

# Oil and Gas News Briefs

## Compiled by Larry Persily

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#### **Europe fears losing manufacturers to cheaper energy in U.S.**

(National Public Radio; Nov. 25) - The Duralex glassware factory in Orleans, France, sits idle, its massive industrial equipment lies dark and still. Normally, 250 employees work around the clock producing 200,000 sturdy glasses and bowls. But earlier this month, the plant suspended operations because production costs had spiked after Russia throttled its gas exports to Europe. That put many of its workers on furlough.

Skyrocketing energy prices could shatter the image of this iconic glassmaker — and alter the industrial landscape of Europe, as policymakers and analysts increasingly worry that businesses could pack up and leave for the U.S. Guillaume Bourbon, a forecast manager for Duralex, said the company had to halt production when gas soared to 40% of operating costs from as low as 4% a year ago. "It's crazy for us," he said on a tour of the plant. "We can't pay that much for energy. It's simply not possible."

Companies across Europe are going into sleep mode. Gas-heavy fertilizer makers have all but halted production. Steelmaker ArcelorMittal has temporarily shut mills in France, Spain, Germany and Poland. None of this is helped by America's recently passed Inflation Reduction Act. It provides \$369 billion that includes subsidies to support companies investing in renewable energy. The incentives, combined with cheaper U.S. energy prices, have raised fears of an exodus of European manufacturers to America.

The EU dismissed fossil fuels in its effort to reach carbon neutrality by 2050, said Thierry Bros, a specialist in global energy at Sciences Po university in Paris. "We've been saying to this (fossil fuel) industry that it's passé, that we don't need it," he said. "Well, at the end of the day, if people want to heat themselves, if you want to cook, if industry needs to continue to produce, you need fossil fuels."

#### **U.S. gas production projected to grow 30% to help meet LNG demand**

(Houston Chronicle; Nov. 25) - North American natural gas production is projected to grow by about 30% thanks to the rapidly building LNG export industry along the Gulf Coast, according to a report from U.K. research firm Wood Mackenzie. Over the next decade, gas production in North America could jump by 29 billion cubic feet per day as the continent responds to the world's growing demand for gas, the company predicts.

"The North America gas market expansion for the next decade will be equivalent to adding two new Permian basins," said Wood Mackenzie's Dulles Wang, director of gas

and LNG research in the Americas. “As Europe diversifies to more secure supply sources and international buyers across the globe seek reliable, low-cost supply, North America is poised to deliver.”

U.S. states in the Northeast, meanwhile, have become vulnerable to gas shortages this winter as production in the Permian and Appalachian basins has been less than expected, said Wei Xiong, a senior gas and LNG analyst for Rystad Energy. Producers, which have been reluctant to invest too much too soon on increasing production, will gradually increase their investments over the next few years to support the growing export market, Wood Mackenzie said. Meanwhile, any increases in U.S. output will help put a damper on domestic prices until more LNG facilities come online later this decade.

### **U.S. will allow Chevron to resume pumping oil in Venezuela**

(The Wall Street Journal; Nov. 26) - The U.S. will allow Chevron to resume pumping oil from its Venezuelan oil fields after President Nicolás Maduro’s government and an opposition coalition agreed to implement an estimated \$3 billion humanitarian relief program and continue dialogue on efforts to hold free and fair elections. Following the Norwegian-brokered agreement signed in Mexico City, the Biden administration granted a license to Chevron that allows the company to return to its oil fields in joint ventures with the Venezuela national oil company, Petróleos de Venezuela.

The new license, granted by the Treasury Department, permits Chevron to pump Venezuelan oil for the first time in years. Biden administration officials noted that the license prohibits PdVSA from receiving profits from Chevron’s oil sales. The U.S. policy shift could signal an opening for other oil companies to resume their business in Venezuela two years after the Trump administration clamped down on Chevron and other companies’ activities there as part of a maximum-pressure campaign.

Venezuela produces some 700,000 barrels of oil a day, compared with more than 3 million barrels a day in the 1990s. Some analysts said Venezuela could hit 1 million barrels a day in the medium term, a modest increment reflecting the dilapidated state of the country’s state-led oil industry. Chevron plans to restore lost output as it performs maintenance and other work, but it won’t attempt major work that would require new investments in the country until debts of \$4.2 billion are repaid. That could take about two to three years depending on market conditions, according to sources.

### **Iraq plans large boost in oil exports**

(Bloomberg; Nov. 27) - Iraq, OPEC’s second largest producer, plans to start increasing oil export capacity from its southern ports next year, looking to add a total of 1 million to 1.5 million barrels a day by 2025, according to its OPEC delegate. The project involves

rehabilitating the southern Khor Al-Amaya port and marine pipelines, Mohammed Saadoon, Iraq's national representative at OPEC and a deputy director general of the state-run oil marketing company SOMO, said in an interview on state-run Iraqiya TV.

