# Oil and Gas News Briefs
# Compiled by Larry Persily
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## Oil prices look to head higher as demand grows faster than supply

(Bloomberg; June 13) - Wall Street may be abuzz with talk of recession next year but it's a different story in the energy market. Most traders, policy makers and analysts see oil demand growing through 2023 while supply will struggle. In private, Western officials worry Brent crude will reach $150 a barrel soon from about $120 now. Some fear it keeps going higher, with chatter about oil hitting $175 or even $180 by the end of 2022, driven by post-COVID pent-up demand and European sanctions against Russia.

The oil shock is almost certain to roll into 2023. The higher-for-longer price outlook will add to inflationary pressures and erode the margins of manufacturers. Commodity trading houses, oil companies, OPEC nations and consuming countries have already run their numbers. Their consensus for 2023 oil demand varies between an additional 1 million barrels per day and 2.5 million barrels per day. Demand in 2022 is likely to grow by 1.8 million, according to the International Energy Agency, to about 100 million barrels per day. Typically, anything above 1 million in demand growth is seen as robust.

The supply side doesn't look too helpful. At best, oil traders expect Russia to hold to its current 10 million barrels a day, down 10% since its war on Ukraine. But many believe it may drop another 1 million barrels, or even 1.5 million barrels. The OPEC+ cartel, which started 2022 with ample spare production capacity, is nearing its own limits, too. The result is likely the third consecutive year of drawing down oil stocks — and that's after a precipitous decline in global crude and refined products inventories the past 18 months.

## IEA warns global oil supply may struggle to meet demand in 2023

(S&P Global; June 15) - Global oil supply may struggle to keep up with demand in 2023 as a potentially resurgent Chinese economy arrives just as Russia begins to feel the full force of sanctions, the International Energy Agency warned in its oil market report June 15. Despite triple-digit oil prices for much of 2022, the IEA still sees oil demand growth of 2.2 million barrels per day next year compared with growth of 1.8 million this year.

The look at 2023 also revealed that the IEA sees oil demand returning to pre-pandemic levels next year at 101.6 million barrels per day, with non-OECD growth accounting for almost 80% of the gains and offsetting a slowdown in OECD nations. The IEA said there are signs the market may rebalance in the second half of this year, thanks to

OPEC+ increasing supply and the release of strategic reserves along with tempered oil demand growth. But, the agency added, “this situation might prove short-lived.”

The IEA pointed to several factors: Potential lost Russian oil supplies given that European Union countries have agreed to ban 90% of the bloc's imports of Russian crude and refined products, to be phased out over the next six to eight months; China’s recovery from COVID-19 lockdowns; and risks around OPEC+ spare production buffers. The agency warned of the increasing risk of oil market volatility.

## Russian oil finds its way into U.S. as refined products

(Houston Chronicle; June 13) - Despite the U.S. ban, Russian oil is still finding its way into the U.S. through the import of refined fuels such as gasoline and diesel, according to a report from the European nonprofit Center for Research on Energy and Clean Air. Even as the U.S. and some European nations have banned Russian crude since the Ukrainian invasion, countries including India, France, China, United Arab Emirates and Saudi Arabia have increased imports, which they refine and sell onto the world market.

The report comes three months after President Joe Biden announced a ban on Russian crude, coal and liquefied natural gas, to pressure Russia into ending the war. But that did not stop companies from importing fuels refined from Russian crude. “India became a significant importer of Russian crude oil (after the invasion), buying 18% of the country’s exports,” the report reads. “A significant share of the crude is re-exported as refined oil products, including to the U.S. and Europe, an important loophole to close.”

The U.S. and European bans still have put a dent in Russian crude exports. However, although Russian crude is selling at a discount on the world market, the steep rise in crude prices over the past six months has Russia earning $20 billion a month from oil exports, 50% more than it did last year, according to the International Energy Agency.

