

# Oil and Gas News Briefs

## Compiled by Larry Persily

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#### **Europe doesn't want Russian gas, but some don't want wind or solar**

(The Wall Street Journal; May 30) - Europe has a plan to stop buying Russian gas within five years by installing wind turbines and solar panels on a massive scale. But a gauntlet of environmental groups, local opposition and bureaucracy stands in the way. In Germany, Europe's biggest buyer of Russian gas, wildlife protection groups routinely challenge wind farms, stretching their approval time to over five years. In Italy, Europe's second-biggest Russian gas buyer, authorities reject 90% of all wind energy projects.

Permitting obstacles have slowed the development of utility-scale solar farms across the continent. Regulations and public opposition in Poland, France and Hungary have shut off large areas of the countries to wind-energy development. "The discrepancy between the politics and what's happening on the ground with implementation has never been so big," said Steffen Lackmann, chief project officer at WestfalenWIND, a German wind-energy developer. "When the war started at the end of February, I thought the approval process would go faster. ... Nothing really changed yet."

The obstacles are threatening to undercut Europe's political will for a rapid shift from fossil fuels in the wake of the invasion of Ukraine. The European Union is proposing to more than double the bloc's electricity from wind and more than triple it from solar panels by 2030. Officials are pushing governments to cut the approval time for projects, and are calling for special zones where projects could be approved in less than a year.

But they face a powerful coalition of interests that has been trying to pump the brakes on renewable-energy development as wind turbines and solar panels have spread across the continent. Local officials increasingly fear wind towers and solar farms will clash with Europe's landscapes of châteaux, churches and farms; wildlife groups say an earlier generation of projects didn't properly account for the impact on birds and bats.

#### **JPMorgan analyst calls OPEC+ move 'a cosmetic increase'**

(The Wall Street Journal; June 2) - OPEC and its allies agreed June 2 to a bigger-than-expected oil-production increase, OPEC delegates said, allowing Saudi Arabia to potentially pump more crude and paving the way for a potential deal with the U.S. The move represents a shift for the Saudis, who lead the Organization of the Petroleum Exporting Countries and have resisted calls from the U.S., U.K. and other countries to pump more oil to help reduce a price surge resulting from Russia's invasion of Ukraine.

The decision comes after a flurry of diplomacy between Washington and Riyadh, with U.S. officials traveling to Saudi Arabia in recent weeks to broker a deal and a potential visit to the kingdom by President Joe Biden, officials said. At a meeting June 2 between OPEC and 10 non-OPEC producers led by Russia, the group agreed to raise output by 648,000 barrels a day in July and in August, delegates said. Until now, the coalition, called OPEC+, had been dedicated to a series of monthly output increases of about 400,000 barrels a day that have done nothing to stop oil prices from surging past \$100.

Christyan Malek, head of oil and gas at JPMorgan, said the agreement was unlikely to bring significantly more oil production from the group. "It's like the group is firing rubber bullets at the oil market," he said. "It's a cosmetic increase." Further undercutting confidence in the plan: The agreement assumes Russia will increase its output by 170,000 barrels a day from July, though its actual output is falling. According to the Persian Gulf officials familiar with the discussions, the Saudis would consider increasing their oil output more than planned if Russian output continues to decline.

### **Some members start thinking of suspending Russia from OPEC+**

(The Wall Street Journal; May 31) - Some OPEC members are exploring the idea of suspending Russia's participation in an oil-production deal as Western sanctions and a partial European ban begin to undercut Moscow's ability to pump more crude, OPEC delegates said. Exempting Russia from its oil-production targets could potentially pave the way for Saudi Arabia, the United Arab Emirates and other producers in the Organization of the Petroleum Exporting Countries to pump significantly more crude.

The U.S. and European nations have pressed OPEC members to boost production as the invasion of Ukraine has sent oil prices soaring above \$100 a barrel. Russia, one of the world's three largest oil producers, agreed with OPEC and nine non-OPEC nations last year to pump more crude each month, but its output is now expected to fall about 8% this year. So far, there is no formal push for OPEC to pump more oil to make up for any potential Russian shortfall, but some members in the Persian Gulf have begun planning for an output increase sometime in the next few months, delegates said.

