Oil and Gas News Briefs
Compiled by Larry Persily
March 3, 2022

OPEC+ declines further production boost to help stem rising prices

(The New York Times; March 2) - With the price of a barrel of oil soaring, oil-producing OPEC+ alliance members declined to take steps to cool the market at its monthly meeting on March 2. In a statement that had surreal qualities given the surging prices in recent weeks, the group, which includes Russia, said current fundamentals and the outlook for the future pointed "to a well-balanced market." It blamed "volatility" on "geopolitical developments" — in other words, Russia's onslaught in Ukraine.

"Such an argument will increasingly strain credulity," Helima Croft, an analyst at RBC Capital Markets, an investment bank, wrote in a note to clients. Left unmentioned in the statement was the fact that Russia's deputy prime minister, Alexander Novak, is a co-chair of OPEC+. The cartel said it would continue a strategy agreed to last July, rubber-stamping a modest 400,000-barrel-a-day production increase for April. Analysts widely consider an increase of this size insufficient to cool down prices. In addition, many OPEC+ countries have been producing substantially less oil than the group's targets.

After the meeting, which was held by teleconference, prices surged again. Brent crude nearly reached $114 a barrel, the highest since 2014. West Texas Intermediate hit $112.50 a barrel, a 10-year high. What OPEC+ members will actually deliver to the market in the coming weeks is anyone's guess. Russia produces about one in 10 of the world's barrels. But analysts say Russian crude is struggling to find buyers despite discounts approaching 20% as buyers and shippers, worried about getting ensnared in Western sanctions against Moscow, look for oil elsewhere.

Even without targeted sanctions, buyers decline taking Russian crude

(The New York Times; March 1) - The U.S. and European Union have been unwilling to put sanctions on Russian energy exports in response to the country's invasion of Ukraine. But some traders appear to have concluded that buying oil from Russia is just not worth the trouble. One of the world's three top oil producers, after the U.S. and Saudi Arabia, Russia provides roughly 10% of global supply. But in recent days, traders and European refineries have greatly reduced their purchases of Russian oil.

Some have stopped buying Russian crude altogether. Buyers are pulling back because they or the shipping companies, banks and insurance companies they use are worried about running afoul of Western sanctions in place now or those that might come later, energy experts said. Others are worried that shipments could be hit by missiles, and some just don't want to risk being seen as bankrolling the government of President Vladimir Putin. Russian exporters have been offering the country's highest-quality oil at a discount of up to $20 a barrel in recent days but have found few buyers, analysts said.

Buyers, in Europe in particular, have been switching to Mideast oil, a decision that has helped drive the global oil price above $100 a barrel for the first time since 2014. "The enablers of oil exports — the banks, insurance companies, tanker companies and even multinational oil companies — have enacted what amounts to a de facto ban," said Tom Kloza, global head of energy analysis at the Oil Price Information Service. Kloza said it could take weeks before it is clear how significantly Russia's oil exports had fallen and whether the drop would be sustained.

'Most majors are not touching Russian oil,' analyst notes

(Bloomberg; March 2) - Russian oil sales are increasingly under an embargo in all but name, threatening a vital source of global crude supply. While there are currently no sanctions in place preventing companies from purchasing the nation's crude, buyers are refusing to take it, and tanker companies are unwilling to ship it. Refineries are racing to secure alternative supplies from other markets.

On March 1, oil-trading giant Trafigura offered to sell a cargo of the nation's flagship Urals grade for $18.60 a barrel less than an international benchmark. It drew no bids. The big issue is shipping and trading. Large numbers of tanker owners — often companies with relatively small compliance departments — are taking a caution-first approach until the full picture on sanctions is clear. Some traders are also mindful of negative publicity if they handle the barrels. That's a killer blow for exports, a mainstay of Russia's economy, because almost two-thirds of its crude sales move by ship.

"About 70% of Russian crude trade is frozen," Energy Aspects, a consultant, said in a note. "Most majors are not touching Russian oil, and only a few European refiners and trading firms are still in the market." Energy Aspects said that once it's clear what the full range of sanctions are, the amount of crude trade that's frozen may drop to about 20% as Asian trader step in, but for a country that exports about 5 million barrels a day, or about 5% of global consumption, that would still be a crushing blow for the oil market.

Only demand destruction can stop rising oil prices, Goldman says

(Bloomberg; Feb. 28) - Demand destruction is the only thing that can stop oil moving higher after the U.S. and European allies unleashed more curbs on Russia following its invasion of Ukraine, according to Goldman Sachs. The bank raised its one-month forecast for Brent crude to $115 a barrel, from $95, with significant risks of higher prices from further escalation over Russia's invasion of Ukraine or longer disruption.