## OPEC warns it is running out of spare production capacity

(Financial Post columnist; Canada; June 13) - Imagine life without insurance. The constant worry of an unexpected accident, such as your house burning down or car getting stolen, wreaking financial havoc without the economic certainty that everything would be OK in the end. This is where the world is heading in the next several months. The Organization of the Petroleum Exporting Countries’ spare capacity, the oil market equivalent of insurance, has been available since the 1960s to help avoid severe price spikes by smoothing out periodic supply disruptions caused by geopolitical events.

Now, owing to too many years of insufficient investment — as the needs of social spending and sovereign revenue dwarfed those of investing in higher oil production capacity during a multi-year period of low oil prices — OPEC's spare capacity is set to become exhausted. This imminent reality will be a watershed event and has enormous implications for the oil market that investors must urgently appreciate.

Last week, the Royal Bank of Canada hosted an energy conference in New York, with the highlight being a keynote speech by Mohammed Barkindo, the secretary general of OPEC. In his keynote speech, Barkindo warned that "OPEC is running out of capacity," and that "with the exception of two or three members, all are maxed out." He added, "the world needs to come to terms with this brutal fact … (it is a) global challenge."

## OPEC production drops in May

(The Wall Street Journal; June 14) - Oil production among the Organization of the Petroleum Exporting Countries slumped in May, adding pressure on the cartel after it pledged to stabilize an undersupplied market by pumping more crude. Output among the 13 countries that comprise OPEC dropped by 176,000 barrels a day last month to average 28.5 million barrels a day, data from the cartel released June 14 showed.

The declines came as protesters closed major oil refineries in Libya. Output fell at other members, too: Nigeria's by 45,000 barrels a day and Iraq's by 21,000 barrels a day. The declines outweighed more modest supply increases from Saudi Arabia, the United Arab Emirates and Kuwait. The drop will add to signs that a recent production plan from the cartel could struggle to achieve its goal of cooling an oil market that has seen prices surge in the wake of Russia's war on Ukraine.

Earlier this month, the cartel and a group of allied producers led by Russia agreed to a bigger-than-expected production increase in an effort to tame rising prices. The group said it would raise output by 648,000 barrels a day in July and August, but the pledge was met with skepticism from analysts. Many OPEC members are already producing at close to full capacity, with only leading producers Saudi Arabia and the UAE believed to have sufficient spare capacity to raise output. Meanwhile, other producers have struggled to meet their quotas in part because of aging oil production infrastructure.

## Libya's oil production down to 100,000 barrels a day

(Bloomberg; June 13) - Libya's oil production has almost fully halted as a political crisis leads to more shutdowns of ports and oil fields. The OPEC member's daily output — which averaged 1.2 million barrels last year — is down by about 1.1 million barrels, Oil Minister Mohamed Oun told Bloomberg on June 13. That suggests Libya is pumping only about 100,000 barrels a day.

The fall in supply will further tighten a global market that has seen crude prices jump more than 50% this year to $120 a barrel. It’s already led to traders paying a higher premium for North Sea crude, which is similar in quality to Libyan oil. “Almost all the oil and gas activities in the east of Libya are being shut down,” Oun said. In the southwest, the 40,000 barrel-a-day Wafa field is the only one with continuous production, he said.

The latest decline comes after protesters forced workers to shut down the key eastern oil ports of Es Sider and Ras Lanuf. Libya exported roughly 380,000 barrels a day of crude from the two facilities in May, according to tanker-tracking data monitored by Bloomberg. Workers at Hariga, the second-largest port, were also urged to halt work. That came as the 125,000 barrel-a-day Sarir field was completely shut down, sources said. The three ports together handle about 70% of Libya’s total oil production.

## U.N. secretary-general calls for less investment in fossil fuels

(Reuters; June 14) - Rich countries have made a dangerous dash for fossil fuels in response to the Ukraine war, the U.N. secretary-general said on June 14, warning that new investments being made in coal, oil and gas were "delusional" given their impact on climate change. "The energy crisis exacerbated by the war in Ukraine has seen a perilous doubling down on fossil fuels by the major economies," Antonio Guterres said in a video address to the Austrian World Summit, a climate conference.

