million barrels) of ESPO Blend crude oil loading in June to Unipec, the trading arm of Asia's top refiner Sinopec, according to four traders. Indian sources said Russian oil is no longer available at deep discounts. "Discounts are not as good as before, as insurance and freight rates have gone up," a source said.