Oil and Gas News Briefs
Compiled by Larry Persily
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Oil falls to 15-month low; under $67 a barrel for WTI

(Bloomberg; March 17) - Oil posted the worst weekly loss since the early months of the coronavirus pandemic as banking turmoil poisoned investor sentiment. West Texas Intermediate lost nearly 13% this week, the largest weekly drop in almost three years. It closed at $66.62 a barrel on March 17. International benchmark Brent closed at $72.82. The failure of two U.S. banks and troubles at Credit Suisse helped drive away investors.

"Crude action this week reminded many of how quickly the commodity can be decimated by macro-economic events," said Rebecca Babin, senior energy trader at CIBC Private Wealth. "The commodity broke a significant level of support as the market tries to quantify the economic ramifications of banking turmoil." This week's banking crisis provided the spark, driving oil prices to a 15-month low.

Oil's next leg may depend on decisions by the U.S. Federal Reserve and the Organization of the Petroleum Exporting Countries. The Fed will decide next week whether to raise interest rates again, a move that has implications for oil demand — higher interest rates and a slowing economy could weaken demand for crude and refined products. Meanwhile, OPEC and its allies will convene April 3 to revisit the group's production policy. Several technical measures suggest that the plunge has pushed oil into oversold territory, which could affect decisions at OPEC+.

Growing oil surplus adds to pressure on prices

(Barron's; March 17) - Oil prices tumbled again on March 17, hitting their lowest levels since December 2021. It's becoming increasingly clear to analysts that weak economic forces are outweighing the impacts of China's rebound and sanctions against Russia. West Texas Intermediate crude futures, the U.S. benchmark, fell as low as $65.17 per barrel on March 17 before recovering back above $66. Brent crude, the international benchmark, fell as low $71.40. Brent is off by about 15% in just the past 10 days.

The collapse is in part being driven by statistics showing that the world isn't using as much oil as is being produced, forcing more oil into storage tanks. Globally, 120 million barrels have built up in storage the past three quarters as supply outpaced demand. Even with China reopening, analysts don't expect the balance to shift for months.

"The oil market will remain in surplus over the next two months with oil prices under fundamental pressure through May as global inventories likely swell by another 46 million barrels," wrote Natasha Kaneva, the head of global commodities research at J.P. Morgan. Kaneva had expected Brent to average $89 in the second quarter, but now thinks it is less likely that prices climb back to those levels in the near term. Instead, she sees prices between $70 and $80, unless one of two things happens to boost prices.

The first catalyst would be a production cuts by OPEC+. The other catalyst would be an announcement by the U.S. government that it will start refilling the strategic petroleum reserve, which is at its lowest level in decades. Large oil purchases would likely cause prices to rise. Absent those two catalysts, the price path may depend on the shape of the banking turmoil. If things get worse, Kaneva warns prices would fall precipitously.

OPEC+ expects market to stabilize after oil-price drop

(Reuters; March 16) - OPEC+ considers this week's slide in oil prices to a more than one-year low to be driven by financial fears, not any imbalance between demand and supply, and expects the market to stabilize, four delegates from the oil-producer group told Reuters. Oil sank to a 15-month low on March 15, with Brent crude below $72 a barrel, on concerns about contagion from a banking crisis.

"It's purely financially driven and has nothing to with the demand and supply of oil," one of the delegates said, asking not to be named. OPEC+ is "most likely to wait and see" in expectation that the situation will "normalize soon." Three other delegates from the OPEC+ producer group comprising the Organization of the Petroleum Exporting Countries, Russia and other allies, made similar remarks.

The comments will dampen any speculation that OPEC+ is concerned about weakening prices and might consider further steps to support the market. The group's next policy meeting is not until June, though an advisory panel of key ministers meets on April 3. One of the delegates said OPEC's latest monthly market report, released on March 14 with an upgraded demand forecast for China, pointed to a sound balance between supply and demand. "We are focusing on market fundamentals," another source said.

Goldman Sachs scales back 2023-2024 oil-price projection

(Bloomberg; March 19) – Goldman Sachs, one of the most bullish banks on its outlook for oil prices, has nudged its forecasts down as worries over the banking sector and the potential for recession outweigh a surge in demand from China. The bank's analysts now see Brent reaching $94 a barrel for the 12 months ahead, and $97 a barrel in the second half of 2024, versus $100 a barrel previously.