Since Russia's February invasion of Ukraine, some countries have turned to buying more non-Russian fossil fuels or investing in new oil and gas fields to shore up their energy supplies. For example, Germany and the Netherlands announced plans this month to develop a new North Sea gas field, and Chancellor Olaf Scholz has said Germany wants to pursue gas projects with Senegal. State-owned QatarEnergy's North Field East is expanding as part of the world's largest liquefied natural gas project.

Guterres said "new funding for fossil fuel exploration and production infrastructure is delusional" and would worsen the global problems of pollution and climate change. The countries making new fossil fuel investments each have targets for cutting carbon dioxide emissions by 2030. "Had we invested massively in renewable energy in the past, we should not be so dramatically at the mercy of the instability of fossil fuel markets now," Guterres said, noting that soaring prices are causing pain worldwide.

## High prices boost Russia to record crude oil export revenues

(The New York Times; June 13) - Russia’s invasion of Ukraine triggered condemnation and tough sanctions aimed at denting Moscow’s war chest. Yet Russia’s revenues from fossil fuels, by far its biggest export, soared to records in the first 100 days of the war, driven by a windfall from oil sales amid rising prices, an analysis shows. Russia earned what is very likely a record 93 billion euros (US$97 billion) in revenue from exports of oil, gas and coal in the first 100 days of the country's invasion of Ukraine, according to data analyzed by the Center for Research on Energy and Clean Air, based in Helsinki.

About two-thirds of those earnings came from oil, and most of the remainder from natural gas. "The current rate of revenue is unprecedented because prices are unprecedented and export volumes are close to their highest levels on record," said Lauri Myllyvirta, an analyst who led the center's research. Fossil fuel exports have been a key enabler of Russia's military buildup.

In 2021, revenue from oil and gas alone made up 45% of Russia's federal budget, according to the International Energy Agency. The revenue from Russia's fossil fuel exports exceeds what the country is spending on its war in Ukraine, the research center estimated, a sobering finding as momentum shifts in Russia's favor as its forces focus on important regional targets amid a weapons shortage among Ukrainian soldiers.

## Asian buyers taking almost half of Russia's tanker oil exports

(Bloomberg; June 13) - Russia's seaborne crude flows are taking on a new pattern as Moscow seeks to deal with impending European sanctions on its exports. India has moved from being an insignificant buyer of Russian crude to the second-biggest destination for shipments, behind only China. As China emerges as the only market for crude shipped from ports on Russia's Pacific coast, India has rapidly become the largest purchaser of barrels loaded at ports on its western shores.

Asian buyers, dominated by China and India, are now taking close to half of all the crude shipped from the country's ports, with a steady stream of tankers heading around Europe and through the Suez Canal from the Baltic and Arctic seas. Almost 860,000 barrels a day of crude were loaded onto tankers at Russia's western export terminals in the week to June 10 before heading to destinations in Asia. And the figure will almost certainly be revised higher once destinations become apparent for almost 210,000 barrels a day that are on vessels but yet to show a final discharge point.

China has become the only buyer of Russia's Pacific crude, with all cargoes loaded in the past three weeks heading there. Ship-to-ship transfers of crude off the South Korean port of Yeosu have become a regular feature, with a small fleet of ships owned by China's Cosco Shipping shuttling crude from Russia's Far East port of Kozmino and transshipping it onto larger vessels, also owned by Cosco, for onward delivery to China.

## April blizzards knock down North Dakota oil production 20%

(Minneapolis Star Tribune; June 14) - Back-to-back blizzards in April led to one of the steepest ever monthly declines in North Dakota oil production. The state churned out 900,597 barrels of oil a day in April, down 20% from the previous month. "The only word that comes to mind is, 'Wow,'" Lynn Helms, North Dakota's minerals director, told reporters June 14. The month-to-month decline is topped only by the 30% production drop from April to May 2020 as COVID-19 slashed oil demand, Helms said.

Two blizzards within a week in April knocked out electricity in North Dakota's oil patch, severely constraining production. Some operators lost 45% to 100% of their output at the time due to the storms, Helms said. Difficulties getting production back online lasted well into May. "After the first of June, things got back to normal," he said. North Dakota's natural gas production also got hammered in April due the storms, falling 19% from March, state data released June 14 show.

