Oil and Gas News Briefs
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Few details on U.S.-European Union plan to boost LNG deliveries

(Bloomberg; March 25) - The U.S. and European Union will push to boost supplies of liquefied natural gas to Europe by the end of this year in an effort to begin to displace some of Russia's gas sales, a political framework that now leaves companies to sort out the details. Under the agreement, Europe will get at least an additional 530 billion cubic feet of gas as LNG by the end of the year, though it's not clear where it will come from.

The aim is to work with international partners to help the continent wean itself off Russian gas. Europe is trying to diversify its energy sources in a bid to starve Russia of the revenues it needs to fund the war in Ukraine. But that's a mammoth task. Russia ships about 5.3 trillion cubic feet of gas to Europe via pipelines every year, and 500 billion to 630 billion cubic feet of gas as LNG. U.S. LNG production is at its maximum.

"It's a start, but relatively small compared to the overall supplies from Russia," Jonathan Stern, a research fellow at the Oxford Institute for Energy Studies, said of the U.S.-EU target. "The task is huge." Details of the plan for this year's LNG deliveries are vague. Contracts have not been signed for the full volume, U.S. National Security Advisor Jake Sullivan said. It will come from "a variety of sources," and not just the U.S., he said.

A significant boost to LNG supplies will only come from 2025, when several projects are scheduled to come online. Until then, it's unclear whether the supplies would be coming from additional production or from cargoes redirected from other regions as European buyers compete with Asian countries for limited supplies. Officials across the continent are racing to sign new contracts with Mideast and Africa producers before next winter.

Bank analyst expects Europe to sign deals for more U.S. LNG

(Bloomberg; March 24) - U.S. liquefied natural gas exporters should start signing a number of deals with European buyers over the next weeks or months as the bloc seeks to slash its dependence on Russian supplies, according to Bank of America. But with existing U.S. terminals operating at full capacity and proposed projects still pending a final investment decision, it will take until about 2025 before the supplies are available, said Francisco Blanch, head of commodities research at Bank of America.

Europeans will be "careful not to over-commit themselves" to imported gas, with political leaders probably seeing the war as an opportunity to boost renewable energy supplies, Blanch said. Still, European demand could help pave the way for the U.S. to roughly double its LNG export capacity over the next several years. The lack of long-term pacts with buyers may be preventing a series of proposed U.S. terminals already approved by regulators from moving forward, according to Federal Energy Regulatory Commission Chairman Richard Glick. Half of the 18 projects approved haven't started digging.

"One of the things I heard consistently from companies is the need for contracts," as those long-term offtake agreements are needed to secure financing, Glick said in a media briefing March 24. Bank of America's Blanch says U.S. gas should remain largely insulated from war-led spikes in international prices as limited export terminal capacity prevents the nation from immediately increasing shipments. Gas is expected to average $4.10 per million Btu this year, he said, below current prices near $5.40.

Qatar says it will have a lot more LNG in four years

(CNN Business; March 25) - "It's always nice to be wanted," Qatar's Energy Minister Saad Sherida al-Kaabi said during an interview on March 24. "Everyone in Europe is talking to us." Qatar, one of the world's top suppliers of liquefied natural gas, has been in the limelight as Europe rushes to find alternatives to the Russian gas that has fueled its economies for decades, as Moscow presses on with its brutal war in Ukraine.

But Kaabi warned the transition will be difficult. Replacing Russian gas supply to Europe is "not practically possible" just yet, he said. Qatar's current gas capacity won't satisfy European demand, he said — but it could in the future. Qatar will invest $28 billion into expanding its giant North Field and expects gas capacity to rise by more than 60% in four years, he said. After that, around half of its capacity is expected to go to Europe. "Our plan is we want to be 50% east of Suez, 50%, west of Suez," he said.

