Oil and Gas News Briefs
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China says it cannot 'slam the brakes' on coal

(Reuters; March 11) - China will make full use of coal as a vital part of its energy strategy, leaders and officials said during the nation's annual gathering of parliament this week, as the government bids to balance economic stability with its longer-term climate goals. Following a speech by President Xi Jinping reiterating the importance of coal, delegates from across the country called for more investment in coal technology and new policies to shore up profits for coal enterprises.

Xi told a National People's Congress delegation from the top coal-producing region of Inner Mongolia that China, the world's biggest greenhouse gas emitter, was "rich in coal, poor in oil and short of gas," and "could not part from reality." He said green transition is a process, and China could not simply "slam the brakes" on coal. Xi pledged last year to "control" coal use over the 2021-2025 period and start cutting consumption in 2026 as part of China's contribution to the fight against global warming.

But growing energy security worries have already driven mining output to record highs and seen new coal-fired power plants go into construction. Delegates to the congress tried to bridge the gap between developing coal and curbing emissions by calling for more investment in clean and "smart" coal technologies, including carbon capture and storage. The threat of energy shortages continues to preoccupy policymakers after a wave of power outages swept through some of China's industrial heartlands last year.

European utilities turning to coal as they back off Russian gas

(Bloomberg; March 11) - European utilities are getting increasingly reliant on coal for power as the region tries to reduce its dependence on Russian natural gas. Even with prices for the dirtiest fossil fuel surging with most other commodities, it's still much cheaper for power plants to burn coal than gas to make electricity. Last week, plants on the continent burned 51% more coal than a year earlier, according to data from Fraunhofer ISE. At the same time, natural gas demand from power stations declined.

The shift may be here to stay, even if it's bad for the climate. As Europe plans to curb the use of Russian gas by two-thirds this year, companies will inevitably rely more on coal, although the region will also seek to boost supplies from other gas producers. "High gas prices across Europe are driving down the economic competitiveness of gas relative to coal," said Kesavarthiniy Savarimuthu, an analyst at BloombergNEF. That's making utilities switch from gas to coal, particularly in Germany, which is already the largest consumer in Europe outside of Russia.

Russia is Europe's biggest supplier of coal too, accounting for about a third of the total in 2020. And with the country increasingly isolated, traders are scrambling to pick up the fuel from other producers, including Colombia, South Africa, Australia, Indonesia and the U.S. In the past week, shipments of coal from Russia were still sent to the U.K., Germany and Latvia, as European sanctions don't yet block imports of energy sources.

U.S. on a 'scavenger hunt' to find spare oil production capacity

(The Wall Street Journal; March 10) - The war in Ukraine has added urgency to the Biden administration's monthslong search for new oil supplies, as it seeks to contain surging energy prices through talks at home and diplomacy abroad with friends and foes alike. The rush to fill gaps from Russia's rapidly shrinking contribution to the global energy markets has led the White House to oil-rich nations in the Middle East, countries under U.S. sanctions and private-sector oil giants meeting this week in Houston.

But the quest has been complicated by several factors, including President Biden's vow to take a tougher line against Saudi Arabia over human-rights abuses, domestic political pressure on climate change issues and supply-chain disruptions. Republicans and Democrats have criticized the oil outreach to adversaries such as Iran and Venezuela. And the Biden administration has faced conflict with oil advocates in the U.S. and Canada over whether North American companies are fully using existing capacity.

The upshot is a globe-spanning scramble for supply that has only accelerated after the Biden administration this week banned imported oil and other energy sources from Russia to punish the country for its war on Ukraine. "The White House has embarked on the oil equivalent of a scavenger hunt," said Helima Croft, head of global commodity strategy at RBC Capital Markets. "Given the potential magnitude of the Russian losses, the White House will need something akin to a straight flush to pull it off."

No bidders for cargo of Russian Far East crude

(Bloomberg; March 13) - Zero bidders. That was the outcome of a recent attempt to sell Russian crude typically favored by Asian buyers as more of the nation's oil is shunned after its invasion of Ukraine. Sokol oil from the Sakhalin-I project in Russia's Far East was offered by one of the partners, India's ONGC Videsh, for May, with the latest price indications showing deep discounts for the grade. The failure to attract bids follows a similar pattern to Russia's Urals crude, which has struggled for buyers despite being incredibly cheap.

