Oil and Gas News Briefs
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China looks to replenish stockpiles with discounted Russian crude

(Bloomberg; May 19) - China is seeking to replenish its strategic crude stockpiles with cheap Russian oil, a sign that Beijing is strengthening its energy ties with Moscow just as Europe works toward banning Russian imports due to the war in Ukraine. Beijing is in discussions with Moscow to buy additional supplies, according to people with knowledge of the plan who asked not to be named as the matter is private. Crude would be used to fill China's strategic petroleum reserves, and talks are being conducted at a government level with little direct involvement from oil companies, said one person.

While oil has rallied this year following Russia's invasion of Ukraine, the price of Russian crude has tumbled as buyers step away to avoid damaging their reputation or being swept up in financial sanctions. That's provided an opportunity for China to cheaply replenish its vast strategic reserves, which are typically tapped during times of emergencies or sudden disruptions. Details on volumes and terms of a potential deal haven't been decided yet, and there's no guarantee an agreement will be concluded.

The U.S. and U.K. have pledged to ban Russian oil imports, and the European Union is discussing similar steps, but crude from the OPEC+ producer is still flowing to willing buyers including India and China. For the Asian nations, the heavily discounted oil is an opportunity too good to pass up, part of the reason why China has continued to take cargoes originating from Iran and Venezuela. Refiners in China have been quietly buying Russian crude since the invasion of Ukraine.

Iran's oil exports to China fall, replaced by discounted Russian crude

(Reuters; May 19) - Iran's crude exports to China have fallen sharply since the start of the Ukraine war as Beijing has favored heavily discounted Russian barrels, leaving almost 40 million barrels of Iranian oil stored on tankers at sea in Asia and seeking buyers. U.S. and European sanctions imposed over Moscow's invasion of Ukraine on Feb. 24 have pushed more Russian crude east, where China has snapped it up, cutting demand for oil from Iran and Venezuela, which are also both under Western sanctions.

About 20 vessels with oil from Iran were at anchor near Singapore as of mid-May, shippers' data showed. Some tankers have been anchored since February but the number storing Iranian oil climbed swiftly since April as more Russian oil headed east, trading and shipping sources said. Kpler data and analytics company said it estimated the amount of Iranian oil in floating storage near Singapore rose to 37 million barrels in mid-May from 22 million barrels in early April.

"Russia can switch almost half of its exports to Southeast Asia, especially China ... and that is a huge potential threat for Iranian crude exports," Hamid Hosseini, board member of Iran's Oil, Gas and Petrochemical Products Exporters' Union in Tehran, told Reuters. Iran, whose oil industry has struggled for years under U.S. sanctions, has long relied on Chinese oil purchases to keep the economy afloat. Iran's sales to China were estimated at 700,000 to 900,000 barrels per day in March, according to calculations. But in April, exports were estimated to have dropped by between 200,000 and 250,000, according to Iman Nasseri, managing director for the Middle East with FGE consultancy.

China buying more Russian crude and paying less

(Reuters; May 20) - China is quietly ramping up purchases of oil from Russia at bargain prices, according to shipping data and oil traders who spoke to Reuters, filling the vacuum left by Western buyers backing away from business with Russia after its invasion of Ukraine in February. The move by the world's biggest oil importer comes a month after it initially cut back on Russian supplies, for fear of appearing to openly support Moscow and potentially expose its state oil giants to Western sanctions.

China's seaborne Russian oil imports will jump to a near-record 1.1 million barrels per day in May, up from 750,000 in the first quarter and 800,000 in 2021, according to an estimate by Vortexa Analytics. Unipec, the trading arm of Asia's top refiner Sinopec, is leading the purchases, along with Zhenhua Oil, a unit of China's defense conglomerate Norinco, according to shipping data, a shipbroker report seen by Reuters and five traders. Livna Shipping, a Hong Kong-registered firm, has also recently emerged as a major shipper of Russian oil into China, the traders said.