Initially, export capacity from southern ports is due to increase next year by 150,000 to 250,000 barrels a day, he said. Iraq exported 3.293 million barrels a day from its southern ports in October, according to the oil ministry. Iraq is trying to boost oil revenues and entice companies to work in the country after decades of turmoil marked by wars, sanctions and militant attacks.

Overall, the oil ministry is pursuing plans to boost oil production to 5 million to 5.5 million barrels a day by 2028, Saadoon said. The country produces 4.652 million barrels a day, Prime Minister Mohammed Shia Al-Sudani said on Nov. 12.

### **Federal regulators approve new Texas Gulf Coast oil export terminal**

(The Texas Tribune; Nov. 23) - The Biden administration has approved plans to build the nation's largest oil export terminal off the Gulf Coast of Texas, which would add 2 million barrels per day to the U.S. oil export capacity. Department of Transportation Maritime Administration approval was filed in the Federal Register on Nov. 21 without any public announcement, a day after the annual U.N. climate conference wrapped up.

In its 94-page decision, the Maritime Administration wrote: "Construction and operation of the port is in the national interest because the project will benefit employment, economic growth, and U.S. energy infrastructure resilience and security. The port will provide a reliable source of crude oil to U.S. allies in the event of market disruption." The administration's move marked a major step forward for the oil export sector, which has grown rapidly since the U.S. began to allow crude sales abroad in 2015.

Approval of the terminal, about 50 miles south of Galveston, gives its developers — Enterprise and Enbridge — a clear lead in the race to build the first new offshore export terminal in the Gulf. It was the agency's first such endorsement and followed a three-year review process. The project will expand a Houston-area terminal operated by Enterprise and connect it to a new 140-acre onshore facility with 4.8 million barrels of storage capacity. From there, two underwater pipelines will run to the new deepwater port 30 miles away, where floating hoses will load the world's largest class of tankers.

### **Global trader warns of risk from older vessels moving Russian oil**

(S&P Global; Nov. 23) - The global oil market has witnessed the mushrooming of smaller trading firms that are moving Russian oil much longer distances to regions like Asia in older ships, potentially raising the risk of shipping accidents, Trafigura CEO

Jeremy Weir told the Financial Times Live conference Nov. 23. The smaller companies have been set up to fill the gap due to bigger companies, such as Trafigura, cutting back on Russian oil trade to comply with international sanctions on Moscow, he said.

"A lot of new companies are being established or smaller companies are growing significantly. We are seeing that all the vessels that typically should have been scrapped are being acquired and are used to transport these fuels. Quite frankly, that's not acceptable in today's world," Weir said. "And the problem is when oil is going much greater distances — historically the Russian barrel went to Europe and now they are going to India and China — it means much more oil on the water. You have got heightened risk of accidents occurring. It's a concern."

According to S&P Global Commodity Insights, Russia's seaborne crude exports to Asia increased by around 31% year on year to an average 1.6 million barrels per day in the first 10 months of 2022. While China's seaborne crude inflows from Russia surged by 36% year on year to an average of 780,000 barrels per day in the January-October period, India's buying from Russia jumped to 450,000 barrels per day during the same period, compared with 90,000 in the same period a year earlier.

### **Redirected oil trade proving profitable for tanker owners**

(The Wall Street Journal; Nov. 23) - A surge in the cost of shipping oil between the world's ports is buoying energy prices, even as a gloomy economic outlook has dragged down crude near its lowest levels of the year. Economic fallout from the war in Ukraine has severed many of the short trading routes for oil and petroleum products across the Baltic and North seas. As Europe scrambles to find new suppliers and Russia looks to send exports elsewhere, tankers are spending more time on water.

Many shipments now spend five times longer in transit to refineries or wholesalers than before the conflict, tanker operators and analysts say. The upshot is that fewer vessels are available in a global fleet that has little prospect of quickly expanding in size, a boon for shipping companies. Average tankers have earned more than \$40,000 a day for four months, the longest such stretch in 15 years, said London-based shipbroker Clarksons. The spot price for ships known as very large crude carriers surpassed \$115,100 a day on Nov. 18, an 11-fold increase from that class of ship's average daily rate last year.

"The world's oil-supply maps are being completely redrawn," said Christian Ingerslev, CEO of Copenhagen-based shipping operator Maersk Tankers. Tankers departing from Primorsk, Russia, near St. Petersburg, can reach the Dutch port of Rotterdam in roughly four days, Teekay Tankers CEO Kevin Mackay said during an earnings call this month. But many Russian cargoes have rerouted on a 26-day trip around the continent, across the Mediterranean, and through the Suez Canal for delivery on India's western coast.