"Oil prices have plunged despite the China demand boom given banking stress, recession fears and an exodus of investor flows," the bank said in a March 18 note.

“Historically, after such scarring events, positioning and prices recover only gradually, especially long-dated prices.” Markets have been roiled this week as turmoil at Credit Suisse triggered panic. Oil has slumped to a 15-month low, with Brent dropping 12% to below $73 a barrel. Following the decline in prices, the bank now expects OPEC producers to increase output in the third quarter of 2024, versus in the second half of 2023 which Goldman had estimated before the price rout.

Construction cost overrun complicates plan to sell Canadian oil line

(Calgary Herald; March 15) - The size of the latest cost increase for the Trans Mountain oil sands pipeline expansion caught even close observers of the project by surprise. Trans Mountain Corp. on March 10 said its new estimate was C$30.9 billion (US$22.5 billion), a 44% increase from last year’s projection. The project was originally expected to cost $5.4 billion when it was first proposed by Kinder Morgan in 2013.

“I was horrified,” said Paul Poscente, CEO of Axxcelus Capital Advisory, whose firm has been advising Indigenous groups hoping to acquire a stake in the line. Trans Mountain, a Crown corporation, was created in 2018 to purchase the line — the only pipeline carrying crude oil from Alberta to the West Coast — after Kinder Morgan threatened to cancel the expansion to about triple capacity to 890,000 barrels per day. Poscente said he was caught off-guard by the sheer size of the cost increase. “Does it have negative implications across the board for the project for Indigenous ownership? It sure does.”

Ottawa has tapped two Canadian banks to advise on the search for potential buyers. The government insists it wants to sell the line, but the latest numbers could complicate the sale as it has been clear for some time that pipeline tolls won’t be sufficient to cover higher costs. And independent analysts have cast doubt on the economic viability of the project, suggesting that the government might have to protect investors and creditors by guaranteeing any debt. The government could have to write off most of the cost, said to a 2022 analysis by the Institute for Energy Economics and Financial Analysis.

Russian oil and refined products taking longer to find buyers

(Bloomberg; March 16) - Across the world, there are increasing signs that the smooth flow of Russian petroleum is starting to get snarled. Even after the world’s main oil forecasting agency said Russia’s output could fall by 30%, exports from the OPEC+ producer have so far been resilient as Western sanctions, along with price caps on Russian oil, were intended to be financially punitive but also were designed to keep the flow going. However, cargoes are now starting take longer in finding homes.

As well as having implications for Moscow — proceeds from taxes on the oil industry accounted for over two-thirds of energy tax revenue in February — the development may alarm U.S. officials, who've long argued that the Russian oil needs to flow freely to avoid a surge in fuel prices. Ships filled with refined Russian fuels are floating off the coasts of Europe, Africa and Latin America, potentially ratcheting up waiting fees. Some vessels hauling Russian crude oil are bouncing between ports without discharging, while others are unloading and their cargoes being stashed at unusual locations.

It all points to a network of logistics that is struggling to keep pace with cargoes from a country that exports over 7 million barrels a day of oil and refined products. A vast swath of that trade has shifted from Europe to new and less-familiar customers, often thousands of miles farther away. "Willing buyers in Asia, namely India and, to a lesser extent, China, have snapped up discounted crude oil cargoes, but increasing volumes on the water suggest the share of Russian oil in their import mix may be getting too big for comfort," the International Energy Agency said in its monthly report this week.

Russia increasingly uses older, poorly insured tankers to move its oil

(Washington Post; March 17) - Russia is using a fleet of older, poorly insured tankers to sidestep Western sanctions on its fossil fuels, raising fears of a potentially catastrophic accident or oil spill as the Kremlin works to finance its invasion of Ukraine, policymakers and environmental advocates said. The worries have been especially acute among countries on the Baltic Sea, a northern route for Russian oil shipments. Navigation there can be a challenge, especially for crews unaccustomed to its icy winter conditions.