The only way Qatar can replace Russian gas to Europe is by diverting cargoes from other customers that hold long-term contracts, such as those in Asia. But it could incur compensation claims from those buyers. "The problem is that Europe is jumping into an LNG market that cannot accommodate its immediate need for immense volumes," said Nikos Tsafos, of the Center for Strategic and International Studies in Washington, D.C. "Of course, Qatar could send more gas to Europe but it hasn't yet despite incredibly high prices in Europe, which suggests its flows to Asia might be stickier than we think."

Exiting Russian LNG could cost Japan a lot of money

(Nikkei Asia; March 22) - Japan could pay one-third more per year longer term for imported liquefied natural gas if it exits the Sakhalin-2 LNG project in Russia, a costly decision for the energy-poor Asian nation. Sakhalin-2 in the Russian Far East produces 10 million tonnes of LNG a year, with roughly 60% of the output going to Japan. The 13-year-old export development accounts for virtually all of Japan's LNG from Russia.

State-owned energy group Gazprom has stake of about 50% in Sakhalin-2 — Russia's first LNG project. Shell, which holds a roughly 27.5% interest, has said it will cut ties with Gazprom in response to Russia's invasion of Ukraine. How Japanese investors respond is tied in with the country's energy security strategy. "Amid the global competition for LNG, there is basically no substitute for Sakhalin-2 other than spot LNG," said Masahiko Hosokawa, a business professor at Japan's Meisei University.

Trading houses Mitsui and Mitsubishi have stakes of 12.5% and 10% in the gas project. Japanese electric and gas utilities signed long-term purchasing contracts for the gas. Imported Sakhalin-2 LNG is estimated to cost about $10 per million Btu. This compares favorably with Asian spot prices that have been as high as $60 against the backdrop of the Ukraine war. Replacing Sakhalin-2 gas entirely with spot buys could add about 1.8 trillion yen ($15 billion) to the cost of Japan's imports, based on current exchange rates.

Japanese utility advertises for LNG from anyone but Russia

(Reuters; March 24) - A Japanese regional utility has released a tender to purchase a shipment of liquefied natural gas with a clause requesting that the cargo not come from Russia, in what may be the first LNG tender to specifically ban the pariah state. Tohoku Electric Power is seeking a spot LNG cargo for April to May delivery with loading ports excluding Russia, according to traders with knowledge of the matter. The utility needs more LNG after an earthquake last week knocked a coal-fired power plant offline.

While most Asian LNG importers have paused buying spot cargoes from Russia since the war in Ukraine began, traders until now haven't seen a purchase tender that has been so specific in avoiding the country. The move will likely be repeated by buyers across the region, tightening available natural gas supplies just as the market is grappling with a shortage and sky-high prices.

Tohoku's actions in the LNG market follow a similar pattern in Japan's oil sector, where the nation's top refiners have said they will stop importing Russian crude. It's also the latest in a broader retreat as energy giants across the world slash their dependence on Russian fuels. However, while Japanese buyers are avoiding additional spot purchases of Russian LNG, they are still accepting deliveries via long-term contracts. Tohoku Electric is shutting out Russian LNG from its tender because it isn't sure if those shipments may be slapped with sanctions as the war drags on, according to sources.

Impact of reduced Russian crude exports adds to market stress

(The Wall Street Journal; March 27) - The de facto buyers' strike on Russian crude that began a month ago drove oil prices to their highest levels in years. Now the real effects are starting to create a second wave of impact to markets, disrupting Russian exports and threatening further price hikes. Major energy companies and commodity traders balked at buying crude from Russia in the days following the invasion of Ukraine. Banks stopped financing the trades, shippers refused to load cargoes and insurers stopped covering them, fearful of running afoul of sanctions or upsetting company stakeholders.

Oil is typically shipped about three weeks after a deal is struck, meaning that the drop in buys in the early days of the war led to real disruptions in supply starting last week. It's being strongly felt in Europe, where diesel prices have soared. Exports of Russian oil by sea last week fell to the lowest in nearly eight months, according to data from Kpler.