OPEC's 13 members and 10 non-OPEC producers led by Russia are set to meet June 2 and are expected to approve a planned output increase for July — part of a series of increases designed to bring production back to prepandemic levels. Together, the producers call themselves OPEC+. While Russia isn't a member of OPEC, it has coordinated oil production with the group since 2016 in a coalition that controls more than half of the world's output, giving Moscow sway over the oil market.

## **Exempting Russia from OPEC+ could allow others to boost output**

(Bloomberg; June 1) - Exempting Russia from the OPEC+ alliance's oil-production agreements — as being discussed by some members of the Organization of Petroleum Exporting Countries — would have major ramifications for global oil supply. By removing Russia from the monthly supply quota system, it could give other OPEC+ members, particularly the Saudis and United Arab Emirates, scope to pump more to stem surging oil prices that topped \$120 a barrel this week.

It also comes as President Joe Biden mulls a visit to Riyadh to try and repair frayed diplomatic relations. "I think there's a good chance (for a break-up), as there appears to be some friendly table-setting ahead of Biden's visit to the Middle East," said Stephen Innes, managing partner at SPI Asset Management. "I don't think the Persian Gulf members could open up a more friendlier welcome card. ... If OPEC makes up for Russia's shortfall, then oil prices will drop further, whereas prices will continue to increase if OPEC holds onto their current production levels even without Russia."

A change to the pact would allow Saudi Arabia to bring back barrels earlier than scheduled, and the kingdom would likely attach conditions to any changes as it seeks to rehabilitate its partnership with the U.S., Helima Croft, a strategist at RBC Capital Markets, said in an interview. "This will allow swing producers like Saudi Arabia, the UAE, and possibly Iraq, to ramp up production, easing the tight crude market globally," said Jeffrey Halley, a senior market analyst at Oanda Asia Pacific.

## **Russia may need to rely on China and India to buy more crude**

(Bloomberg; May 31) - President Vladimir Putin may need to count even more on China and India as the European Union works to ban Russian oil, with few other takers in Asia able to process the type of crude Europe typically buys. EU leaders have agreed to pursue a partial embargo on Russian crude shipped aboard tankers, potentially costing Putin up to \$10 billion a year in lost revenue. That could eventually leave more of Russia's flagship Urals crude — a grade that had been popular in Europe — needing a new home, though there will be limited buyers in Asia.

That's because the grade can't easily be refined in large quantities in countries such as Sri Lanka and Indonesia that don't have sophisticated processing and blending capabilities to handle the highly sulfuric type of oil, said traders. That could lead China and India, which do have refineries that can process Urals, to pick up extra barrels. With Shanghai emerging from its months-long lockdown, Chinese state-owned and private refiners may have a renewed appetite to buy more oil from Russia, the traders said.

However, there is likely to be a limit on how much China and India can realistically buy, with the two countries already mopping up record amounts of Russian oil that's steadily been shunned by Europe since the invasion of Ukraine.

## **India buying up a lot of discounted Russian crude**

(CNN Business; May 31) - India's appetite for cheap Russian oil is swelling, even as the West continues to hit Moscow with unprecedented sanctions. Russian crude flows to India are expected to reach 3.36 million tonnes in May (about 25 million barrels), according to Refinitiv estimates, nearly nine times higher than the 2021 monthly average of 382,500 tonnes. Overall, India has received 4.8 million tonnes of discounted Russian oil since the Ukraine war started, Refinitiv said. Urals oil from Russia currently trades at about \$95 a barrel, while global benchmark Brent is above \$119 a barrel.

India, which imports 80% of its oil, usually buys about 2% to 3% from Russia. But with global oil prices shooting up this year, the government has steadily increased its intake from Moscow, taking advantage of the heavy discounts. According to Refinitiv, Russia crude flows to India soared to 1.01 million tonnes in April from 430,000 tonnes in March.