After restrictions on Russian oil exports were imposed in December, old oil tankers with no record of previously sailing through that route started appearing in the narrow Gulf of Finland that leads to St. Petersburg, Finnish officials said. The safety concerns were alarming enough for Finnish authorities to increase drills and training for an emergency response to a spill or other environmental catastrophe, said Commander Mikko Hirvi, the deputy head of the Finnish Coast Guard district that includes the Gulf of Finland.

Decades-old tankers that would otherwise have faced the scrap heap are coming through the Baltic Sea, staffed by crews that officials fear have little experience with the crowded, shallow and icy waterway. The tankers are also increasingly inadequately insured, experts said. The vessels sailing through the Gulf of Finland are part of a broad reconfiguration of tankers moving Russia's exports. A growing fleet with shadowy ownership — shell companies in the Mideast or Asia that don't appear to have previous shipping experience — is helping Russia legally move its oil to India and China.

Secretive tanker fleets keep Russian exports flowing around the world

(Bloomberg; March 18) - At a downtown office block in Mumbai, packing tape peels off a black door whose handle appears to have been ripped out. A guy from a neighboring office says the staff moved out a few weeks ago, destination unknown. Almost 1,200 miles away in Dubai, a small office in a run-down industrial estate offers no clues that it, too, is a small cog in Russia's new petroleum supply chain. The two locations are listed on a maritime database as belonging to firms running $2 billion in tankers between them. They fleets are now delivering millions of barrels of Russian oil across the globe.

The two companies are part of a network of marine operations that came to prominence soon after the invasion of Ukraine, helping Russia's exports continue mostly unscathed despite sanctions from the West. "It is this new breed of tanker market players who have helped Russian oil to continue to flow around the world," said Rebecca Galanopoulos Jones, senior content analyst at VesselsValue, a firm that tracks the prices of thousands of merchant ships. "The sanctions on Russian oil seem to have had very little impact."

The need for firms like Gatik (Mumbai) and Fractal (Dubai) grew because many conventional Western shipping firms stopped moving Russian oil, either to protest the invasion or because of the threat of falling foul of sanctions. Gatik's fleet can haul about 30 million barrels of oil and fuels, according to data compiled by Bloomberg. Fractal has a transport capacity closer to 15 million barrels. Almost all Fractal's and Gatik's ships made calls to Russian ports this year, or took Russian cargoes in ship-to-ship transfers.

Neither Gatik nor Fractal is listed as the owner of the tankers in their fleets, meaning they are probably operating the ships for others, whose identity is often not made public.

Exxon considers a larger LNG project for Mozambique

(Bloomberg; March 17) - ExxonMobil is considering resuming a liquefied natural gas project in Mozambique, but with an even bigger capacity than the one it shelved partly because of an Islamic State-linked insurgency. In a statement published March 17 in Mozambican newspaper O Pais, the U.S. energy giant called for expressions of interest to design and build an LNG plant producing as much as 18 million tonnes a year. Earlier plans envisaged a project at 15.2 million tonnes annual production capacity.

Exxon's announcement comes after TotalEnergies said last month that it's considering restarting its own LNG export venture in Mozambique. Both projects were halted two years ago following an attack on the town of Palma, but a mix of local and foreign troops have made progress in containing the violence that's left more than 4,600 people dead. The projects offer an economic lifeline for the impoverished African nation,.

Exxon is part of a consortium with Eni of Italy, which last fall exported Mozambique's first LNG production from a smaller project floating vessel offshore. That plant has an annual capacity of 3.4 million tonnes. The much larger Exxon-led onshore project would involve up to a dozen production modules of 1.5 million tonnes each, according to the company. The deadline for submitting expressions of interest is the end of this month.

“Modular is attractive, and potentially the best solution in Mozambique, from the standpoint that it offers the opportunity to build at scale while also mitigating some of the security risks during construction,” said Alex Munton, of Rapidan Energy Group.

Repsol abandons proposal for East Coast Canada LNG export project

(Bloomberg; March 16) - Spanish energy firm Repsol has abandoned the idea of expanding a liquefied natural gas import terminal on Canada’s East Coast to provide export services, saying the cross-country cost of shipping gas there is too high. Repsol conducted a feasibility study on extending its facility near Saint John, New Brunswick, to allow it to export gas to Europe. It’s currently an import terminal that brings in fuel for markets in eastern North America. But the company has deemed it too expensive to ship natural gas from fields in Western Canada across the continent to the port.