UBS estimates that about 2 million barrels a day, or about one-fourth of Russia's exports, have been disrupted. The International Energy Agency forecast that the level could reach 3 million by next month, warning it could create more pressure in the worst global energy-supply crisis in decades. Global benchmark Brent crude rose 9% last week, settling around $117 a barrel after two consecutive weeks of declines.

To move Russian crude in a reluctant market, a common grade known in the industry as Urals is being priced at an increasingly wide discount, signaling that buyers are skittish. The trading arm of Russian oil major Lukoil tried to sell Urals crude at $31 below Brent last week, according to a trader. That was bigger than the gap two weeks ago, when the discount was around $28. Before the war, Urals mostly traded close to benchmarks.

OPEC tells Europe: Banning Russian oil will drive prices higher

(S&P Global Platts; March 24) – OPEC has told the European Union that global energy markets would be destabilized if the countries follow through with threats to ban imports of Russian oil, sources in the producer group said, with traders warning of massive price spikes beyond the surge already seen. OPEC, which formed an alliance with Russia in late 2016 to manage the global oil market, has been heavily lobbied by consumer nations and the West to boost output to offset the hit of sanctions imposed on Russia.

But it has insisted that the disruptions to the market are not its responsibility to mitigate, and delegates say the bloc remains disinclined to cast aside its production quotas or raise them more aggressively. OPEC is scheduled to meet with Russia and its nine other allies on March 31 to discuss May production levels.

"The world can't replace Russia's exports," one source said of OPEC's message to the EU, which was delivered in an online meeting March 16 between EU Energy Commissioner Kadri Simson and OPEC Secretary General Mohammed Barkindo. Russia is one of the top three crude producers in the world and exports more than 7 million billion barrels per day of crude and refined products. Europe imported about 2.7 million barrels per day of Russian crude and 1.5 million barrels per day of refined products, mostly diesel, before the invasion of Ukraine.

China’s refiners discreetly buying discounted Russian crude

(Bloomberg; March 23) - China’s oil refiners are discreetly purchasing cheap Russian crude as the nation’s supply continues to seep into the market. Unlike India’s state-run oil refiners, which have issued a number of tenders seeking to buy Russia’s flagship Urals crude among other grades, traders say China’s state processors are negotiating privately under the radar with sellers. Independent refiners are also quietly buying, according to traders who asked not to be identified as the information is confidential.

Most international buyers are shunning Russian crude after its invasion of Ukraine, fearing damage to their reputation or falling foul of sanctions. China’s independent refiners, known as “teapots,” which account for a quarter of the nation’s processing capacity and are mainly based in Shandong province, bought some ESPO oil that’s loaded at Russia’s eastern port of Kozmino, according to traders. ESPO is a favored grade because it can be shipped to their smaller ports — that are unable to unload larger vessels — from a shorter distance, cutting down costs.

Some teapots are working with traders on financing options and checking on the availability of vessels to ship the crude at a reasonable price, and are also considering buying Urals, said traders. Trading of Russian oil has mostly shifted away from the public eye after its invasion of Ukraine. Willing buyers and sellers are being forced to engage in private negotiations after some tenders attracted zero bids for Russian crude.

India joins China in buying discounted Russian crude

(CNBC; March 27) - There’s been a “significant uptick” in Russian oil deliveries bound for India since March after Russia’s invasion of Ukraine began — and New Delhi looks set to buy even more cheap oil from Moscow, industry observers said. China, already the largest single buyer of Russian oil, is also widely expected to buy more oil from Russia at deep discounts, they said. Major oil importing countries such as India and China have been grappling with higher crude prices, which have soared since last year.

“We believe that China and, to a lesser extent, India will step up to buy heavily discounted Russian crude,” said Matt Smith, lead oil analyst at Kpler. This would mark a stark contrast from the rhetoric across major world powers and companies which are eschewing Russian oil. But those sanctions would leave a gap in the market, with Russia finding itself with excess crude it’s unable to sell, analysts said.