Western sanctions will tighten significantly after the announcement that some Russian banks will be banned from the SWIFT international payment system and that the country's central bank reserves will be targeted, Goldman Sachs analysts said in a note Feb. 27. While carve-outs still likely allow for energy and food, the hurdles created for payments should exacerbate the already visible commodity supply shock, they said.

"Commodity markets need to reflect not only these difficulties in paying for Russia's exports but, with little left to sanction, the risk that Russian commodities eventually fall under Western restrictions," the analysts said. Goldman sees the short-term oil price at $110 to $120, noting that 2 million to 4 million barrels a day of demand destruction would be needed to cover for a commensurate one-month loss of Russian exports.

A price-induced U.S. shale supply response would no longer be a suitable rebalancing mechanism, with Russia exporting about 7.3 million barrels a day of seaborne crude oil and petroleum products, it said. The only potential short-term supply response would need to come from the OPEC+ alliance, which is not inclined to respond, analysts said.

Europe's gas needs could spur U.S. LNG projects to move forward

(Bloomberg; March 2) – Supply disruptions to Europe, along with Germany's pledge to build two import terminals, could be the push U.S. developers need to move forward with more proposed liquefied natural gas projects. Europe was already fuel-starved, and the war in Ukraine is compounding the strain. Shell and U.K. energy supplier Centrica are among companies saying they'll exit Russian gas-supply agreements or ventures, helping send gas prices surging 60% to a fresh record on March 2 in one of the most dramatic examples of the fallout rippling through markets from the war in Ukraine.

The jump in gas prices comes even with LNG producers in the U.S., the world's biggest exporter, running flat out and sending flotillas of cargoes to Europe through this winter. The crisis, along with German Chancellor Olaf Scholz's comments that Germany would move quickly to build two LNG terminals to cut dependence on Russian gas, could help spur financing and approval decisions for U.S. LNG developers.

Germany's decision "is a complete game changer," said Fred Hutchison, CEO of the trade association LNG Allies. There are almost a dozen U.S. LNG export projects that hold federal permits but lack enough contracts to finance the billions of dollars of construction. Citigroup analysts listed expansions at Corpus Christi and Freeport, both in Texas, and Cameron in Louisiana as the most likely to succeed, along with new construction such as Plaquemines and Driftwood in Louisiana and Rio Grande in Texas.

Their combined capacity of 66 million tonnes is more than 15% of the current global LNG market, and would be enough to displace 40% of the volume of gas Russia sold to Europe in 2019. Under construction is Golden Pass LNG, a joint venture in Texas between ExxonMobil and Qatar Energy that's expected to be completed in 2024.

Sanctions on Russia disrupt LNG deliveries to Europe

(Reuters; March 2) - Supplies of Russian liquefied natural gas to Europe have been disrupted by uncertainty over whether ships can unload cargoes at European ports due to sanctions imposed on Moscow, according to ship tracking data and trade sources on March 2. The disruptions come at a time when Europe is contending with record prices for gas due to tight supplies that have ramped up energy bills and led governments to pay billions of dollars in subsidies to consumers struggling to stay warm.

Four tankers that loaded LNG at the Russian terminal in Yamal and initially said they were sailing to British and French ports have changed their destination status to "For Orders," Refinitiv Eikon ship tracking data showed. That means the vessels are awaiting new orders from their owners. The change in destinations came after Britain said on Feb. 28 it was denying entry to Russian owned, operated, controlled, chartered, registered or flagged ships as it drives up pressure over Russia's invasion of Ukraine.

The British move has added to the widespread disruption to energy markets caused by punitive measures the West has taken against Moscow, with traders steering clear of Russian fuel even though many of the restrictions, including Britain's port ban, exempts Russian oil and gas. European Union states are also considering a ban on Russian ships entering the bloc's ports to tighten sea restrictions after a halt in air traffic, officials said, a step that would further hamper Russia's commercial shipments.

Sanctions on Russia prompt some LNG buyers to halt purchases

(Bloomberg; Feb. 28) - Several liquefied natural gas buyers have paused further purchases from Russia due to the quickly evolving wave of sanctions from the West, adding to worries over tight global supplies of the fuel. Some importers from Asia to South America have decided to temporarily halt buying spot LNG shipments from Russia as they wait for more clarity on restrictions against banks and companies, according to traders. Across the board, traders say they are being more cautious about buying LNG or using vessels from Russian entities.

