Oil and Gas News Briefs
Compiled by Larry Persily
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Higher OPEC+ production target 'a pretty minor tweak'

(Bloomberg; June 2) - OPEC+ agreed to open its oil taps faster in the summer months, a gesture of reconciliation to the U.S. that nevertheless keeps Russia at the heart of the cartel. The White House welcomed the deal, which came after months of diplomatic pressure on Saudi Arabia to mitigate the surge in energy prices that's battered the economy since President Vladimir Putin's decision to invade Ukraine.

Though the modest supply boost announced June 2 — amounting to just 0.4% of global demand over July and August — may ease tight markets, it did not push down prices and it leaves unanswered the question of whether the U.S. can turn Saudi Arabia into an ally in its campaign to economically isolate Russia. "The frost is melting in Saudi-U.S. diplomatic relations, but it will take more progress before full normalization," said Bill Farren-Price, a director at Enverus Intelligence Research.

Before the June 2 OPEC+ meeting, oil had fallen on reports that Saudi Arabia and others were prepared to fill the gap in the market created by Western sanctions on Russian oil, or even remove the country from the OPEC+ quota system altogether. The action was far less dramatic. The group approved oil-production hikes of 648,000 barrels a day for July and August, about 50% larger than the increases seen in recent months. The deal was "a pretty minor tweak," said Farren-Price.

OPEC+ misses the mark with latest production target

(The Wall Street Journal; June 2) - After months of ignoring oil consumers' calls to turn on the taps, OPEC+ has finally agreed to step up production targets. But the real winner of the deal appears to be Saudi Arabia, not motorists. The Organization of the Petroleum Exporting Countries and a Russia-led group of producers on June 2 agreed to increase crude production by 648,000 barrels a day in both July and August, compared with 432,000 barrels a day each month according to their earlier pledge.

But the stepped-up target follows a decline in Russian oil production since Moscow invaded Ukraine in late February. Russia's crude production in April had dropped by 950,000 barrels a day compared with its output in February, according to data from the International Energy Agency. Besides, many OPEC members haven't managed to keep up with the production allotted under their target quotas so far this year. The group is almost certainly going to fall behind its stepped-up target in the months ahead.

Saudi Arabia's sudden change of heart appears to have less to do with oil prices — which have been in the triple digits for at least three months — and more to do with diplomatic currency with Washington, from which Saudi Arabia has been looking to get better security assurance. The change follows a flurry of visits by U.S. officials to the kingdom. President Joe Biden could make a visit at the end of this month. The OPEC+ agreement may have done wonders for Saudi Arabia diplomatically, but it is a drop in the ocean for stressed oil markets and stretched-out consumers.

Bank raises oil price forecast, cites delay in Iran's return to market

(Reuters; June 6) - Citi Research on June 6 raised its quarterly oil price forecasts for this year and its year-average outlook for 2023 because additional supply from Iran looks delayed, adding to tighter market balances. Delay in Iran sanctions relief is the main factor tightening balances, Citi said. The bank now factors in Iran sanctions relief beginning in the first quarter of next year, at first adding 0.5 million barrels per day, then 1.3 million over the second half. It previously expected Iran to add supply in mid-2022.

Iran and the United States engaged in indirect talks in Vienna over the past year to revive a 2015 nuclear agreement between Tehran and world powers which, if successful, could result in lifting sanctions on Iranian crude in the market. Citing tighter market balances, Citi raised its second-quarter 2022 Brent price forecast by $14 to $113 per barrel, and the third and fourth quarter prices by $12, to $99 and $85, respectively. The bank estimates Brent to average $75 per barrel in 2023, revised higher by $16.

"We continue to see a downward trend to prices after a spiky near-term period, on progressively loosening supply-demand balances," Citi said. While Russian oil production and exports continue to be eroded, Citi said expectations of a drop in Russian production of 2 million to 3 million barrels per day were exaggerated. Reconfigured flows to Asia could mean Russian production and exports would not ultimately fall so much, but more in the range of 1 million to 1.5 million, the bank said.

Global oil trader says U.S. may allow Iran to sell more crude

(Bloomberg; June 5) - The U.S. may allow more sanctioned Iranian oil onto global markets even without a revival of the 2015 nuclear accord, according to the world's biggest independent crude trader. While a new agreement would limit Iran's atomic activities and ease U.S. sanctions on its energy exports, talks between Tehran and world powers have stalled since March and oil traders are increasingly pessimistic that negotiators will strike a deal.