## **Market looks to see how much Russian oil China and India take**

(Reuters columnist; Nov. 24) - There are signs that China and India are pulling back from buying Russian oil ahead of the Group of Seven nations' proposed price cap and a European Union ban on imports. However, the big question for the market is whether any slowing by China and India of purchases from Russia is a temporary factor that will be reversed once participants figure out how to work with, or around, the price cap.

China, the world's largest crude oil importer, and India, the third-biggest, have increasingly turned to Russian crude this year, buying cargoes at steep discounts as Moscow sought to keep up exports after Western countries shunned its oil. But Chinese refiners have begun slowing their purchases of Russian crude for December arrivals, according to traders and industry players in China.

Indian refiners are also wary of buying Russian crude beyond the Dec. 5 date of the EU import ban and the proposed price cap. The question is whether China and India will once again turn to Russian oil in the new year, or whether the uncertainty created by the price cap and EU ban will linger. It's likely that both countries will be keen to buy Russian crude, especially if it comes at a steep discount.

But there are several issues that refiners in both countries will have to work around. Payment and insurance may become more complex. The main difficulty may be in finding enough vessels to move oil from Russia's western ports to Asia. Tankers would have to come through the Suez Canal, which limits the size of vessels, or take the long route around the Cape of Good Hope in South Africa, which limits the ships' availability.

## **Sanctions, import bans force Russian to sell crude at steep discount**

(Bloomberg; Nov. 27) – Western import bans and self-sanctioning by refiners and traders have barely dented the flow of Russian crude, with volumes successfully diverted east. But switching flows to Asia, where India has emerged as Russia's second-biggest buyer, has concentrated Moscow's dependence on an ever-shrinking pool of customers. China and India now purchase two-thirds of all the crude exported by sea from Russia; at least half of the oil exported by pipeline from Russia goes to China.

That gives huge negotiating power to buyers in both countries, and it's a power they have exercised. Russian crude is trading at a hefty discount to international benchmarks, and that is hitting the Kremlin's war chest. The most recent estimate, from the end of last week, is that Russia's flagship Urals grade was trading at about \$52 a barrel at the export terminal. That's a discount of \$33.28, or 39%, to Brent crude. In comparison, the average markdown in 2021 was \$2.85.

That discount costs Russia's oil exporters about \$4 billion a month in lost revenue, while also reducing the Kremlin's tax receipts from overseas sales. Western sanctions to

reduce the volume of Russian oil sales seems attractive, partly because it's so visible, but forcing lower prices achieves the same cut to revenues. Hitting prices stands a better chance of actually cutting flows into the Kremlin's war chest.

## **Freeport LNG still has not submitted restart plan to federal regulators**

(Reuters; Nov. 22) - Freeport LNG has not yet submitted a full request to the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration to restart its Texas plant, a source familiar with the company's filings said Nov. 21. The lack of a full request has raised questions about the company's ability to meet its latest restart timeline. Freeport on Nov. 18 said it was targeting a mid-December restart for its export plant, which has been shut since a June fire, pending regulatory approval.

Operations at the second-largest LNG export facility in the United States will not commence until the plans are approved by PHMSA. The agency's review of the repair work, called remedial work plan, will take at least a month and could take longer because of the approaching U.S. holidays, one analyst said previously. "PHMSA could still find the ... (work plan) deficient for some reason and reject all or part of it ... or PHMSA may decide not to allow a restart until all repairs and inspections are fully executed," said Rapidan Energy Group consultant Alex Munton in a note dated Nov. 9.

Federal pipeline safety regulators last week released a heavily redacted consultant's report that blamed inadequate operating and testing procedures, human error and worker fatigue for the June 8 explosion. No one was injured in the incident.

## **U.S. company will partner with Mexico on offshore LNG project**

(Journal of Petroleum Technology; Nov. 23) – U.S.-based New Fortress Energy confirmed on Nov. 22 that it had finalized agreements with Mexican state-owned oil company Pemex to develop the Lakach gas field offshore Mexico as a floating liquefied natural gas project. Pemex suspended development of the field, which it discovered in 2007, amid oil price declines in 2014.

The field is believed to be able to yield about 10 years of production, with the possibility of extending the reserve life if nearby Kunah and Piklis fields are developed. The area around Lakach, when coupled with these two fields, has a total resource potential of 3.3 trillion cubic feet of gas, according to New Fortress. The company is set to invest in the continued development of the Lakach field over two years by completing seven wells. Mexico said it expects gas production at Lakach to begin in the first quarter of 2024.