## Lack of tanker insurance disrupts oil cargoes from Russian Far East

(Reuters; June 14) - Operations at Russia’s Sakhalin-1 oil project will continue to face disruptions for “a couple of months” as Western sanctions have hit insurance coverage for ships to transport crude, according to India’s ONGC Videsh, a stakeholder in the venture. ONGC Videsh, the overseas investment arm of India’s top oil explorer Oil and Natural Gas Corp., has a 20% stake in Sakhalin-1, which produces a Russian grade known as Sokol off the coast of Sakhalin Island in the Russian Far East.

In April, ExxonMobil, which operated Sakhalin-1, declared force majeure there after sanctions had made it difficult to ship crude to customers. “This temporary disruption is going to be there for a couple of months because … we are having suppressed production from Sakhalin,” Alok Gupta, managing director of ONGC Videsh, said on an analyst call May 30. The transcript of the call has been posted on ONGC’s website.

Exxon, which held a 30% stake, is withdrawing from the project after announcing it will discontinue all its Russian operations following Moscow’s invasion of Ukraine. Gupta said the remaining stakeholders are unable to move oil from Sakhalin-1 due to the “high moral” ground taken by insurers for the ice-class vessels required to ship oil to South Korea for sale mostly to North Asian buyers. Insurers from Europe and the U.S., which dominate the international marine market, have cut coverage for Russian oil tankers.

## BP latest company to sell off assets in Canadian oil sands

(Bloomberg; June 13) - BP has become the latest international oil company to exit Canada’s oil sands — but it almost certainly won’t be the last. The company’s decision to sell its non-operating 50% interest in the Sunrise project to Cenovus Energy for $600 million and a possible contingent payment is just the latest in a recent string of divestments from Alberta's oil sands, one of the largest crude reserves in the world.

Companies including Shell, ConocoPhillips, Equinor and Devon Energy have divested big stakes in the mines and well sites of northern Alberta to local companies in recent years, increasingly concentrating control of the oil sands under Canadian producers such as Cenovus, Canadian Natural Resources and Suncor Energy. More deals are seen as likely as local producers sit on cash hoards from $100-plus oil prices.

Chevron's 20% stake in an oil sands mine could be the next asset sold, said Matt Murphy, an analyst at Tudor, Pickering, Holt. Paris-based TotalEnergies is another big-name company in the region with assets that might make sense to sell. Total has been divesting from the oil sands for several years, pledging to no longer invest in the region.

The recent exodus from oil sands comes as Big Oil pledges to curtail and even zero out carbon emissions amid pressure from investors to tackle climate change. Crude from the oil sands must be dug from mines or forced from wells injected with steam, making them some of the highest carbon-emitting grades of oil in the world and something of a pariah for investors seeking greener alternatives.

## BP takes lead on $30 billion green hydrogen project in Australia

(The Wall Street Journal; June 14) – BP is taking the lead on a $30 billion project to produce massive amounts of hydrogen from renewable energy in Australia's Outback, a major bet on a promising alternative fuel that is in growing demand but is expensive. BP said it is taking a 40.5% stake in the project, the Asian Renewable Energy Hub, and will become its operator. One of the largest such "green hydrogen" projects proposed to date, it's expected to encompass a 2,500-square-mile area.

The hub is one of a handful of hydrogen megaprojects attracting increasingly larger investment, including from companies traditionally focused on fossil fuels. Hydrogen is emerging as a potential way to cut carbon emissions from industries such as trucking, shipping, steelmaking and fertilizer manufacturing that add to climate change. Recent high natural gas prices have accelerated government support for green hydrogen.

"Our gas customers and LNG customers of today are the green hydrogen customers of tomorrow," said Anja-Isabel Dotzenrath, BP's executive vice president for gas and low-carbon energy. Unlike natural gas, hydrogen emits water rather than climate-warming carbon dioxide when burned as fuel. But it is challenging to transport and store, and the green form of hydrogen made with renewable electricity through a process known as electrolysis is currently far more expensive than forms of the fuel made from oil and gas.