Still, President Joe Biden could decide that the need to bring down record-high gasoline prices ahead of fall elections outweighs the benefit of strictly enforcing sanctions. "Uncle

Sam might just allow a little bit more of that oil to flow," Mike Muller, head of Asia at Vitol Group, said June 5 on a podcast produced by Dubai-based Gulf Intelligence.

"If the midterms are dominated by the need to get gas prices lower in America, turning a somewhat greater blind eye to the sanctioned barrels flowing out is probably something you might expect to see. U.S. intervention in these flows has always been pretty sparse," Muller said. Iran has raised oil exports this year, most of them going to China. A nuclear deal would lead to an additional 500,000 to 1 million barrels per day coming to international markets, enough to weigh on prices, according to energy analysts. Iran also has about 100 million barrels of oil in storage that could be sold down quickly.

Buyers work around Western sanctions against Russian crude

(The Wall Street Journal; June 1) - Europe has targeted Russian crude with its toughest sanctions yet, but shippers and refiners are getting the oil to market by obscuring its origins. Some fuels believed to be partially made from Russian crude landed in New York and New Jersey last month. The cargoes were brought through the Suez Canal and across the Atlantic from Indian refineries, which have been big buyers of Russian oil, according to shipping records, Refinitiv data and analysis by a Helsinki think tank.

In the wake of sanctions by the U.S. and European Union, traders are working to obscure the origins of Russian oil to keep it flowing. Its oil is being concealed in blended refined products such as gasoline, diesel and chemicals. Oil is also being transferred between ships at sea, a page out of the playbook used to move sanctioned Iranian and Venezuelan oil. The transfers are happening in the Mediterranean, off the coast of West Africa and the Black Sea, with oil then heading to China, India and Western Europe.

Overall, Russian oil exports rebounded in April, after dropping in March as the first sanctions took effect, the International Energy Agency said. Russia's oil exports rose by 620,000 to 8.1 million barrels a day, close to its prewar levels, with the biggest increase going to India, which has emerged as a key hub for Russian oil. The country's imports have skyrocketed to 800,000 barrels a day since the war began, compared with 30,000 previously, according to commodity-markets data company Kpler. That is likely because of a deep discount — a popular grade of Russian oil is priced about $35 below Brent.

U.S. allows European oil companies to accept Venezuelan crude

(Reuters; June 5) - Italian oil company Eni and Spain's Repsol could begin shipping Venezuelan oil to Europe as soon as next month to make up for Russian crude, five people familiar with the matter said, resuming oil-for-debt swaps halted two years ago when Washington stepped up sanctions on Venezuela. The volume of oil is not large, one of the people said, and any impact on global oil prices would be modest. But

Washington's green light to resume Venezuela's long-frozen oil flows to Europe could provide a symbolic boost for Venezuelan President Nicolas Maduro.

The U.S. State Department gave the nod to the two companies to resume shipments in a letter, the sources said. President Joe Biden's administration hopes the Venezuelan crude can help Europe cut dependence on Russia and redirect some of Venezuela's cargoes from China. Coaxing Maduro into restarting political talks with Venezuela's opposition is another aim, two of the people told Reuters.

The two European energy companies, which have joint ventures with Venezuelan state-run oil company PDVSA, can count the oil toward unpaid debts and late dividends, the people said. A key condition, one of the people said, was that the oil received "has to go to Europe, it cannot be resold elsewhere." The oil companies halted swapping oil for debt in mid-2020 in the midst of former President Donald Trump's "maximum pressure" campaign that cut Venezuela's oil exports but failed to oust Maduro.

Chevron CEO doubts a new refinery will ever be built in U.S.

(Bloomberg; June 3) - There may never be a new refinery built in the U.S. despite surging gasoline prices as policymakers move away from fossil fuels, according to Chevron. "We haven't had a refinery built in the United States since the 1970s," Chief Executive Officer Mike Wirth said in an interview on Bloomberg TV. "My personal view is there will never be another new refinery built in the United States."