In addition, the company said it will deploy to the field its Sevan Driller floating gas liquefaction unit. The vessel is currently undergoing conversion in a shipyard in

Singapore. It will have capacity to produce 1.4 million tonnes of LNG per year. The Sevan Driller unit, according to New Fortress, will be one of five such units the company plans to deploy in the next two years, adding approximately 7 million tonnes of new liquefaction capacity to the global market.

### **Italian city files legal challenge against LNG import terminal**

(Reuters; Nov. 24) - The Italian city of Piombino has launched a legal challenge against a government-backed project for a liquefied natural gas import terminal in the Tuscan port that is seen as key to helping wean Italy off Russian gas. The appeal to an administrative court includes "a precautionary request" to suspend work to set up the floating storage and regasification unit, the municipality said in a statement. Italian gas grid operator Snam has already begun preliminary operations in Piombino, but has not started construction on the pipeline that will connect the floating unit to the gas grid.

Piombino Mayor Francesco Ferrari has led local protests against the project, claiming risks to safety, the environment and local businesses, including fish farming. "We are aware of the energy emergency and that new gas supply measures are in the national interest, but this cannot disregard safety guarantees for the community in Piombino," he said in the statement. Snam declined to comment on the appeal.

The national government is pushing for the terminal as part of plans to diversify Italy's energy supplies. The terminal needs to be operational by the end of March to help Italy replace dwindling Russian gas supplies, Claudio Descalzi, CEO of energy group Eni, has said, adding timely completion of the project is crucial to refill Italy's gas storages by next winter. A local political leader in October proposed that companies and households in the town receive a 50% discount on their gas to help overcome local opposition.

### **Japan needs to replace expiring LNG long-term deals**

(S&P Global; Nov. 25) - Japan is poised for more spot-market LNG purchases in 2023 as over 6 million tonnes per year of long-term LNG supply contracts are due to expire, a trend likely to persist for at least the next few years. The long-term contractual expirations come as Japan faces stiff competition for LNG from Europe, which has committed to replace Russian gas supply.

Brunei LNG accounts for 56% of Japan's supply contracts due to expire in the year, according to S&P Global Commodity Insights LNG database. The 2023 contractual expirations represent roughly 8% of Japan's annual LNG imports of around 74 million tonnes, a level that will likely be difficult to replace with incremental supply from other long-term term contracts and short to mid-term contracts amid tight LNG markets.

Japanese buyers have mostly secured sufficient LNG for the upcoming winter through March 2023, despite facing some supply issues. Some are still working out their annual delivery programs for 2023, according to market sources. The country's overall LNG needs, however, might fall in 2023 because of expected restarts of nuclear reactors. "With the ramp up of up to 10 reactors by February 2023, and a further two scheduled for restart next summer, the pressure on LNG is expected to be lifted," said Kaori Tachibana, associate director of gas, power and climate solutions at S&P Global.

### **Chinese company signs long-term LNG supply deal with BP**

(Reuters; Nov. 26) - China's Shenzhen Energy has signed a long-term agreement with BP to buy liquefied natural gas, aiming to lock in supplies with gas-fired power generation poised to surge in the world's second-largest economy. The agreement is Shenzhen Energy's first long-term international LNG contract and its first long-term contract with BP Singapore, the Chinese company said in a statement on Nov. 25.

The statement did not specify details of the agreement, including the duration of the contract. "To meet the demand of Guangdong province and Shenzhen city for energy security and stability, Shenzhen Energy Group is making efforts to promote the construction of gas power plants," it said. Earlier this month, QatarEnergy signed a 27-year deal to supply LNG to China's Sinopec in the longest such agreement to date, as volatility drives buyers to seek long-term supplies.

### **Germany plans 33% tax on extra profits of oil, gas and coal industries**

(Reuters; Nov. 23) - The German government plans to introduce a special levy to skim off 33% of windfall profits made by oil, coal and gas companies, which could generate revenue of between one and three billion euros, finance ministry sources told Reuters. The levy, called "EU energy crisis contribution," would affect a low double-digit number of companies, targeting their 2022 and 2023 profits, and would be implemented by the end of 2022, the sources added.

Germany has been in talks over the levy at the European Union level and has examined several ways to implement the tax, the sources said, adding that the chosen instrument has the least legal risks. The planned levy on the oil and gas sectors is different from another one Germany announced on Nov. 22 which would apply to electricity windfall profits from Sept. 1, 2022, and last at until at least June 2023.

The new levy would affect oil, coal and gas companies and refineries whose profits for this and next year exceed by 20% or more their 2018-2021 average, a draft finance ministry document seen by Reuters showed. Katharina Beck, spokeswoman on



financial matters for the Greens party, said the planned levy can probably be circumvented on a large scale by companies moving profits abroad, limiting its revenue.