The low price of Russia's oil — differentials are about $29 less per barrel compared with before the invasion, according to traders — is a boon for China's refiners as they face shrinking margins in a slowing economy. The price is well below competing barrels from the Mideast, Africa, Europe and the U.S. China separately receives 800,000 barrels per day of Russian oil via pipelines under government deals. In total, May imports of Russian oil could reach nearly 2 million barrels per day, 15% of China's demand.

Unintended consequence of sanctions boosts Russian oil to Italy

(Financial Times; London; May 20) - Italy has increased its imports of Russian crude, despite European Union efforts to end ties to Russian energy, in an unintended consequence of Western sanctions against the Kremlin. Russia has exported about 450,000 barrels per day to Italy this month, more than four times as much as February and the most since 2013, according to Kpler, a data company. As a result, Italy is set to overtake the Netherlands as the EU's largest import hub for seaborne Russian crude.

Two-thirds of those exports are destined for Augusta, a port in Sicily near the Russian-controlled ISAB refinery. The refinery, owned by Moscow-based Lukoil, used to buy a variety of oil supplies worldwide thanks to credit lines from European banks. Although Lukoil is not under sanctions, lenders have stopped providing financing after the EU imposed sanctions on Moscow over its invasion of Ukraine, forcing the refinery to rely solely on supplies from its parent company, according to government officials, bankers and union leaders with knowledge of the shipments.

"It's paradoxical, the EU wanted to penalize Russian energy imports but here it's actually been incentivized by the sanctions," said Alessandro Tripoli, secretary-general of the FEMCA CISL trade union for the Syracuse and Ragusa provinces in Sicily. "Only 30% of ISAB's crude was Russian before the sanctions, now it's 100% because Italian banks blocked the refinery's credit lines so Lukoil has become its only supplier."

Russia's oil producers use state-owned tanker fleet to move cargoes

(Bloomberg; May 18) - Russian oil producers are starting to book an increasing number of tankers owned by the nation's state tanker company, boosting demand for a fleet that fell from international favor after the invasion of Ukraine. Rosneft and Gazprom Neft, two state-run oil producers, both booked large numbers of tankers owned by Sovcomflot over the past few weeks to deliver Russia crude to buyers in Asia.

Sovcomflot, itself state run, owns the world's largest fleet of mid-sized oil tankers, but a big chunk of them became underemployed after some international insurers stopped covering the vessels. If Russia succeeds in using more of its own vessels for deliveries, it would help Moscow move oil crude to buyers. Rosneft, the country's largest producer, is increasingly sending the nation's flagship Urals grade on Sovcomflot vessels to destinations including India's west coast, where several companies operate refineries.

Gazprom Neft also booked several oil tankers owned by Sovcomflot to load Eastern Siberia Pacific Ocean, or ESPO, crude in May, according to shipbrokers. If the trend continues, it could boost demand for a Sovcomflot fleet that became less active after the invasion of Ukraine. It would mirror similar moves that Iran undertook in the face of sanctions with the deployment of state-run vessels for deliveries. At least some of the India-bound cargoes supplied by Rosneft were previously meant for other customers.

Permian's Delaware Basin predicted to reach record production

(Houston Chronicle; May 20) - Oil and gas production in the Permian's Delaware Basin will climb to record levels this year, according to research from Norwegian firm Rystad Energy. Boosted in part by private operators looking to take advantage of high oil prices, the Delaware Basin will produce an average of 5.7 million barrels of oil equivalent per day in 2022. The basin is already considered the top-producer in the Permian, and will see an increase of around 990,000 barrels per day this year.

"The Permian Delaware has emerged as the top oil-producing play in the U.S. shale patch, outpacing growth in other oil-rich regions," said Veronika Meyer, shale vice president for Rystad. "With oil prices expected to remain elevated, 2022 promises to be another outstanding year for production growth in the region." The prediction is based on research from over 60 producers in the Delaware. It assumes oil will stay above $100 this year, drop to $70 next year, and settle around $50 heading into 2025.

Investment in the region is also expected to increase more than 40% from last year to clock in at more than $25 billion in 2022, according to Rystad. The firm notes oil majors will still account for a large portion of that investment. Companies like ExxonMobil and ConocoPhillips are predicted to up investment by 60% this year to $7.4 billion, Meanwhile, private operators will invest nearly $9 billion this year. Cost inflation is partially to blame for the increased spending.