The Biden administration has appealed to OPEC and U.S. shale producers to pump more crude to help lower gasoline prices this year. But even if oil prices were to fall, the U.S. may not have enough refining capacity to the meet petroleum product demand. Refining margins have exploded to historically high levels in recent weeks amid lower product supplies from Russia and China and surging demand for gasoline and diesel.

And adding refining capacity is not easy, especially in the current environment, Wirth said. "You're looking at committing capital 10 years out, that will need decades to offer a return for shareholders, in a policy environment where governments around the world are saying, 'We don't want these products,'" he said. "We're receiving mixed signals in these policy discussions."

EPA proposes rule change giving states more say in pipeline projects

(S&P Global Platts; June 2) - The Environmental Protection Agency will seek to restore state authority to review and potentially oppose gas pipelines and other infrastructure through the control of critical water quality permits, the agency said June 2. The action would undo a Trump-era regulation intended to prevent states from blocking projects.

States, tribes and territories for decades possessed broad authority to halt projects or push changes to them under Section 401 of the federal Clean Water Act, which allows states to review whether federally approved infrastructure complies with standards for local water quality. But the administration of former President Donald Trump aimed to rein in state reviews after major pipelines hit a series of permitting roadblocks.

The new proposal seeks to reverse major components of the Trump rule by giving state regulators more flexibility over what they consider in their reviews and more authority in setting review timelines. The EPA proposal would reinstate "the broader and more environmentally protective scope of review," according to the EPA. The proposed rule will be open for public comment for 60 days once it is published in the Federal Register.

U.S. LNG exports in May second-highest month on record

(Reuters; June 1) - The U.S. exported 7.29 million tonnes of liquefied natural gas last month, second highest on record, as sales to Europe and South America expanded, according to Refinitiv Eikon data. The U.S. is on track to become the world's largest LNG exporter this year, topping Australia and Qatar, as U.S. Gulf Coast producers work to boost liquefaction capacity. The volume exported in May was up from 6.93 million tonnes in April, and 12% more than a year earlier, according to preliminary Eikon data, based on vessel tracking. The record was 7.67 million tonnes in March.

U.S. exports are getting a boost from additional capacity from Venture Global LNG's new Calcasieu Pass terminal in Cameron Parish, Louisiana, and higher production at top U.S. exporter Cheniere Energy. The growth has some big domestic consumers raising concerns over natural gas prices and production in the United States. Gas producers would have to accelerate output to accommodate growth in LNG exports without creating shortages for domestic consumers.

U.S. LNG producers in May sent almost two-thirds of total cargoes to Europe as customers demanded more in anticipation of reductions in Russian gas supplies. Exports to Asia represented 15% of the total, the data showed. However, demand in Europe is expected to ease soon as inventories build and winter heating season ends, paving way for more U.S. shipments to Asia and other destinations.

Not all Gulf Coast residents support growth in LNG terminals

(The Associated Press; June 2) - The front lawn of Lydia Larce’s Louisiana home is strewn with debris: Remnants of cabinets and chunks of pink shower marble lie between dumpsters. She lives in a FEMA trailer out back, her home in shambles more than a year after Hurricane Laura tore through Lake Charles. Larce, like many in

Southwest Louisiana, has what she calls “storm PTSD.” Tornado warnings trigger anxiety. She fidgets and struggles to sleep. “I’m scared.”

A string of devastating hurricanes has torn through this region in recent years. There have been more Category 4 and 5 hurricane landfalls in the past five years nationwide than in the previous 50 years combined. Larce and her neighbors know they are on the front lines of climate change. Her region is now the epicenter of a trend that she fears will make those disasters even more destructive. Developers plan to build even more liquefied natural gas export facilities across the coast, already the heart of the industry.

Talk to some locals and government officials and you’ll hear unqualified support for the facilities in this battered region. “It’s a significant boon to our economy, because it provides good, high-paying jobs,” said Eric Tarver, a member of the Calcasieu Parish School Board and chief financial officer of Lake Charles Toyota. “It’s a tremendous amount of tax revenue that just dwarfs what we’ve had from any other industry.”

But some long-time residents — often the ones who’ve lost the most to the storms — dispute those claims, saying that few of those coveted jobs end up going to people who grew up in the region. “I feel Southwest Louisiana has been made a sacrificial lamb,” said Roishetta Ozane, a single mother of six and an organizer for Healthy Gulf.