The world's biggest democracy has refrained from taking a tough stance against Moscow over the war in Ukraine. Russia and India have a long history of friendly relations, which stretch back to the Soviet era when the USSR helped India win its 1971 war with Pakistan. India isn't the only Asian giant buying Russian oil. China, historically the single biggest buyer of Russian oil, is expected to go on a shopping spree, too.

## **Growth to 6.5 million barrels per day forecast for Permian in 2023**

(Houston Chronicle; May 31) - The country's most prolific oil and gas basin is expected to not just outpace other U.S. basins in production this year, but is forecast to produce more oil and gas than any other country except Saudi Arabia and Russia. The Permian Basin in West Texas and New Mexico has experienced explosive growth in the past decade, and Norwegian research firm Rystad Energy predicts that daily output will grow by 1 million barrels to 5.6 million this year and to 6.5 million barrels per day next year.

"The Permian has become the hot spot for U.S. oil production thanks to significant resources, low break-even costs and high oil content," said Espen Erlingsen, head of upstream research at Rystad. "This trend is only likely to continue as global oil markets struggle with supply constraints and the demand for oil shows little sign of easing."

It was a dozen years ago when the Permian produced about 1 million barrels per day total, well behind several countries, according to Rystad. Since then, investment in the Permian has grown — fed by innovations in drilling technology — and now outpaces other oil-producing nations except for Saudi Arabia and Russia. Investment in the Permian also is expected to grow. In the Permian's Delaware Basin investment could go up as much as 40% from last year to over \$25 billion in 2022, according to Rystad.

## **Permian Basin gas producers need more pipeline capacity**

(Bloomberg; May 31) - Natural gas exports from the U.S. are soaring amid a global shortage of the fuel, but traders are betting that producers in one of the biggest shale basins will be selling their supply at a discount next year. The culprit: A lack of pipelines. Companies that own and operate massive pipeline networks stretching from coast to coast are proposing or moving ahead with projects that would collectively move almost 6 billion cubic feet of additional gas to terminals shipping LNG from the Gulf Coast.

That's equal to nearly 6% of current U.S. gas production. But some of the projects won't start up until late 2023, at the earliest. That's not soon enough for gas producers in the Permian Basin of West Texas and southeastern New Mexico, where a supply surge in 2018-2019 filled pipelines to capacity and forced drillers to pay someone to take the fuel off their hands. Now output is rocketing higher again, threatening to trap gas in the region until more lines can be built to shuttle it to U.S. consumers and export terminals.

Permian gas production has averaged 13.8 billion cubic feet per day so far this year, BloombergNEF data show. That's an increase of more than 20% from a year earlier. At this pace, drillers will start facing pipeline constraints as soon as this year, said Tudor, Pickering, Holt & Co. Prices are already reflecting traders' expectation of bottlenecks. Gas for delivery in West Texas in the summer of 2023 is trading at a wider discount to benchmark Henry Hub in Louisiana, Bloomberg prices show. Supplies at the Permian's Waha hub are trading about \$2 below Henry Hub, compared with 50 cents a year ago.

## **U.S. gas producers need to boost production to keep up with exports**

(Reuters columnist; June 1) - U.S. natural gas production will have to accelerate significantly if the country is to keep growing record export volumes without creating shortages for consumers at home. Liquefied natural gas exports were up by 674 billion cubic feet, or 87%, in the first three months of 2022 compared with the same period in 2019. But domestic production increased by only 433 billion cubic feet (5%), mostly as a result of low prices and consolidation within the industry.

As a consequence, LNG exports have grown to around 12% of domestic gas production, up from 4% in 2019, and the proportion is set to increase further. Net exports in all forms, by pipeline as well as LNG, hit a record 377 billion cubic feet in March 2022, up from just 121 billion in March 2019. The rapid growth in LNG exports, in excess of domestic production, has put increasing downward pressure on gas inventories and upward pressure on prices.

At the end of March, working stocks in underground storage were 318 billion cubic feet below the pre-pandemic five-year average. There are, however, signs that producers are starting to respond to the strong price incentive to raise output. The U.S. gas industry has been very successful in marketing its production to consumers in Europe

and Asia who are anxious to diversify their sourcing and lock in reliable supplies. Now the industry must show it can produce enough gas to feed the export machine.

