Oil and Gas News Briefs
Compiled by Larry Persily
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Shell CEO expects no one will like his decisions about oil and gas

(Wall Street Journal; March 28) - Wael Sawan knows he is about to make some people very unhappy. The new CEO of Shell is in the midst of crafting his business plan for the energy giant, including whether to increase oil production. Doing so would please many investors looking to build on last year's oil-and-gas bonanza which produced record earnings for Shell. But it almost certainly would generate protest from environmentalists and other critics, including investors who want Shell to tackle climate-related goals.

Critics argue a continued focus on fossil fuels endangers Shell's long-term prospects in a changing world. Sawan said he is committed to lowering the company's emissions and helping develop a new generation of clean-energy sources. But that is not where the bulk of profits are right now. "I fundamentally believe in the role of oil and gas for a long, long time to come," he said in a recent interview with The Wall Street Journal.

What's more, he said, he doesn't believe renewable and low-carbon energy projects should be subsidized by Shell's fossil-fuel profits, but should deliver returns that merit continued investment on their own. "We're definitely taking a hard look at the portfolio," Sawan said. All options are on the table, he said, including revising the company's 2021 forecast for an average 1% to 2% decrease in its crude output each year until 2030. Whatever he decides, Sawan expects to be unpopular among some groups, and maybe factions of all of them. "I think the heat will come no matter what I do," he said.

Climate activists push insurers to stop covering oil and gas projects

(Reuters; March 27) - A group of climate activists has called on 30 insurance company bosses to "immediately" stop underwriting new fossil fuel projects in the wake of a stark climate warning from U.N. scientists, a letter seen by Reuters showed. Insure our Future, a global consortium of activists, said it sent the letter March 21 to companies including Munich Re, Zurich Insurance and AXA. The six-page letter, signed by 23 climate groups, including non-governmental organizations, said the insurance industry had failed to do enough to meet the world's climate goal of limiting global warming.

Other demands included stopping insurance for new fossil fuel customers not aligned with the goal, and adopting binding targets to reduce insured emissions by July 2023. "Insurers, as society's risk managers, have a special responsibility to act and the power to drive change. Without insurance most new fossil fuel projects cannot go ahead and existing ones cannot continue to operate," the letter read.

The letter follows last week's warning from U.N. Secretary General Antonio Guterres that the "climate time bomb is ticking," urging rich countries to cut emissions sooner after a new assessment from scientists said there was little time to lose in tackling climate change. While some insurers have tightened underwriting and investment policies to exclude some polluting industries from their business, the most stringent policies have focused primarily on coal rather than oil and gas.

U.S. now largest oil supplier to European Union

(CNN: March 28) - The United States is now the biggest supplier of crude oil to the European Union. In December, 18% of the bloc's crude imports came from America, EU data office Eurostat said March 28. That is a big turnaround. Russia was until recently the bloc's top supplier of crude, accounting for as much as 31% of total imports until the end of January 2022, according to Eurostat. The U.S., meanwhile, came a distant second, with a maximum 13% share.

But Moscow's invasion of Ukraine in February last year led to an upheaval in Europe's energy supplies. Then in December, the European Union banned imports of Russian seaborne crude and introduced a price cap barring shippers, insurance brokers and other companies from providing their services if oil was bought for more than $60 a barrel. U.S. crude exports to Europe were rising before the war, though Russia's invasion increased the need to ramp up deliveries from alternative sources, said Jay Maroo, a senior analyst at data provider Vortexa.

Russian crude into the EU supplied just 4% of total imports in December. By the end of the year, "the EU's biggest suppliers of crude oil were the United States, Norway and Kazakhstan, showing that the EU managed to adapt to the changing oil market landscape and virtually remove its dependence on Russian oil," Eurostat said. Russia has found new buyers for its oil keen to snap up barrels at a steep discount. India and China, in particular, have ramped up oil imports from Russia.

Booming U.S. Gulf Coast LNG industry could face labor shortages

(EnergyWire; March 27) - The boom in U.S. liquefied natural gas exports could hit a new roadblock in the years ahead: labor shortages. Since Russia invaded Ukraine, the U.S. has raced to fill gaps in European gas markets. Eight export terminals currently operate along the Gulf Coast of Texas and Louisiana, with five more under construction. An additional 11 have received approval from the Federal Energy Regulatory Commission.