The move will intensify competition for a shrinking pool of available LNG, exacerbating a global shortage that threatens to send spot prices of the heating and power plant fuel higher. Russia was the fourth-largest LNG exporter in 2021. Western nations agreed over the weekend to exclude some Russian banks from the SWIFT bank messaging system. And while the new sanctions don't directly target energy, the volatile and fast-moving backdrop is making it hard for LNG buyers to commit to more Russian gas.

Some smaller importers are struggling to get letters of credit from banks to purchase Russian LNG, effectively halting their procurement, the traders said, requesting anonymity to discuss private details. At least two of China's largest state-owned banks are restricting financing for purchases of Russian commodities. To be sure, LNG importers are continuing to take delivery of Russian shipments under long-term contracts or that were previously purchased, traders said.

Shell will exit its Russian investments, including LNG plant

(Bloomberg; Feb. 28) – Shell is exiting its Russian gas ventures, including a liquefied natural gas operation, after the invasion of Ukraine changed the rules of engagement between Western companies and Moscow. The decision follows a similar move by BP, which said Feb. 27 it will dump its stake in state-run oil producer Rosneft, taking a hit of as much as $25 billion. Shell is ending its partnerships with Gazprom, another Kremlin-controlled giant with a leadership closely tied to Russian President Vladimir Putin.

"Our decision to exit is one we take with conviction," Shell CEO Ben van Beurden said. "We cannot — and we will not — stand by." The move comes after pressure from the U.K. government, which along with the U.S. and other allies is seeking to squeeze Russia's economy and convince Putin that his invasion of Ukraine will mean financial ruin. Shell didn't give any information about the size of the financial hit it could take from exiting Russia, but said its non-current assets in the ventures amounted to $3 billion.

The fact both oil majors are flagging impairments indicates they may be willing to walk away from the assets even without finding a buyer. Sanctions, and selling in almost forced circumstances, make it unlikely either will find buyers willing to make them whole. Shell owns 27.5% of the Sakhalin-2 LNG facility in the Far East and 50% of the Salym Petroleum Development, which last year earned the company $700 million of adjusted earnings. Shell will also end an exploration partnership with Gazprom and withdraw from the Nord Stream 2 pipeline, which was already suspended by German authorities.

The key change will be the loss of capacity from Shell's LNG venture, said RBC analyst Biraj Borkhataria. Shell is the world's biggest LNG trader, which boosted its earnings significantly at the end of last year and features heavily in its energy-transition plans.

Exxon says it will halt operations at Russian Far East oil project

(The Wall Street Journal; March 1) – ExxonMobil said it is halting operations at a multibillion-dollar oil and gas project in Russia and will make no further investments in the country following its attack on Ukraine. The oil giant said March 1 it is preparing to shut down production at the Sakhalin Island development in Russia's Far East. Exxon holds 30% of the project — valuing its share at $4 billion, as of its latest annual report — alongside Russian state-controlled Rosneft, Japan's Sodeco and India's ONGC Videsh. Exxon said it is taking steps to exit from the consortium.

The announcement follows similar moves by BP and Shell, which said in recent days they would exit investments in Russia. Western companies have acted swiftly to detach themselves from Russia, vowing to shed assets to support punitive measures against Russia. Pulling out of Sakhalin will be difficult for Exxon. The company operates the development and is responsible for keeping oil flowing and essential functions. It may have to leave staff in place to ensure a safe shutdown. Selling its stake could also be challenging, as the market for Russian assets has quickly shrunk. ONGC Videsh said the partners will decide over the next few weeks on how to keep operating the project.

Exxon has pulled back from Russia over the past decade following previous sanctions. Sakhalin was unaffected by previous sanctions, and Exxon has continued to invest in expanding it. Over the past two decades, the Sakhalin consortium has exported more than 1 billion barrels of oil from the development. Production from Sakhalin has declined as the asset has aged and currently represents about 3% of Exxon's oil production. Exxon and Rosneft have been working to develop the asset's remaining natural gas reserves in a large liquefied natural project that could be operational by 2027.

U.S., other nations agree to release 60 million barrels from reserves

(National Public Radio; March 1) - The U.S. and other members of the International Energy Agency are releasing 60 million barrels of oil from their strategic petroleum reserves after crude prices surged following Russia's invasion of Ukraine. It represents just 12 days' worth of Russian oil exports and, by itself, the move is seen as unlikely to significantly bring down prices. In fact, crude prices continued to rise despite the news — the global benchmark, Brent, soared past $107 a barrel to set a seven-year high.