Cargoes of Russian crude to India were “fairly infrequent,” with 12 million barrels delivered across all of 2021, Smith told CNBC. However, since the beginning of March, five cargoes of Russian oil, or about 6 million barrels, have been loaded and are bound for India — set to be discharged in early April, he told CNBC in an email. “Russia oil is still finding a home. Indian refiners have issued several tenders for Urals crude as the discount to Brent continues to rise,” ANZ Research said March 25.

“Today, the government of India’s motivations are economic, not political. India will always look for a deal in their oil import strategy. It’s hard not to take a 20% discount on crude when you import 80% to 85% of your oil,” said Samir N. Kapadia, head of trade at government relations consulting firm Vogel Group.

Investor pressure continues on U.S. producers to restrain spending

(CNN Business; March 24) - The U.S. oil industry doesn't appear to be in any rush to come to the rescue of consumers struggling with high gasoline prices. Oil company CEOs say Wall Street is to blame. Of the executives, 59% said investor pressure to maintain capital discipline is the main reason publicly traded producers are restraining growth, according to a Federal Reserve Bank of Dallas survey released March 23.

For years, the boom-to-bust oil industry spent lavishly to fund all-out production growth. U.S. oil output skyrocketed, keeping prices low. Yet sustaining profits proved elusive. Hundreds of oil companies went bankrupt during multiple oil-price crashes, leading investors to demand more restraint from energy CEOs. Today, oil companies are under enormous pressure from Wall Street to return cash to shareholders through dividends and buybacks, instead of investing in badly needed supply.

"Discipline continues to dominate the industry," an oil field services executive told the Dallas Fed in the survey. "Shareholders and lenders continue to demand a return on capital, and until it becomes unavoidably obvious that high energy prices will sustain, there will be no exploration spending." Although U.S. oil supply is expected to rise in the coming months, it remains well below pre-COVID output. That's despite the fact that oil prices have shot up to levels unseen since 2008. The U.S. produced 11.6 million barrels per day in the week ending March 18, but that is still down 10% from late 2019.

Lack of supplies, crews, investors hamper U.S. drilling

(Texas Tribune; March 25) - After Russia invaded Ukraine last month and the U.S. and major energy companies boycotted Russian oil and gas, some politicians quickly called for cranking up American energy production to fill the void. But in Texas’ Permian Basin — the nation’s most productive oil region and the place that would have to lead any jump in U.S. production — people in the industry, energy analysts and local leaders say there’s no quick or easy way to make that happen.

Cranking up production requires more workers, materials and money, and people in the industry say they’re facing the same labor shortages and supply chain issues that have plagued countless businesses throughout the COVID-19 pandemic. On top of that, they say investors have become more hesitant about pouring money into fossil fuels. “It’s hard to get pipe, sand, crews for drilling rigs, truck drivers,” said Mike Oestmann, CEO of Tall City Exploration, a company that drills oil wells in West Texas. He said the scarcity of supplies, equipment and people “is unlike anything I’ve ever seen.”

Frac sand — necessary for hydraulic fracturing — has been particularly hard to find due in part to labor shortages, even though much of the supply comes from Texas, he said. The price of steel has increased steeply, and shortages make it hard to even get pipe for drilling wells. Oestmann said his company has no plans to add more rigs, but even if it did, it probably wouldn’t be able to find supplies. John Volke, CEO of Crew Support Services, said: “Every one of our clients are trying to hire 20 to 40 people — field hands, labor for rigging pipe. … I don’t know where these people went to work, Amazon?”

FERC backtracks on policy statements for gas line reviews

(O’Melveny law firm; March 25) - The Federal Energy Regulatory Commission issued an order March 24 pausing action on its updated policy statements for environmental reviews of interstate gas lines, including consideration of greenhouse gas emissions in those project reviews. In a unanimous order, FERC made its recent policy statements draft instead of final, invited comments on the policies, and said the policies will not apply to applications under review or filed before FERC finalizes its policy statements.