Sparsely populated Western Australia is a choice spot for green hydrogen development due to abundant sun, high winds and proximity to the ocean for shipping and seawater that developers say could be converted into hydrogen and ammonia. The project aims to generate up to 26 gigawatts of power at full tilt — equivalent to about one-third of the electricity generated in Australia in 2020 — and will use that electricity to split water into hydrogen and oxygen to produce so-called green hydrogen, as well as ammonia.

## Freeport LNG in Texas may not resume full production until year-end

(Natural Gas Intelligence; June 14) – The owner of the liquefied natural gas export facility in Texas that suffered an explosion last week, Freeport LNG, said early June 14 that the company does not expect the facility to be fully repaired for months. The company is now targeting late 2022 for a return to full service instead of the initial report of three weeks. Given that the explosion and fire that knocked the plant offline were contained to a small area, partial operations could begin in 90 days, the company said.

The fire sent U.S. natural gas futures tumbling on the prospect that the gas would remain in the U.S. instead of going overseas. The plant's capacity is 2 billion cubic feet of gas per day, more than 16% of U.S. LNG exports. The New York Mercantile Exchange gas futures July contract plunged by $1.42 to close at $7.189 per million Btu on June 14. On the same day, the European benchmark prompt contract surged $4 to finish near $30 on the prospect of reduced U.S. LNG cargoes.

"At this time, completion of all necessary repairs and a return to full plant operations is not expected until late 2022," Freeport said. Partial operations could resume in about 90 days after regulatory approval. The cause of the accident remains under investigation. The company said the incident occurred in pipe racks that support transfer pipes for LNG from the facility's storage tank area to the ship-loading dock facilities.

Preliminary observations suggest the incident resulted from overpressurization and rupture of a segment of an LNG transfer line, "leading to the rapid flashing of LNG and the release and ignition of the natural gas vapor cloud," Freeport said.

## Rising energy costs pressure Europe's manufacturing industry

(The Wall Street Journal; June 13) - For decades, European industry relied on Russia to supply low-cost oil and natural gas that kept the continent's factories humming. Now Europe's industrial energy costs are soaring in the wake of Russia's war on Ukraine, hobbling manufacturers' ability to compete in the global marketplace. Factories are scrambling to find alternatives to Russian energy under threat that Moscow could abruptly turn off the gas spigot, bringing production to a halt.

Europe’s producers of chemicals, fertilizer, steel and other energy-intensive goods have come under pressure over the past eight months as tensions with Russia climbed ahead of the February invasion. Now, with higher energy costs, some producers are shutting down in the face of competition from factories in the U.S., the Middle East and other regions where energy costs are much lower than in Europe. Natural gas prices are now nearly three times higher in Europe than in the U.S.

Europe’s painful energy costs are forecast to drag on the region’s industrial production and overall economic growth this year. The phaseout of Russian supplies risks putting European industry at a long-term competitive disadvantage unless manufacturers can deploy technologies that will sharply reduce their fossil-fuel consumption. But many of these technologies, such as using wind and solar energy to power chemical factory furnaces or hydrogen to make steel, are years from becoming commercially viable and will require massive investments, executives say.

## Spot-market charter rates for LNG tankers double the year’s average

(Reuters; June 13) - Spot-market rates for liquefied natural gas tankers this week set annual records as traders bid up available vessels to meet rising global demand for the fuel, according to brokers. Soaring demand for LNG and buyers shunning Russian cargoes and vessels over its invasion of Ukraine have led to more long-term charters, limiting the supply of vessels available in the spot market, said shipbroker and LNG consultancy Poten & Partners.

Spot rates for transporting 160,000 cubic meters of LNG in the Atlantic Basin (about 3.5 billion cubic feet of natural gas) is $100,000 per day, and $85,000 per day for Asia, or the East-of-Suez cargoes, said Poten's head of business intelligence Jason Feer. Both prices are up substantially compared to the average for the year, which is $49,000 per day for Asia. Day rates bottomed in March and have been very strong since May.

"There has been a substantial increase in long-term charters," taking capacity off the spot market, Feer said. "We've seen some 10-year charters that we hadn't seen for many years previous.” Buyers who were caught short of transport the past two winters turned to long-term charters. Fewer vessels will be coming off charters in the coming months, keeping tanker supply tight, he said.