U.K., Dutch governments approve new offshore gas fields

(The Associated Press; June 1) - British regulators gave final approval June 1 to develop a new North Sea gas field, while the Dutch government announced that it has issued permits for a joint gas exploration project with Germany. European nations are scrambling to tap new sources of natural gas that will help them wean themselves off supplies from Russia, but environmentalists have criticized the decision to invest in fossil fuels rather than renewable energy that would do less harm to the planet.

Britain’s business and energy secretary, Kwasi Kwarteng, said U.K. regulators approved the Jackdaw gas field being developed by Shell. “We’re turbocharging renewables and nuclear, but we are also realistic about our energy needs now,” Kwarteng wrote on Twitter. “Let’s source more of the gas we need from British waters to protect energy security.” The environmental group Greenpeace responded by accusing the government of “desperate and destructive” action.

Separately, the Netherlands issued permits for a new gas field off its North Sea coast on the border with Germany. The Dutch government said permission from German authorities was still pending. “A year ago, the German state of Lower Saxony decided not to issue permits,” the Dutch government said. “They are now making a different decision because of the war in Ukraine.” If the joint project is approved, the first gas could be produced by the end of 2024, the Dutch government said.

Norwegian LNG plant restarts production after repairs from 2020 fire

(Reuters; June 2) - Norway's Hammerfest liquefied natural gas plant has restarted LNG production following a fire almost two years ago, boosting the country's gas exports, operator Equinor said on June 2. The company last week told Reuters the plant had completed repairs and was preparing to restart output. The plant had been offline since late September 2020, and a restart was postponed several times for repairs.

"This is of great significance in a period when predictable and reliable supplies are highly important to many countries and customers," Equinor executive Irene Rummelhoff said in a statement. A restart is welcome news for the gas market, which is scrambling to find alternatives to Russian supplies in the wake of the war in Ukraine, and as Norway seeks to cement its position as a reliable energy supplier.

Europe's only large-scale LNG plant, just outside the Arctic town of Hammerfest, can process almost 650 million cubic feet of gas per day when fully operational, just over 5% of Norway's export capacity. "In full production, a ship will leave approximately every five days," Equinor said. There are currently three LNG tankers at anchor, ready to receive cargoes from Hammerfest LNG, it added. A fourth, the Arctic Aurora, is approaching Hammerfest. Gas is piped in from the offshore Snoehvit field, 100 miles away in the Barents Sea. The field was forced to shut as a result of the plant's closure.

Cash-strapped Sri Lanka turns to Russia for oil

(Nikkei Asia; June 2) - A desperate and extremely cash-strapped Sri Lanka is turning to Russia for cheap oil, while much of the world shuns Moscow over its invasion of Ukraine. Trapped in the worst economic crisis in its history, the South Asian country said last weekend that it would pay $72 million for about 660,000 barrels of Russian crude ordered via a Dubai-based company and docked at Colombo for weeks. Sri Lanka's first purchase of Russian oil since the outbreak of the war in Europe gave a new lease on life to a refinery in Sapugaskanda, which had been shut since March.

It also highlighted how the country's woes have given Russia an opening. Sri Lanka has already kicked off discussions with Moscow about directly importing crude oil, although it is unclear where the funds for such shipments would come from. Russia has yet to announce any credit line for its South Asian customer. Sri Lanka needs $554 million to import oil for the month of June alone, according to its power and energy minister.

Experts say that while Sri Lanka's move to take Russian oil may raise eyebrows, it has little room to be choosy about trade partners as it suffers from a severe fuel shortage, daily power cuts and surging living costs. Sergi Lanau, deputy chief economist at the Washington-based Institute of International Finance, said the decision to turn to Russia is mostly based on finding low prices in a desperate situation. "I do not think the government has much bandwidth at the moment to strategize on the geopolitical front."

Canadian oil sands crude selling at discount

(Bloomberg; June 3) - Canadian heavy crude prices have collapsed as the European war upends global market flows and makes oil sands crude less valuable. Western Canadian Select's discount to benchmark West Texas Intermediate grew $1.70 to $20.80 a barrel in Alberta on June 3, the widest in almost seven months, data compiled by Bloomberg show. The growing discount has muted the benefits to oil sands producers from the surge in benchmark oil prices above $100 a barrel.