Sokol is a favorite crude of Asian buyers such as South Korea, China and Singapore, as well as Hawaii. The lack of interest could provide a peek into what's to come next week when another Far East Russian grade — known as ESPO — begins trading for the month. China's independent refiners in the Shandong region are typically big users of the oil. ESPO yields a large amount of diesel when refined, making it a very attractive grade at the moment as margins soar on concerns about disruption to Russian flows.

While the U.S. and oil majors such as Shell have pledged to stop purchases, traders said some in India and China may still be open to buying the crude, but only if they can secure the letters of credit and ships needed for transport the oil.

Europe's need to replace Russian gas will reorder global market

(Bloomberg; March 10) - The liquefied natural gas market is primed for a global battle for supply with far-reaching repercussions as the threat of Russia cutting off Europe sends the continent scrambling for alternatives. To replace most of that supply by the end of the year, the European Commission drew up a plan that requires new sources of LNG nearly equal to the annual volume to South Korea, the market's third-largest buyer.

Rerouting of trade flows could shred the global market structure. Demand would far outstrip additional supply available this year, causing Europe to steal cargoes from Asia's nearest producers and send eye-watering prices soaring further. "This would place huge upward pressure on LNG spot prices, as Europe essentially fights with Asian countries," said Saul Kavonic, an energy analyst at Credit Suisse Group.

Emerging countries that are less able to pay lofty prices such as India and Pakistan stand to suffer the most, while a shift to dirtier fuels could also knock nations' climate targets off-track. Spot prices of the heating and power plant fuel jumped to a record this week, with the North Asia LNG spot price benchmark reaching nearly $85 per million Btu, according to S&P Global Platts. Previously, prices rarely topped $50.

The desired increase in European LNG imports means that global demand will grow by nearly 10% this year. But producers have limited ability to boost supply in the short term. Plus, roughly 65% of the world's LNG supply is already tied up on long-term contracts, leaving just a sliver for Europe to tap.

U.S. LNG export developers need contracts and financing to proceed

(EnergyWire; March 9) - The tragedy of Russia's invasion of Ukraine presents a business opportunity for the U.S. natural gas industry if Europe turns sharply away from Russian gas. With 14 LNG projects federally approved but not yet built, the U.S. industry could roughly double its exports without need for major regulatory approval. But while they don't need approval from the Federal Energy Regulatory Commission or Department of Energy, the projects do need support from investors. Those 14 projects are all awaiting a final investment decision from the companies developing them.

By extension that means the fate of U.S. gas exports largely hinges on utilities and other gas providers in Europe: If they won't commit to long-term agreements to buy the fuel, the terminals won't get built in the United States. "That's got to happen to get Europe the gas it's going to need," said Charlie Riedl, executive director of the Center for Liquefied Natural Gas, which represents major LNG companies.

In the short term, the United States can't send much more gas to Europe. Its imports nearly doubled from November 2021 to January, and U.S. terminals are shipping just about all the gas they have. According to CLNG, Europe in February received almost 70% of all LNG exported from the United States. "U.S. exports are going at full steam," said Brad Williams, head of Spitfire Energy Advisors in Houston.

High prices could reduce LNG demand growth

(Reuters; March 9) - Asia's liquefied natural gas demand growth may cool this year as buyers balk at record-high spot prices pushed even higher by Europe's shift to the fuel amid the Ukraine crisis, analysts and industry sources said. High spot prices since late last year have already slowed trade and are likely to crimp demand growth of the fuel in Asia — the largest consuming region — even as some countries see widening gas supply deficits as domestic production falls. This comes just as new LNG buyers in Asia, the Philippines and Vietnam, are set to enter the market later this year.

"The LNG market has been evolving in an unfavorable manner for buyers as the supplies are forecast to be tight during the 2021-2025 period, while demand is picking up after the pandemic," said Vietnamese state firm PV Gas, which is set to start up the country's first liquefied natural gas import terminal in the fourth quarter. "This will lead to a strong price rising trend over the next years with no signs of easing in the short term."

Consultancy Wood Mackenzie expects Asian LNG demand growth to slow to 2% year-on-year in 2022, from 8% in 2021. "In contrast, European LNG demand is expected to spike up by at least 20% in 2022, reflecting reduced Russian pipeline flows and the need to replenish depleted European gas storage levels," said Valery Chow, a vice president at Wood Mackenzie. The spike in prices in a tight global market could erode demand. "This may result in demand destruction as gas-to-coal or gas-to-oil switching would become more economical," said Rystad Energy analyst Lu Ming Pang.