The global release is also smaller than a similar release coordinated by the U.S. with allies in November, which also did not move prices down. This time around the U.S. will release 30 million barrels from its reserves as part of the IEA action with 30 other countries. IEA members hold emergency stockpiles of 1.5 billion barrels of oil. The release amounts to 4% of stockpiles, or roughly 2 million barrels per day for 30 days. The IEA said it will continue to monitor energy markets and could recommend additional stockpile releases if needed.

So far, Russian oil and gas exports have not been directly targeted with sanctions, as the U.S. and Europe are wary of disrupting global supplies. However, traders and analysts report that financial sanctions on Russia and concerns over the risk of future energy sanctions are already slowing down the sale of Russian oil and gas, though not stopping it completely. The U.S. has also signaled that direct energy sanctions remain on the table, as Moscow shows no sign of backing off its military assault on Ukraine.

Canada plans to ban Russian oil imports — hasn't had any since 2019

(Bloomberg; Feb. 28) - Canadian Prime Minister Justin Trudeau said the government plans to ban imports of Russian crude oil into the country, as part of efforts to ramp up pressure on President Vladimir Putin. Trudeau made the announcement Feb. 28 at a press conference in Ottawa, where he also announced plans to provide anti-tank weapon systems to Ukraine.

"Today, we are announcing our intention to ban all imports of crude oil from Russia, an industry that has benefited President Putin and his oligarchs greatly," Trudeau said in French. "While Canada has imported very little amounts in recent years, this measure sends a powerful message." Canada hasn't imported any crude oil from Russia since 2019, Natural Resources Minister Jonathan Wilkinson told lawmakers.

Total says it will stop providing capital for new projects in Russia

(Bloomberg, March 1) - TotalEnergies said it will no longer provide capital for new projects in Russia, a modest concession to the mounting political pressure to economically isolate the country that doesn't go as far as some of its peers. The French energy producer, which is involved in major liquefied natural gas projects in Russia, didn't follow BP, Shell and Equinor, which are pulling out of the country altogether.

TotalEnergies has operations in Russia representing about $1.5 billion, or 5%, of its cash flow. It owns roughly a fifth of gas producer Novatek as well as a large interest in the Yamal LNG project, Russia's biggest liquefied natural gas plant. It also has a 10% stake in the Arctic LNG 2-project, which is under construction. The two Novatek-led LNG export projects represent a total annual production capacity of almost 37 million tonnes. In just a few days, some of Europe's largest energy companies have dumped tens of billions of dollars of Russian investments that they had nurtured over decades and shut themselves out of the world's largest energy exporter, probably forever.

Germany may extend life of coal, nuclear plants to avoid Russian gas

(Reuters; Feb. 27) - Germany signaled a U-turn in key energy policies on Feb. 27, floating the possibility of extending the life-spans of coal and even nuclear plants to cut dependency on Russian gas, part of a broad political rethink following Moscow's invasion of Ukraine. Europe's top economy has been under pressure from other Western nations to become less dependent on Russian gas, but its plans to phase out coal power by 2030 and to shut its nuclear plants by end-2022 have left it few options.

In a landmark speech on Feb. 27, Chancellor Olaf Scholz spelled out a more radical path to ensure Germany will be able to meet rising energy supply and diversify away from Russian gas, which accounts for half of Germany's energy needs. "The events of the past few days have shown us that responsible, forward-looking energy policy is decisive not only for our economy and the environment. It is also decisive for our security," Scholz told lawmakers in a special session called to address Ukraine.

"We must change course to overcome our dependence on imports from individual energy suppliers," he said. This will include building two liquefied natural gas import terminals, and boosting the country's gas reserves. Germany will increase the volume of gas in its storage facilities by 70 billion cubic feet via long-term options and will buy additional gas on world markets in coordination with the European Union, Scholz said. Germany has 850 bcf of underground caverns of gas storage, which are about 30% full, according to industry group Gas Infrastructure Europe data.

Germany is also weighing whether to extend the life of its nuclear power plants as a way to secure the country's energy supply, said Economy Minister Robert Habeck.

Germany decides it should get back to work on LNG imports

(S&P Global Platts; Feb. 27) - Germany has decided to accelerate work to build two liquefied natural gas import terminals in the country to help reduce dependence on Russian gas imports, Chancellor Olaf Scholz said Feb. 27. Germany is particularly dependent on Russian gas imports to meet demand. Russia's state-controlled Gazprom sold more than 1.6 trillion cubic feet of gas in Germany in 2020, and increased sales by 10.5% last year, implying a total of almost 1.8 tcf in 2021.