### **Newfoundland agrees to new oil royalty structure to entice project**

(CBC News; Canada; May 31) - Cenovus Energy and its partners are moving ahead with the West White Rose oil project, a C\$3.2 billion expansion of the White Rose oil field offshore Newfoundland, and the deal includes changes to how much royalty money the companies will have to pay to the provincial government. In separate press releases issued May 31, Cenovus and Suncor — another partner in the project — said the finalized agreement with the province includes an amended royalty structure that provides "safeguards to the project's economics in periods of low commodity prices."

The province will get more royalty money when oil prices are high and less revenue when prices are low. Under the new royalty regime, revenue is fixed at 1% for the first year or until the companies recoup their new capital costs — whichever is longer. How long it takes to recoup costs will depend on oil prices. The deal has also replaced the 6.5% royalty when Brent crude trades about US\$50 per barrel with a sliding scale — 1.25% when it's trading between \$65 and \$75 per barrel, 6.5% when it's between \$75 and \$90 per barrel, and 12.5% when it's at \$90 or more per barrel.

"We were able to place the government's priorities to look ... at the revenue ... against our priorities around risk, especially in low-oil-price environments," said Jonathan Brown, Cenovus' East Coast vice president. Cenovus said it expects first oil from the platform to come in the first half of 2026, with production peaking at about 80,000 barrels a day by the end of 2029. The project is expected to extend the life of the field by 14 years and give Cenovus access to an extra 200 million barrels of oil.

### **Mexico pays more in fuel subsidies than it earns from high oil prices**

(Bloomberg; May 30) - Mexico's gasoline and diesel subsidies are now costing the government more than double the extra profit the oil-producing nation gets from higher crude prices, according to estimates by Bloomberg Economics, a sign of the growing burden to keep its cheap domestic fuel. Gasoline and diesel subsidies are expected to total about \$2.39 billion during May amid a global oil price rally, while the windfall from the state-owned oil company's crude exports is likely to be less than half of that, at \$1.04 billion, according to calculations by Bloomberg Economics' Felipe Hernandez.

That leaves the Finance Ministry with a fiscal cost of about \$1.35 billion just this month as the government seeks to fulfill President Andres Manuel Lopez Obrador's pledge to cap increases in domestic fuel prices. The soaring fuel subsidies offers a window into the difficulties to sustain one of Lopez Obrador's main campaign promises: That

gasoline prices won't increase beyond average inflation during the six years of his presidency. It also collides with his government's austerity pledges, after regularly posting fiscal surpluses even during the peak of the pandemic.

In a statement May 30, the Finance Ministry said the calculations used in Bloomberg's article overestimated the costs of the subsidy and underestimated the revenue from oil. The statement didn't provide an official estimate of the cost of subsidies for April and May. Mexico is a major crude exporter, shipping about one million barrels of oil a day.

### **Long-term LNG contracts gain in favor in tight market**

(Natural Gas Intelligence; May 31) - Liquefied natural gas buyers could keep up the strong pace of new long-term contracts through the rest of the year as short-term volumes continue to grow more expensive. Since the beginning of the year, buyers have signed deals for over 22 million tonnes per year. Poten & Partners' Jason Feer, global head of business intelligence, said most of those contracts have been for long-term offtake from U.S. projects at prices linked to the U.S. Henry Hub gas benchmark.

Russia's February invasion of Ukraine continues to disrupt global supplies and spike energy prices. Feer said the conflict has fueled new market dynamics that could create another "strong year" for long-term contracts, building on last year's momentum. While Europe's renewed demand for LNG has kept global prices elevated, most of the new long-term contracts have been signed by Asian buyers eager to shield themselves from spot-market volatility. China has been especially dominant at the negotiating table.