Comments are due on the draft policy statements by April 25. FERC received comments and requests for a rehearing from natural gas industry parties in response to its recent policy statements, and the U.S. Senate Committee on Energy and Natural Resources held a hearing on the issue March 3, at which all five FERC Commissioners appeared. In addition, the Russian invasion of Ukraine has led to a heightened interest in U.S. gas production as a source for increasing liquefied natural gas supplies to Europe, which may affect FERC’s future actions on these policies.

Separate from FERC’s decision to possibly reconsider its policies, a recent decision by the U.S. Court of Appeals for the D.C. Circuit provides some support for the FERC majority view that greenhouse gas emissions deserve more careful scrutiny in environmental reviews of gas pipeline applications. In its decision in Food & Water Watch v. FERC, issued March 11, the D.C. Circuit held that FERC had a duty under the National Environmental Policy Act to consider the reasonably foreseeable greenhouse gas emissions from the downstream combustion of gas to be transported by pipelines.

Total CEO says quitting Russia would mean giving shares to Putin

(Bloomberg; March 26) - TotalEnergies doesn’t plan to divest its Russian assets amid the war in Ukraine, as doing so would essentially mean handing them over to President Vladimir Putin’s regime, Chief Executive Officer Patrick Pouyanne said. “For me it’s a question of accountability and the responsibility of the offshore stakeholders,” he said during a conference in Doha, Qatar on March 25. “Do I give them for free to Mr. Putin? Because this is what it means ‘leaving today’ and giving my shares.”

The French energy major earlier this week said it will no longer sign or renew contracts to buy oil and petroleum products from Russia, with the aim to halt all purchases by the end of 2022 at the latest, and has begun “gradual suspension” of Russian operations, according to a statement. The war in Ukraine has sent shockwaves through energy markets, pushing oil and gas prices higher and causing many buyers to shun Russian crude. Some of the world’s largest oil companies — including Shell, BP and ExxonMobil — have pledged to exit Russia, reducing capital available for investments.

“They do what they want, and we do what we want,” Pouyanne said of the other companies. BP and Shell have said they won’t make any new purchases of Russian oil and gas, but won’t immediately be able to disentangle themselves from the country due to long-term contracts and the difficulty in finding alternative supplies. TotalEnergies owns roughly a fifth of gas producer Novatek as well as a large interest in the Yamal LNG project, Russia’s biggest producer of liquefied natural gas. Pouyanne said his company finances plants in Russia, but that “they are operated by a Russian company, which can do it without us. This plant will continue to produce, whether or not we stay.”

Sinopec suspends talks on petrochemical investment in Russia

(Reuters; March 25) - China's state-run Sinopec Group has suspended talks for a major petrochemical investment and a gas marketing venture in Russia, sources told Reuters, heeding a government call for caution as sanctions mount over the invasion of Ukraine. The move by Asia's biggest oil refiner to hit the brakes on a potentially half-billion-dollar investment in a gas chemical plant highlights the risks, even to Russia's most important diplomatic partner, of unexpectedly heavy Western-led sanctions.

Beijing has repeatedly voiced opposition to the sanctions, insisting it will maintain normal economic and trade exchanges with Russia, and has refused to condemn Moscow's actions in Ukraine. But behind the scenes, the government is wary of Chinese companies running afoul of sanctions — it is pressing companies to tread carefully with investments in Russia, its second-largest oil supplier and third-largest gas provider.

Since Russia invaded a month ago, China's three state energy giants — Sinopec, China National Petroleum Corp. and China National Offshore Oil Corp. — have been assessing the impact of the sanctions on their multibillion-dollar investments in Russia, sources with direct knowledge of the matter said. "Companies will rigidly follow Beijing's foreign policy in this crisis," said an executive at a state oil company. "There's no room whatsoever for companies to take any initiatives in terms of new investment."