The export project would also have required constructing expensive liquefaction facilities and upgrading an already-busy pipeline network with partner TC Energy. “Following a study carried out by the company, it was determined to not continue with the Saint John liquefaction project as the (pipeline) tolls associated to it made it uneconomical,” Michael Blackier, a spokesperson for Saint John LNG, the Repsol-owned entity that operates the terminal, said by email March 16.

The idea of building an export terminal on Canada’s Atlantic Coast has been around for decades, but it was given new urgency last year after Russia invaded Ukraine and sent energy prices soaring across Europe. Jonathan Wilkinson, Canada’s natural resources minister, convened a meeting earlier this week with Repsol and TC Energy to determine whether the project still had a chance, according to people familiar with the matter. Repsol informed the group it wasn’t viable, the people said.

Canceled LNG export project hurts chances for New Brunswick gas

(CBC News; Canada; March 17) - The decision to not build a liquefied natural gas export terminal in Saint John, New Brunswick, may also spell the end of Premier Blaine Higgs's long-held ambition of reviving shale gas development in the Canadian province. Repsol's decision to abandon the export project due to poor economics, announced March 16, cuts off a possible outlet for the sale of natural gas extracted in the province, according to energy insiders and environmentalists.

"It would not be good news, for sure," said Todd McDonald, president of the Halifax-based gas trading firm Energy Atlantica. "It (exports) would have given a lot of motivation to develop shale gas because you had an instant (European) market with access to high prices. "I don't want to say it kills it, but it's not good." Gas from New

Brunswick can still be sold into the U.S. via pipeline, McDonald said, but because of plentiful shale gas supplies there, the price might not be high enough to justify the cost.

Higgs has long championed shale gas development in New Brunswick and was part of a government that aggressively promoted the sector and saw confrontations between protesters and police in 2013.

B.C.’s new emissions standards create high hurdle for LNG projects

(Reuters; March 17) - British Columbia's decision this week to toughen emissions standards for new liquefied natural gas projects creates one of the most robust climate plans in North America, but sets a high hurdle for industry even as many countries look to Canada to become a global supplier of gas. As part of the new energy framework, the western province will require LNG projects going through or entering the environmental assessment process to have a credible plan to reach net-zero emissions by 2030.

While the tougher regulation will not impact the huge Shell-led LNG Canada project under construction (2025 start-up date), a proposed export terminal adjoining the small-scale Tilbury LNG facility near Vancouver and the early-stage Ksi Lisims LNG project in northwestern B.C will fall under the new rule. Canada is the world's sixth-largest gas producer and its hopeful West Coast LNG industry has seen revived interest as the world tries to find alternatives to Russian gas supply following the invasion of Ukraine.

"That (net-zero requirement) is a very high bar and a high hurdle to pass," said Mark Zacharias, executive director of think-tank Clean Energy Canada, adding that the new framework rounds out British Columbia's plan to cut emissions 40% below 2005 levels by 2030. "The B.C. roadmap to 2030 is probably North America's strongest climate plan but what was missing until now were answers on dealing with oil and gas. This fills in the missing gaps." B.C.'s new regulations also include an oil and gas emissions cap and plans to accelerate electrification of the economy.

B.C. agency accepts First Nations-led LNG project for review

(Vancouver Sun; March 19) - The Nisga’a First Nation-led C$10 billion Ksi Lisims LNG export project has been approved to enter British Columbia’s environmental review process. The decision on the facility in northwest B.C., up Portland Canal about 65 air miles southeast of Ketchikan, Alaska, was announced by the B.C. Environmental Assessment Office last week, just days after the agency gave final approval to the C$3 billion Haisla Nation’s Cedar LNG project in Kitimat, 100 miles farther to the southeast.

The Nisga’a’s project partners include a consortium of Canadian natural gas producers, Rockies LNG and Houston-based Western LNG. The decision kicks off a process that will set out how the review will take place, including the federal government's role, and what will go into a final application and decision. The assessment process could take 18 months or more. The Nisga'a and Cedar LNG announcements highlight increasing Indigenous involvement in major resource projects in British Columbia. Neither LNG project is close to a final investment decision by its partners.