B.C. plans to phase out drilling subsidies and boost gas royalties

(CBC News; Canada; May 19) - After a review of British Columbia's 30-year-old oil and gas royalty system, the province says it plans to phase out its current fossil fuel subsidies and introduce a new system for royalty payments. Since the current system was implemented in the 1990s, natural gas production, market conditions and climate change concerns have changed dramatically, the province says.

"For too long, a broken system of fossil-fuel subsidies has failed to align with our climate goals or ensure people fully benefit from these resources," said Premier John Horgan in prepared remarks. The Deep Well Royalty Program, the largest oil and gas subsidy in British Columbia, will be eliminated, as well as the marginal and ultra-marginal programs and low-productivity subsidy. Existing credits will expire in four years.

"This will give British Columbians a fair return and allow us to invest in their priorities — like improving services, bringing down costs and tackling carbon pollution," said Horgan. The Deep Well Royalty Program was created in 2003 and offsets higher drilling and completion costs incurred by wells that are considered particularly deep.

The new royalty system will apply to all new wells and will be phased in starting Sept. 1.

The province says it expects the new program to be in full swing by September 2024. Currently, the royalty rate is 3%. Under the new system, companies will pay a flat 5% royalty on revenue until they reach the amount the company spent to drill the well. Royalties could rise to up to 40% after drilling costs are recovered. The province says that increase will generate more funds to put toward public services and climate action.

Democratic lawmakers warn of climate risks of more LNG

(E&E Daily; May 20) – Several Democratic lawmakers raised alarms May 19 about the climate consequences of the rush to replace Russian energy in Europe with liquefied natural gas. The warning from both Senate and House Democrats comes as the European Union released a sweeping plan earlier this week to end imports of fossil fuels from Russia and rapidly scale up its use of renewable power. That plan also acknowledges a need to import gas from other sources.

In a letter sent to the White House and European Union leadership, California Rep. Jared Huffman and Oregon Sen. Jeff Merkley led 20 other colleagues in urging prudence in the build-out of natural gas import infrastructure in Europe. Such an effort could mean higher emissions profiles, the lawmakers warned, in contradiction to the goals of the Paris Agreement.

“It is critically important that our countries not lock ourselves into decades of further reliance on fossil fuels when climate science, environmental justice and public health concerns necessitate a rapid transition toward full renewable energy,” the lawmakers wrote. U.S. LNG has emerged as a key leverage point in the rush to transition European countries off Russian oil and gas. The lawmakers argued that any LNG infrastructure build-out would take at least three years to complete — far short of immediate needs. That money, they said, should go to renewable energy and efficiency improvements.

Shortage of LNG import capacity a problem for Europe

(Bloomberg; May 23) - Europe’s ambitious plan to walk away from Russian natural gas and replace a chunk of it with tanker-borne imports faces a major obstacle: getting it to where it’s needed most without huge price discrepancies. Even as record amounts of liquefied natural gas land on Europe’s shores, the lack of interconnectors from key import terminals in western Europe means gas can’t easily reach countries in the east that are more reliant on pipeline supplies from Russia.

As a result, short-term gas prices in Britain, France and Spain have tumbled to as little as a third of those in markets including the Netherlands and Germany, according to Citigroup. Such discrepancies are making it harder to trade the fuel and likely to keep prices volatile until supply choke points are resolved. “There is infrastructure missing for the west-to-east flows," said Marco Saalfrank, head of continental Europe merchant trading at Axpo Solutions in Baden, Switzerland. "LNG, in short, is not the only solution to replace Russian gas because of the bottlenecks."

Some solutions are emerging to connect LNG supplies with local gas networks in need of more volume. At least eight import terminals — floating storage and regasification units — have been announced from the Netherlands to Germany and Estonia. But while some can be installed as soon as next winter, they need connections to grids and firm supply agreements. Still, even if Europe bets big on LNG, the fuel has to come from somewhere. New production plants won't start shipping before 2025. Competition for available fuel will remain tight in the next three years, keeping prices high.