Germany will cut tax on gasoline and diesel fuel

(Bloomberg; March 24) - Major oil and gas consumers have pledged "radical" cutbacks in imports from Russia, the International Energy Agency said at the conclusion of its annual ministerial meeting. All of the IEA's 31 members — which includes the U.S., Japan and Germany — outlined individual polices and plans to immediately reduce their intake following Russia's invasion of Ukraine, Executive Director Fatih Birol said at a press conference in Paris. He didn't specify the intended cuts.

IEA members are also "immediately ready to react" with another release of emergency oil stockpiles if needed to fill any gap left by a boycott of Russian barrels, Birol said. The nations announced the deployment of 63 million barrels at the start of March, a small amount that has helped ease markets somewhat. Meanwhile, Germany's ruling coalition will cut the tax for three months by 30 euro cents a gallon ($0.33) for gasoline and half that for diesel, as part of a package to ease the strain on businesses and households. The retail price for gasoline in Germany was about $8.70 a gallon last week.

Russia says it wants payments in rubles for natural gas

(Bloomberg; March 23) - Russia plans to demand ruble payments for natural gas purchases from European nations, deepening its standoff with the West and potentially aggravating Europe's worst energy crunch since the 1970s. Gas prices surged more 30% after President Vladimir Putin ordered the central bank to develop a mechanism to require ruble payments for natural gas within a week.

Putin's move showed a growing willingness on both sides to use Russian energy supplies as a weapon in the struggle between Moscow and the West over the war in Ukraine. The specifics of the new arrangement weren't immediately clear, but by demanding payments in rubles Putin is essentially forcing companies to directly prop up his currency after it was sent into free-fall by sanctions on the Russian economy.

Germany, the biggest buyer of Russian gas, said the announcement on ruble payments is a breach of contracts, and the nation will speak to its European partners on how to respond, according to Economy Minister Robert Habeck. Italy, the second-biggest customer of Gazprom, the Russian state export monopoly, said it wasn't inclined to pay for Russian gas in rubles because it could help Putin weaken Europe's sanction regime.

France in talks with Total to build LNG terminal on English Channel

(Reuters; March 26) - The French government is in talks with energy company TotalEnergies to build a floating liquefied natural gas import terminal in the northern port of Le Havre, Les Echos newspaper reported on March 25, without citing sources.

Europe has been scrambling to find ways to reduce its reliance on Russian natural gas and ease an energy market crunch that has been worsened by Russia’s invasion of Ukraine. The report said the proposed LNG terminal on the English Channel would serve networks run by French gas utility Engie, increasing the country’s import capacity.

Australia wrestles with domestic gas needs vs. LNG exports

(Reuters; March 24) - In dealing with a tight natural gas market, is it best to boost supply or instigate demand destruction? This question is relevant as Europe grapples with how to handle its reliance on Russian gas in the wake of Moscow's invasion of Ukraine. But the canary in the coal mine may be Australia, where policymakers, utilities and gas producers are tackling a domestic market that faces dwindling supply, rising prices and unsustainable competition with Australia’s large liquefied natural gas export sector.

The battle lines were clearly visible at the Australian Domestic Gas Outlook conference this week in Sydney, with producers arguing that natural gas remains a vital energy transition fuel while at least one state government aims to slash its use. Victoria, home to Australia's second-biggest city Melbourne and also the top gas-consuming state, outlined plans to cut gas consumption 25% by 2025 and 50% by 2030, as part of its policy to move to net-zero emissions by 2050.

In addition to meeting climate targets, the Victorian government is likely concerned about the gas supply situation. Gas demand has been largely met by the fields in the Bass Strait between Victoria and the island state of Tasmania. But these are depleting and no longer produce sufficient volumes to meet demand. This means that gas has to come from fields in faraway Queensland and the northern parts of South Australia. This gas is not only expensive to transport via pipelines, but it also has to compete with three LNG export plants opened in the past decade as part of the massive investment surge.