## Pakistan losing out on LNG cargoes to Europe

(Bloomberg; June 13) - Europe’s campaign to quit Russian fuel is designed to punish Moscow for its invasion of Ukraine. It’s also wreaking havoc thousands of miles away from the conflict, plunging Pakistan into darkness, undermining one regime and threatening the stability of the country’s new leadership. A decade ago, the world’s fifthmost populous country took specific steps to insulate itself from the kinds of violent price spikes that are roiling the market today. It made a massive investment to import liquified natural gas and signed long-term supply contracts with suppliers in Italy and Qatar.

Now, some suppliers have defaulted, though they continue to sell into the more lucrative European market, leaving Pakistan in exactly the position it tried so hard to avoid. In order to avoid blackouts during the Eid holiday last month, the government paid nearly $100 million to procure a single LNG shipment from the spot market, a record for the cash-strapped nation and about three times the normal price. In the fiscal year ending July, the country’s costs for LNG could top $5 billion, twice what they were a year ago.

Meanwhile, the government can’t cushion the blow for its citizens: The International Monetary Fund is in talks to bail out the nation with a key condition that it must cut fuel and electricity subsidies. Parts of Pakistan are experiencing planned blackouts of more than 12 hours, limiting the effectiveness of air conditioning to offer relief during the ongoing heatwave. The prices and blackouts have helped the previous prime minister draw large crowds to rallies and protests, amplifying citizens’ anger about high inflation.

## Israel, Egypt agree to team up to send more natural gas to Europe

(Reuters; June 15) - Israel and Egypt will aim to boost natural gas exports to Europe under a memorandum of understanding signed on June 15 as the continent looks to replace Russian energy imports. The framework deal signed with the European Union will be the first to allow "significant" exports of Israeli gas to Europe, Israel's energy ministry said. Under the agreement, the EU will encourage European companies to participate in Israeli and Egyptian exploration tenders, the ministry said.

Some Israeli gas is already sent by pipeline to Egypt's Mediterranean coast liquefaction plants, where it is re-exported as liquefied natural gas. Officials say they expect LNG cargoes from Egypt to Europe to increase under the agreement, though they said it would likely take a couple of years before exports can be significantly expanded. Egypt is also a gas producer, but its exports have been limited by rising domestic demand.

"Today Egypt and Israel make a commitment to share our natural gas with Europe and to help with the energy crisis," Israeli Energy Minister Karine Elharrar said after the signing in Cairo. The agreement recognizes that natural gas will have a central role in the EU's energy market until 2030. Following that, the use of natural gas is expected to decline in line with its commitment to becoming a zero-emission economy by 2050.

## Falling demand prompts closure of Japanese refinery

(Nikkei Asia; June 14) - Idemitsu Kosan, Japan's second-largest oil wholesaler, has decided to shut down its refinery in Yamaguchi Prefecture by the end of March 2024, as the rise of more fuel-efficient vehicles cuts demand for gasoline, Nikkei has learned. The refinery accounts for 13% of Idemitsu's total refining capacity. An announcement of the planned closure is set for June 14. The company has concluded that gasoline demand will continue to decline as electric vehicles become more popular.

Idemitsu controls the Yamaguchi refinery through Seibu Oil, an affiliate in which it owns a 38% stake alongside local companies. Idemitsu will buy out the stakes of those companies, which include UBE (formerly Ube Industries) and Chugoku Electric Power, before shutting down the refinery. Idemitsu will consider converting the plant into a base for next-generation energy sources such as hydrogen and ammonia, which do not emit carbon dioxide when burned, and for which demand is expected to increase.

The Yamaguchi refinery has a processing capacity of 120,000 barrels per day. With fuel efficiency and electrification progressing, demand for gasoline continues to slide. Oil refiners have been working to eliminate excess capacity to balance supply and demand. According to the Petroleum Association of Japan, the refining capacity as of the end of March 2021 was 3,457,800 barrels per day — a 35% decrease over the past 20 years. However, demand has fallen faster than that.