Australian gas producers see opportunity to replace Russian LNG

(Reuters; May 19) – Natural gas producers in Australia are dusting off plans for new projects as Asian customers fret over energy security following Russia's invasion of Ukraine and seek gas with lower carbon credentials. With sanctions on Moscow stalling Russian liquefied natural gas export projects and high prices, exporters in Australia see an opportunity to beef up their position as suppliers of choice.

"It is a positive for the Australian projects as there's less competition from Russian projects which are low cost," said Wood Mackenzie analyst Dan Toleman. Australia, vying with Qatar and the U.S. as the world's top LNG supplier, has 10 LNG plants, run by Woodside Petroleum, Chevron, Santos, Japan's Inpex, ConocoPhillips and Shell. All are looking to keep their plants full as older gas fields dry up.

Stalled Russian LNG projects leave a supply gap of 20 million tonnes a year that needs to be filled, Wood Mackenzie estimates, part of which will come from the U.S., but also potentially Australia. Higher LNG prices and demand from countries shunning Russian LNG have given Woodside's Browse project, Australia's biggest undeveloped gas resource discovered more than 50 years ago, new momentum. But uncertainty over the global transition to clean energy means the project, which faces several hurdles before a final investment decision, will need swift payback to ensure its viability, Toleman said.

LNG plant under construction in Texas will ship to Germany in 2024

(Bloomberg; May 20) - Germany can expect to receive liquefied natural gas in 2024 from Golden Pass LNG, under construction in Texas, with Qatar Energy as its majority stakeholder. Qatar's Sheikh Tamim Al Thani and German Economy Minister Robert Habeck signed a joint declaration of intent on May 20, which is supposed to seal an energy partnership between the two countries.

Germany and Qatar are currently negotiating the terms of a long-term LNG supply deal to help Europe’s largest economy wean itself off Russian fossil fuels following Moscow’s invasion of Ukraine. Germany has expedited plans it previously shelved to construct LNG import terminals. Golden Pass is owned by Qatar Energy and ExxonMobil, and the first train is expected to be operational by the third quarter of 2024.

However, there have been differences in the Qatari-Germany talks about the duration of any LNG supply contract and a destination clause. German companies are reluctant to commit to Qatar’s conditions to sign deals of more than 20 years as such long-term deals conflict with Germany’s broader climate protection goals to cut its carbon emissions by 88% by 2040, a person familiar with the discussions said.

Germany drafts a plan in case it needs to ration natural gas

(Reuters; May 20) - German big business is drafting a plan to use an auction system to help ration available supplies in the event Russia cuts off its gas, although some fear it could punish smaller firms. Discussions on possible rationing have gathered urgency after Russia halted gas supplies to Bulgaria and Poland last month. That heightened concerns the same will happen to Germany, which is heavily reliant on Russian gas.

Adding to the nervousness, Finland's state-owned energy provider Gasum said Russia could cut off gas supplies this week, as Helsinki ends decades of neutrality by seeking membership in the North Atlantic Treaty Organization whose enlargement Moscow opposes. An action plan prepared by Germany's Bundesnetzagentur, which would be in charge of rationing in a supply crisis, explores which companies should get priority.

"Depending on the seriousness of the shortages ... it could be necessary ... to cut supply of gas to some users to zero," it said this week. BNetzA president Klaus Mueller has said several criteria would be taken into account when determining gas rationing for industry, including the size of the company, the relevance of the sector and economic losses. German industry is particularly anxious about energy-intensive factories, such as glass, steel, food or drug manufacturing, as well as the chemicals sector.

Fossil-fuel tycoons profit on demand for coal, discounted Russian oil

(Bloomberg; May 19) - Gautam Adani and Mukesh Ambani are profiting from a surge in commodity prices triggered by Russia’s invasion of Ukraine, burnishing their fossil-fuel credentials even as Asia’s richest men publicly push their pivots toward greener energy. With coal prices reaching a record, Adani’s conglomerate is expanding a controversial mine in Australia to meet demand. Ambani’s Reliance Industries is buying up distressed oil cargoes at discounts to feed its refining complex, the biggest in the world. Reliance even deferred maintenance of the facility to help churn out more diesel and gasoline.