Soaring energy costs prompted the Biden administration to tap U.S. strategic petroleum reserves, nearly all of which is similar in grade to oil sands crude. As many as 39 million barrels of these sour barrels will be released this summer, just as oil sands sites come out of maintenance. At the same time, India and China are soaking up Russian oil as much of the rest of the world avoids doing business with Russia, closing the door to another potential market for Canadian crude.

Russian oil has been available for as much as $40 under the global benchmark Brent, said trading sources. Western Canadian Select for export out of the U.S. Gulf Coast, where oil sands crude is sent by pipeline to gain access to global markets, is selling at a growing discount to U.S. benchmark West Texas Intermediate, according to Link Data Services. Canadian oil sands production is about 3.5 million barrels a day, with most of its exports going to U.S. refineries.

Russian producers may restart wells on hope of seasonal demand

(Reuters; May 31) - Russian oil companies led by Rosneft plan to reopen wells in June which they had shut due to Western sanctions, four sources said, as firms bank on a pickup in seasonal demand and sustained Asian buying. It was not immediately clear how big the increase could be nor how it might be affected by European Union plans announced on May 30 to slash its Russian crude imports by up to 90% by year-end.

Between May 1-30, Russian oil production increased to 10.19 million barrels per day from 10.05 million in April, the Interfax news agency reported. But that was still nearly 1 million below levels before the West imposed sanctions on Moscow. Sources said Russian companies plan to ramp up output in hopes of a summer pickup in domestic demand and as Russia increases seaborne supply to buyers such as India and China.

Companies have cut back production in central Russia while keeping output little changed in northern and Siberian fields farther east where cold weather would complicate restarting wells, sources said.

BMW plans to build fossil fuel-free plant to manufacture new cars

(Bloomberg; June 2) - BMW's move to build a fossil fuel-free car plant in Hungary is looking prescient as Europe's manufacturing sector scrambles to replace Russian oil and gas with alternatives. While those plans would have been discussed long before the war in Ukraine, they show the drastic rethink and commitments companies face to wean themselves from oil and gas. The benefits will take time to roll in, however, even as the crisis speeds the pivot to renewable energy and with Europe's energy woes adding to the toll on carmakers already straining in the shift to electric cars.

First, the 1 billion euro (US$1.08 billion) plant won't be operational until 2025, so it wouldn't provide an immediate buffer from the ongoing energy concerns, or if Russia decided to stop supplying gas. Car makers depend on the fuel for their paint shops to generate heat and steam, some component-making for melting metals and for electricity to power their factories. The industry also relies on a multitude of components such as plastics, which use natural gas as feedstock, as well as in production processes. Overall, gas accounted for over half of BMW's energy consumption last year.

While there are alternatives, short-term fixes come at a price for the bottom line or the environment. Mercedes-Benz is considering using the more expensive propane or butane in its paint shops, while Volkswagen has decided to keep the ability of its Wolfsburg power plants to run on coal. The German car giant had previously planned to convert the power stations at its headquarters to gas-only to cut CO_2 emissions.

Korean shipyard's LNG tanker building capacity full to 2025

(Reuters; June 2) - Korea Shipbuilding & Offshore Engineering has mostly filled its order book for the next 2½ years as the pandemic has driven demand for container ships, leaving little room to meet the needs of the liquefied natural gas sector, a senior company executive said. With U.S. LNG exports rising, more LNG carriers are traveling longer distances to customers in North Asia and Europe, while European countries have snapped up floating storage and regasification units (FSRUs) as they ramp up LNG imports to replace Russian gas supplies in the wake of the Ukraine crisis.

However, shipyards in South Korea and China are unable to accommodate demand for new LNG carriers as they work to meet a flood of orders for new container ships following global supply chain disruptions and port congestion that have held up ships in the U.S. and China. "A huge volume of new-build orders have taken up slots in China and South Korean shipyards," K.W. Kim, senior vice president at Hyundai Heavy Industries, flagship unit of the world's largest LNG carrier builder KSOE, told Reuters.

KSOE's capacity is nearly full, with orders stretching to 2025, he said, adding that container ships and LNG carriers each account for about 30% of slots. KSOE builds 20 to 22 LNG carriers per year. South Korean shipyards are also struggling to operate due

to labor shortages while grappling with prices nearly doubling for key material steel plates, Kim said. "At this moment, we can't receive new orders for FSRUs," he added.