But the prospect of more liquefied natural gas projects — which would tap into B.C.'s vast northeastern gas reserves for export to overseas markets — also raises significant questions on how the provincial government will reach its legislated greenhouse gas emission targets. Both projects tout themselves as achieving net-zero emissions, in part, by tapping into the B.C. Hydro's power grid, but critics, which include First Nations, note the projects will also increase emissions with increased gas production.

Critics say LNG project approval contrary to B.C. climate goals

(CBC News; Canada; March 16) - Following the announcement that a northern British Columbia First Nation has been granted a provincial environmental assessment certificate for a C$3 billion floating liquefied natural gas facility in the coastal community of Kitimat, critics question whether it's compatible with the province's climate goals. B.C. has legislated substantial reductions to greenhouse gas emissions over the next three decades, including a 38% reduction in emissions from the oil and gas sector by 2030.

Chris Kennedy, an industrial ecology professor at the University of Victoria, said the Cedar LNG project doesn't align with the province's targets. "We are a fossil-fuel-mining province, and we kind of ignore that when we come up with our climate change plans," Kennedy said. The provincial environmental certificate announcement for the project on March 14 came on the same day the B.C. government released its new energy action framework to make sure oil and gas projects fit with its climate commitments.

"The choice between protecting the environment and creating good jobs is a false one," Premier David Eby said in announcing the Cedar LNG project, proposed by the Haisla Nation and its partner, Calgary-based Pembina Pipeline. The project still needs federal approval and a final investment decision by the partners. "B.C. continues to be a jurisdiction that wants to have its cake and eat it too," said Adam Olsen, a Green Party member of the Legislative Assembly.

Australia LNG exporters may need to divert supply for local market

(Reuters; March 16) - Australia's East Coast liquefied natural gas exporters may need to divert excess gas supply for domestic customers to stave off any potential supply shortages this winter in the country's south, the energy market operator said on March 16. Despite increased production commitments from the industry since last year, the supply in southern Australia is declining rapidly, raising risks of near-term shortages and long-term supply gaps, the Australian Energy Market Operator (AEMO) said.

"To minimize shortfall risks, committed infrastructure and supply projects must be completed on time ... additional gas storage and pipeline development and LNG import terminals could potentially play a role," CEO Daniel Westerman said in a statement accompanying AEMO's closely watched outlook. "The risk of gas shortfalls each year from winter 2023 to 2026 in all southern jurisdictions remains under extreme weather conditions ... with those risks further exacerbated if gas storage levels are insufficient."

After 2026, Australia will require additional commitments to expand the gas supply or have enough renewables to offset the demand for gas, AEMO said. Producers said they are reluctant to invest in new supply after government market interventions, including proposals to impose a "reasonable pricing" regime on gas and expand the government's ability to divert gas exports to the domestic market. Though Australia produces more gas than needed for domestic demand, most supply is contracted for export.

Nord Stream shareholders discuss how to seal damaged gas line

(Reuters; March 15) - Shareholders of the Nord Stream 1 pipeline operator are discussing how to seal and empty the damaged gas pipeline between Russia and Germany to halt corrosion from sea water, said the chief financial officer of German energy company E.ON, one of the owners. He told reporters at the group's financial results news conference that it was unclear whether the pipeline would be repaired, but that any decisions are likely to be made with the support of all shareholders.

"We continue to exercise our rights as a minority shareholder in the Nord Stream 1 operating company. And we still see no point in simply leaving the field to Gazprom at this point," E.ON's Marc Spieker said. Nord Stream is majority owned by Russia's Gazprom. E.ON on March 15 said it had written off the value of its 15.5% stake in Nord Stream 1. The dual pipelines were damaged by suspected sabotage in September.

"At the moment, the operating company is concentrating on the question of how the two destroyed pipelines can first be sealed and drained so that the strands do not corrode further," Spieker said. Two sources familiar with the matter told Reuters this month that, while there was no plan to repair the ruptured pipeline, it would at least be conserved for possible reactivation in the future. "Whether a repair will be attempted at some point in the future ... is completely speculative from today's point of view," Spieker said. "It depends on many factors — political, social, economic. Only time will tell."