The two Indian tycoons are stepping in at a time when many developed countries are scrambling for alternative sources of fuels as they try to back away from Russian supplies. This month, the Group of Seven most-industrialized nations pledged to ban imports of Russian oil. The disruption has also brought the focus back on the need for more coal, the dirtiest fossil the world has vowed to phase out to cut emissions.

Though Adani, 59, and Ambani, 65, have unveiled a combined $142 billion in green investments over the next few decades in a pivot away from coal and oil — the bedrock of their empires — they are also finding it hard to kick the fossil-fuel habit as the war in Ukraine stokes demand for energy. Global coal demand is expected to rise to a record in 2022 and stay there through 2024, according to the International Energy Agency.

Saudi energy minister blames high prices on refining shortage

(Bloomberg; May 16) - Saudi Arabia's energy minister said a dearth of refining capacity means that gasoline and other oil products would remain expensive even if the world's biggest exporters pumped more crude. Prince Abdulaziz bin Salman's reiteration that there are "physical impediments that no producer can solve," comes as spiking gasoline and diesel prices drive inflationary pressures. At the same time, the determination of OPEC+ to stick to small supply hikes — despite flows from coalition member Russia being disrupted by an international boycott — has drawn the ire of U.S. lawmakers.

"There is no refining capacity commensurate with the current demand and the expectation of the demand in the summer," the minister said at an energy conference in Bahrain on May 16. Prince Abdulaziz's comments were echoed by Bahrain's Oil Minister Sheikh Mohammed Bin Khalifa Bin Ahmed, who said OPEC and its partners are likely to continue to raise output quotas by a modest 432,000 barrels a month. "There is no new capacity coming," he said at the same event. "Even if you produce more crude, there isn't demand for it, there aren't any more refineries."

Cuts to France's nuclear power could add to Europe's energy woes

(Bloomberg; May 19) - French electricity prices climbed after the region's biggest producer cut its nuclear output target for a third time this year, the latest sign that the region's power crisis is worsening. Less output from Electricite de France's fleet, the backbone of Europe's integrated power system, is sending prices higher just as soaring inflation is pushing up costs for everything. It could get even worse in winter as France, traditionally an exporter of electricity, may be forced to import more from its neighbors.

The utility cut its nuclear power output forecast by about 5% for this year as it realized that "stress corrosion" issues affecting some of its reactors will require more checks and repairs. The outlook for the following year remains unchanged for now, the firm said.

Western Europe has for decades relied on exports of power from EDF's nuclear fleet. The cuts are another blow to European energy security just as the region is weaning itself off Russian supplies of gas, coal and oil because of the war in Ukraine.

The big test will come when temperatures start to fall toward the end of the year. It won't take many days of cold weather to jeopardize French power supplies, said Emeric de Vigan, CEO at French energy analysis firm COR-e. "With such poor nuclear availability, if we reach 2 degrees Celsius below normal in the winter for a few days we could be in trouble," de Vigan said. About half of EDF's 56 reactors are currently halted. While many are offline for regular maintenance or refueling, a dozen are idled for checks and repairs following the discovery of stress corrosion issues at units late last year.

Novatek says LNG transshipment hubs will be ready next year

(Reuters; May 19) – Novatek boss Leonid Mikhelson said on May 19 the Russian gas producer plans to launch its two liquefied natural gas reloading hubs aimed at cutting transportation costs as soon as next year. The hubs will be built in Kamchatka in the Far East and in the Arctic city of Murmansk, he said.

The transshipment sites will reduce shipping expenses by allowing more costly, ice-class LNG tankers to transfer cargoes to traditional vessels, saving Novatek the cost of sailing its biggest and most expensive tankers to every end-user. Novatek operates Yamal LNG, the country's largest liquefied natural gas export terminal. It has been using temporary at-sea transfer operations until its permanent facilities are in place.