Europe is more hesitant to sign 20-year deals. Feer said some of that delay could come from a learning curve after years of inactive contracting. There are also questions about how long-term contracts could affect climate goals. Europe will sign some contracts, Feer said, but "how much volume is really unclear." Without sufficient long-term deals, he said most of Europe could end up relying on companies like ExxonMobil and Shell with large portfolios of LNG to help meet their needs. "That's a risky strategy," he said. "I think Europe would have to pay up for that, but it is a way to avoid long-term contracts."

### **LNG buyers looking to lock in long-term contracts**

(S&P Global Platts; June 1) - A resurgence in LNG contracting is expected to result in many more deals being signed in the coming months as importers in Asia and Europe, portfolio players and trading houses look to lock in long-term prices. Asian importers are seeking the protection of long-term contracts due to the price volatility of spot markets, while European energy companies and utilities are looking to tie up sufficient gas supply to replace Russian volumes in the years ahead.

The market has moved in favor of LNG sellers. The narrative being pushed by LNG producers, both in the U.S. and the Middle East, is that if Asian buyers do not lock in volumes in the next few months for post-2025 supply, they will lose out to Europe. Japan's gas buyers are being driven by the need to switch out Russian volumes and expiring contracts. Chinese firms are covering spot exposure and securing demand for new LNG terminals. Indian companies need affordable gas to replace spot imports, and some Southeast Asian firms are looking to enter the gas market for the first time.

European buyers, however, are hesitant to lock in 20-year contracts. Their gas needs are focused in the short- to medium-term, with an eye on accelerating their switch to renewables in the long term. They are worried both about the impact of gas on net-zero goals and whether they will even need large volumes of gas for longer than 10 years.

### **Shell gives go-ahead to Australian gas project**

(Australian Financial Review; May 30) - Shell and Seven Group Holdings have given the go-ahead for a multibillion-dollar natural gas project off the coast of Western Australia to supply the Prelude floating LNG plant and meet rising demand for the fuel as the world shuns supplies from Russia. The Crux gas field, 375 miles northeast of Broome, will be the next major development of new gas reserves after Santos' \$US3.6 billion Barossa project off Australia's north coast, which also will supply an existing LNG export plant.

Shell did not give a budget for the project, but Credit Suisse energy analyst Saul Kavonic estimated the cost at between \$US2 billion and \$US3 billion. Shell and its partner have already completed early engineering and design work on Crux, and Seven, which owns 15% of the field, had flagged that a final investment decision was due by the middle of the year. Construction of the project is due to begin next year, with start-up in 2027. Production is expected to reach up to 550 million cubic feet a day. The gas will be piped almost 100 miles to the Prelude floating liquefaction factory.

The commitment to develop the gas field comes amid heightened uncertainty over the outlook for new oil and gas developments under Australia's new government, particularly with the Greens holding the balance of power in the Senate. Opposition to new gas projects is strengthening amid Australia's race to reach net-zero emissions by 2050. However, the project has already secured its key regulatory approvals.

### **Tanzania re-engages on LNG project talks, but hurdles remain**

(S&P Global analysis; May 30) - Since taking over the presidency in March 2021 after the death of John Magufuli, Tanzanian President Samia Suluhu Hassan's sustained re-engagement with foreign investors looks set to produce a landmark host government agreement for LNG development, along with better terms for new exploration and



production licenses. The government's re-engagement with international oil companies Equinor and Shell leading the proposed development of a \$30 billion onshore LNG plant at Lindi has revived progress on the project, which had stalled under Magufuli.

Following government compromises on terms, Equinor and Shell now see the previously marginal LNG project as economically competitive, particularly in the new global gas market paradigm ushered in by Russia's war on Ukraine. Minister of Energy January Makamba — one of President Hassan's key appointees — hopes to sign a host government agreement with the companies within the next few weeks.

Part of the new approach appears to be the withdrawal of government threats — issued under Magufuli's rule — to renegotiate production-sharing agreements covering the deepwater blocks that hold the feedstock gas. Under Hassan's presidency, the threat of broader sector-wide contract reviews also appears to be receding. But the government hopes to accelerate the project's timeline may be dashed even if an agreement is signed imminently. As a greenfield fossil fuel project in a developing country, it is likely to hit further logistical, political and financial barriers once sanctioned.