Germany is a major gas importer given its high demand and low domestic production, and its net gas imports were close to 3 tcf last year, implying that Russia accounted for aboout 60% of German gas imports. Scholz said Germany needed to make "important decisions" including on the build-out of LNG import infrastructure. "We have decided to quickly build two LNG terminals at Brunsbuttel and Wilhelmshaven," he said, adding that LNG terminals could also handle green hydrogen in the future.

Germany has no LNG import terminals, with two projects in the development stage. Germany's Uniper in 2020 abandoned plans for a floating LNG import terminal at Wilhelmshaven, instead looking at the site for hydrogen imports. Scholz's comments suggest an LNG receiving operation at Wilhelmshaven could be brought back to the table. The Brunsbuttel project was hit by a setback in November, when Dutch storage company Vopak said it had decided to end its "active participation" in the project.

[Nord Stream 2 pipeline owner considering insolvency]

(Reuters; March 1) - The Swiss-based company that built the Nord Stream 2 gas pipeline from Russia to Germany is considering filing for insolvency, two sources familiar with the situation said, as it attempts to settle claims ahead of a U.S. sanction deadline for other entities to stop dealings with it. The U.S. sanctioned Nord Stream 2 last week after Russia recognized two breakaway regions in eastern Ukraine prior to its invasion of the country, which has prompted a wave of economic sanctions by the West.

Nord Stream 2, which is registered in Switzerland and owned by Russian state-owned gas giant Gazprom, last year completed the $11 billion project built to double the capacity to pump gas from Russia to Germany. The two sources, who spoke on condition of anonymity because the talks about a potential insolvency are confidential, said that Nord Stream 2 has been working with a financial adviser on clearing some of its liabilities and could formally begin insolvency proceedings in a Swiss court this week.

The 767-mile pipeline had not begun commercial operations because it was pending certification in Germany, which last week put this process on hold as a result of the escalating Ukraine crisis. Gazprom paid half the cost of building Nord Stream 2, with the remainder of the $11 billion pipeline project financed by Shell, Austria's OMV, France's Engie and Germany's Uniper and Wintershall. Swiss-registered Nord Stream 2 is terminating the contracts of its workers, the sources said.

[Gulf Coast LNG developer goes from FID to first cargo in 29 months]

(LNG Global; March 1) - Venture Global LNG announced March 1 the loading and departure of the first cargo of LNG produced at the Calcasieu Pass export facility in Cameron, Louisiana. The LNG was loaded on the Yiannis, chartered by JERA Global Markets, majority owned by Japanese LNG purchaser JERA. Venture Global noted that its project went from final investment decision to production in just 29 months. Site work had started about eight months before the company took FID on the project.

The Calcasieu project was designed with a series of 18 modular liquefaction units, built in Italy, configured in nine production blocks of two each, with a total nameplate production capacity of 10 million tonnes a year. The company has said the modular construction design reduced costs and sped up development time. According to reports from S&P Global Platts, Venture Global was offering contracts for liquefaction services at $2 per million Btu, below the rate charged by its Gulf Coast competitors. Less than one-third of the liquefaction units are producing LNG for commercial sale as installation and testing continues. Venture Global expects to reach full capacity later this year.

The inaugural cargo from the Calcasieu Pass LNG project comes six years after the first U.S. LNG produced from shale gas was shipped from Cheniere Energy's Sabine Pass, Louisiana, terminal, along the same Gulf Coast corridor as Calcasieu Pass. The U.S. this year is expected to rank as the world's largest LNG exporter.

Europe top destination for U.S. LNG third month in a row

(Reuters; March 1) - Europe last month held its spot as the top importer of U.S. liquefied natural gas for a third month in a row, taking nearly 75% of exports, according to preliminary Refinitiv vessel tracking data. Europe has become the top receiver of U.S. LNG — outpacing Asia's 15% — amid domestic natural gas production declines, limited pipeline supplies and soaring demand for fuel. Sanctions against Russia over its invasion of Ukraine will lead to further calls for U.S. LNG, analysts said.

"We should expect an expansion of the diversion to Europe," said Ramanan Krishnamoorti, a professor and chief energy officer at the University of Houston, following Britain and Canada's closing of their ports to Russian vessels this week. Any new shipping constraints will boost LNG gas prices and keep demand high. The European LNG benchmark this week traded at $37.36 per million Btu, according to Refinitiv, compared to $27.59 for the same week in January. Asia spot gas this week traded at $37.50, according to Refinitiv, up from $29.12 for the same period in January.