Expanded U.S. LNG production could run counter to climate goals

(Reuters; March 10) - White House efforts to boost U.S. liquefied natural gas exports and cut Europe's reliance on Russian gas after the invasion of Ukraine are proceeding slowly, because of concerns about the impact on climate change, government and industry sources said. The Ukraine crisis has underscored Europe's energy dependence on Russia, which supplies about 40% of the gas used to heat its homes and generate electricity, and the Biden administration has vowed to help its allies break that chain.

The White House was weighing the announcement of an interagency review of ways to boost LNG exports to Europe alongside its March 8 decision to ban U.S. imports of Russian oil products, people briefed on government decision-making told Reuters. However, the interagency review has been shelved, at least for now, after some in the White House argued it would counter the administration's efforts to wean the U.S. off fossil fuels consumption and production and tackle climate change, the sources said.

Natural gas burns with much lower carbon emissions than coal or oil, but its drilling and extraction and transportation in pipelines results in the leakage of methane, the second biggest cause of climate change after carbon dioxide. The U.S. LNG industry has long claimed its fuel has less climate impact than Russian gas sent by leaky pipelines to Europe, but there's little hard data comparing the two. Trying to balance fighting climate change with other concerns, such as keeping energy prices and inflation low and supporting union jobs, has been a dilemma for the Biden administration.

Interest builds in adding more floating LNG import terminals

(Bloomberg; March 9) - As Europe prepares for the prospect of losing Russian gas, companies are scrambling to get hold of specialized vessels that can quickly handle imports of liquefied natural gas from other countries. Interest in leasing floating storage and regasification units, or FSRUs, has surged recently in Europe, according to sources. The vessels, which offer a faster and cheaper alternative to building land-based terminals, have been deployed in the past decade from Asia to Latin America.

The vessels are either built to order or converted from older LNG carriers, and can be installed in a matter of months, while onshore import terminals take years to build. The rush to find alternatives to pipeline gas from Russia — which meets about 40% of Europe’s demand — was given fresh impetus March 8 as the European Commission outlined a strategy to cut imports from Russia by two-thirds this year, following Moscow’s invasion of Ukraine.

Hoegh LNG, a major owner and operator of FSRUs, said it has received “a number of inquiries from European projects that are being revived.” In Germany, Uniper is looking to revive plans to build an LNG terminal as the country pushes to diversify away from Russian energy supplies. The utility has already undertaken preliminary work for a floating terminal at a location on the North Sea coast. In Italy, a proposed terminal would be docked near the northern port of Ravenna, one person said, asking not to be identified discussing confidential negotiations.

Japanese lawmaker says nuclear 'best option' to cover fuel shortages

(Reuters; March 10) - Resource-poor Japan depends overwhelmingly on fossil fuel imports to meet its energy needs, complicating calls for the nation to boycott Russia's oil and liquefied natural gas after Moscow's invasion of Ukraine. Japan gets most of its primary energy needs from crude oil, more than 90% of which comes from the Middle East, based on government data. LNG comprises about 24% of the total energy mix.

But LNG takes up a bigger piece of the pie when it comes to electricity production, at 36%. That dependence has increased since 2011, when most of Japan's nuclear plants were idled after the earthquake and tsunami that triggered meltdowns at a plant in Fukushima. The LNG supply is primarily used in electricity production, but it is also used for heating and cooking in residential households. Russia accounts for less than 10% of Japan's LNG supply, and it could probably replace that supply from other sources.

Power from nuclear plants slid to almost zero by 2014 in the wake of the Fukushima disaster, and now stands at about 3% of total energy production. Only six reactors are operating now, compared with 54 before the Fukushima disaster. Speeding up the nuclear restart could be Japan's "best option" to make up for fuel shortages, senior lawmaker Itsunori Onodera told Reuters on March 8. In perhaps an indication of a stronger return to nuclear, the government said this week it would forgo an official memorial of the March 11 nuclear disaster for the first time since it occurred in 2011.

B.C. gas pipeline developer offers 10% stake to Indigenous groups

(Reuters; March 9) - TC Energy said March 9 it signed an option agreement to sell a 10% stake in Coastal GasLink to Indigenous communities, in an attempt to give more authority to the people that traditionally held the land being used for the gas pipeline from northeastern British Columbia to the LNG plant under construction on the coast in Kitimat. The project has faced demonstrations and opposition from environmentalists and some First Nations, who say the project will trespass over their traditional lands.