### **[Australia competes with Europe for floating LNG import, storage units](#)**

(Reuters; May 30) - Europe's race to replace its Russian gas supply has threatened Australia's plans for five gas import terminals as they both compete for ships needed for the operation, raising the risk of a supply shortfall in Australia's populous Southeast in the next two years. France, Germany and the Netherlands among others will need to import liquefied natural gas to replace pipeline gas from Russia.

European users are grabbing floating storage and regasification units (FSRUs) needed to store and regasify LNG back to a gaseous state for pipeline distribution, leaving few left available for Australian import projects that aim to fill an expected gas supply gap from 2024. "Europe is snapping up all the spare LNG volumes out there and any spare floating LNG regas capacity. So there's no spare regas capacity left over for Australia," said Credit Suisse analyst Saul Kavonic.

Although Australia is a top LNG exporter, its main gas fields are far from Sydney and Melbourne and other big cities in the Southeast, and domestic gas output is mostly tied into export contracts with Asian customers. The country is proceeding with LNG import projects, but most have not reached the stage of locking in customers or regasification infrastructure. Australia's Viva Energy, which was targeting a final go-ahead this year for an LNG import terminal near Melbourne, lost its tentative booking for an FSRU from Hoegh LNG to a German user, said Woodside Energy Group CEO Meg O'Neill.

## [Japan will not leave Russia's Sakhalin LNG project](#)

(The Economic Times; June 2) – Japan will not withdraw from Russia's Sakhalin-2 liquefied natural gas project even if it's told to do so, the country's industry minister told parliament on May 31. "Sakhalin-2 is an asset that our predecessors worked hard to acquire. The owner of the land may be Russia, but the leasehold and the liquefaction and transportation equipment belong to the Japanese government and Japanese companies. We do not intend to leave, even if we are told [to do so]," Economy, Trade and Industry Minister Koichi Hagiuda said.

The comments follow criticism from Moscow, accusing Japan of benefiting from its participation in the project while being an "unfriendly nation" that joined the West in sanctioning Russia. Japan has joined the U.S. and the European Union in imposing a wide range of economic restrictions on Russia — but did not cut energy cooperation.

Russian State Duma Chairman Vyacheslav Volodin said last week that Japan was receiving "huge profits" from the Sakhalin-2 project, suggesting that its stake should be sold to Russia's state-owned energy company Gazprom or to companies from "friendly nations." Sakhalin-2, a joint venture between Russia's Gazprom, Japan's Mitsui and Mitsubishi, and Shell, is located on Russia's Sakhalin Island near Japan. Because of its proximity, shipping the gas only takes about three days, thereby reducing transportation costs. Japan gets almost 9% of the LNG it needs from Sakhalin.

## [Korea Gas plans shift to hydrogen](#)

(Bloomberg; May 27) - Korea Gas, one of the world's biggest liquefied natural gas importers, expects to benefit from its current business as it shifts to a future focused on hydrogen. "We'll completely transform our LNG-driven operations into hydrogen by 2050 in line with South Korea's carbon-neutrality target," Lee Jae Hoon, general manager of the company's hydrogen business development team, said. "We have advantages over utilizing our existing gas infrastructure, technology and experience."

The state-run gas distributor, known as KOGAS, expects to begin green hydrogen imports in 2027, and intends to invest in production of the zero-emissions fuel in places including Australia and the Middle East, just as it currently does with LNG. KOGAS is joining a raft of energy giants in pushing hydrogen. BP confirmed this week it would press ahead on hydrogen projects with two of the UAE's biggest energy firms.

While hydrogen is billed as potentially key to curbing emissions from carbon-heavy industrial processes like steelmaking, the market is still in its infancy. There's also been debate over plans by existing energy suppliers to use fossil fuels and carbon capture to produce hydrogen, rather than processes that require only renewable electricity and water. By 2026, KOGAS plans to complete demonstration projects to blend hydrogen

into the existing gas pipeline across South Korea and aims to keep increasing the proportion, Lee said on the sidelines of the 2022 World Gas Conference in South Korea.