Last month, a pipeline work camp was attacked by what police described as assailants brandishing axes threatening workers and damaging equipment. Calgary-based pipeline operator TC Energy said the purchase option is available to all 20 First Nations holding existing agreements with Coastal GasLink, which will stretch 416 miles across the province. "For many of us, this marks the first time that our Nations have been included as owners in a major natural resource project that is crossing our territories," said Chief Corrina Leween of the Cheslatta Carrier Nation.

Global stockpiles of diesel running far below average

(Reuters column; March 11) - Global stockpiles of diesel and other middle distillates have fallen to the lowest seasonal level since 2008, when similar shortages of these transport and industrial fuels helped to propel oil prices to a record high. Distillate fuel oil inventories in the United States are 30 million barrels (21%) below the pre-pandemic five-year seasonal average and at the lowest level since 2005, the U.S. Energy Information Administration said.

Stocks in Europe are 35 million barrels (8%) below the pre-pandemic five-year average at the lowest level since 2008, Euroilstock, which compiles inventory data on behalf of the European Union, found. And middle distillate stocks in Singapore are 4 million barrels (32%) below the pre-pandemic five-year average and also at the lowest since 2008, according to the country's Ministry of Trade and Industry. Global consumption of diesel and other distillates has persistently outpaced production.

Demand for the fuels is highly geared to the economic cycle since they are mainly used in freight transportation, manufacturing, farming, mining and oil and gas extraction. The rapid rebound in economic activity after the first wave of the pandemic and associated lockdowns, and its focus on diesel-intensive manufacturing and freight, has boosted use of the fuel. Pressure to stabilize and rebuild inventories will cause refiners' crude consumption to accelerate later this year and into 2023. But the global crude market is already exceptionally tight and the extra crude demand will cause it to tighten further.

Canada calls on Michigan to drop fight against cross-border pipeline

(The Canadian Press; March 11) - The global energy crisis sparked by Russia's invasion of Ukraine is repressurizing North America's pipeline debate — and Canada's natural resources minister says it offers one more reason for Michigan to abandon its crusade against the Line 5 liquids pipeline. Even without the pressures created by U.S. and Canadian bans on importing Russian energy, Michigan is engaged in a wrong-headed effort to shut down the cross-border line, Minister Jonathan Wilkinson said.

With inflationary forces and the import bans pushing energy prices to new records in both countries, he said now would be a good time to pause the hostilities between the state and Enbridge, the pipeline's Calgary-based owner and operator. The line can move more than 500,000 barrels a day of oil and gas liquids into Michigan. Gov. Gretchen Whitmer and her attorney general have been trying to shut down Line 5 since 2020, fearing a leak in the Straits of Mackinac, where the line crosses the Great Lakes.

The dispute between Michigan, Enbridge and Canada is in the courts. “Canada has supported the proponent (Enbridge) very actively and it’s now before the courts. We obviously will have to wait to see the determination,” Wilkinson said. “But certainly, we are optimistic because the case is a strong one.”

Russia wants India to increase its energy investments

(Reuters; March 12) - Russia has urged India to deepen its investments in the sanction-hit country's oil and gas sector, and is keen on expanding the sales networks of Russian companies in Asia's third-largest economy. Russia's economy faces its deepest crisis since the 1991 collapse of the Soviet Union, as the West imposes severe sanctions over Moscow's invasion of Ukraine. Some western allies have encouraged India to condemn Russia's actions in Ukraine, after New Delhi abstained from voting against Moscow, a long-standing arms supplier, at the United Nations.

"Russia's oil and petroleum product exports to India have approached $1 billion, and there are clear opportunities to increase this figure," said Russia's Deputy Prime Minister Alexander Novak, according to a statement shared by Russia's embassy in India on March 11. "We are interested in further attracting Indian investment to the Russian oil and gas sector and expanding Russian companies' sales networks in India," Novak told Indian Minister of Petroleum and Natural Gas Hardeep Singh Puri.

Indian state-run companies hold stakes in Russian oil and gas fields, while Russian entities including Rosneft own a majority stake in Indian refiner Nayara Energy. Some Indian companies also buy Russian oil. Russia expects both countries to continue cooperation on civilian nuclear power, including building new units at a nuclear power plant in the south Indian town of Kudankulam, Novak said.