That many projects will require thousands of workers, both to build the terminals and then to operate them once construction is finished. LNG executives worry that today's labor pool isn't big enough to meet the demand. "It's become more and more a topic of discussion in the industry as we're getting more imbalance on this," said Wouter Pastoor, chief operating officer of Delfin Midstream, an LNG project developer. "There's a limited pool of labor experienced to build such megaprojects, whether it's LNG or other types of petrochemical, and we think it will be a risk factor for those projects."

Rystad Energy, a research and business intelligence company, forecasts that construction activity for LNG projects will triple by 2025 in coastal Louisiana and Texas. That year, capital expenditures could total $15 billion, up from $5 billion in 2022, according to Rystad. At the peak of construction, 17 new projects could be underway, said Matthew Fitzsimmons, senior vice president of supply chain research for Rystad. That would dwarf the 2017 boom in LNG export projects; at the time, S&P Global reported that companies struggled to hire around 30,000 workers for four projects.

Investors become more demanding of U.S. LNG project financing

(Reuters; March 29) - Financial hurdles are rising for U.S. liquefied natural gas project developers aiming to get their proposed export terminals off the ground as investors become more demanding. The banking crisis has added a new snag to rising interest rates and supply chain shortages for these multibillion-dollar projects, which months ago were seen as sure bets. Two of four new projects aiming for a financial OK this quarter have been pushed back, and others will face that higher bar, said analysts.

The pair that have gone ahead — Venture Global in Louisiana and Sempra Energy in Texas — embody what analysts say are the new norms: Relying less on developer's equity and more on fully contracted offtake capacity. Both projects also won approvals with strong corporate financing — $7.8 billion for Venture Global and $6.8 billion for Sempra — noted Jefferies Group managing director of Equities Research Lloyd Byrne.

And both reduced volatile gas-price risk by having about 90% of production capacity under long-term deals, Byrne wrote in a report this week. Rivals unable to recruit a full contingent of buyers face "a project stalling or outright cancellation," he added. Eleni Papadopoulou, lead gas analyst at commodity data and analytics firm Kpler, said the banking crisis that emerged this month raised "concerns that banking lending activity might be pulled back," she said, delaying further final investment decisions.

The NextDecade and Energy Transfer projects in Louisiana that were previously aiming for FID this quarter have been repeatedly delayed due to rising labor, construction and borrowing costs, and by the narrowing spread between U.S. and global gas prices.

French bank confirms it pulled out of proposed U.S. LNG project

(Reuters; March 28) - French bank Société Générale pulled out of U.S. energy company NextDecade's proposed Rio Grande liquefied natural gas project in Texas last year, a bank spokesperson said March 28. As the project's financial adviser, Société Générale had been the lead bank in the financing of some $11.5 billion for the project before exiting that role in the first quarter of 2022. The bank's exit from the project had not been previously made public. Next Decade has not reached a final investment decision on the LNG export project, which also is waiting on federal authorization.

Without commenting on the reason for this specific exit, a spokesperson pointed to the bank's commitment to end all reserve-based lending for U.S. onshore energy projects by the end of 2023, and to only participate in financing LNG projects aligned with the bank's engagements on environmental and social governance and human rights. NextDecade has a contract with Bechtel to build the first three of five liquefaction units at an estimated cost of $11.4 billion, subject to revision before an investment decision.

"Years and years of facing these banks and demanding that they step off our sacred lands have led us to these great victories," said Juan Mancias, chairman of the Carrizo Comecrudo Tribe of Texas, also citing a 2017 decision by French bank BNP Paribas to no longer directly finance LNG exports fed by shale gas. "The issue is now for other banks to also commit not to support the project, as adviser or financier," said Lorette Philippot of Friends of the Earth France.

Calgary developer gives up on LNG project in Nova Scotia

(Globe and Mail; Canada; March 27) - Pieridae Energy has abandoned plans to move natural gas from Western Canada to Nova Scotia, citing a lack of pipeline capacity. Calgary-based Pieridae's decision marks the latest setback to the company's ambition of exporting liquefied natural gas from the East Coast. Multibillion-dollar pipeline upgrades by TC Energy in Ontario and Quebec would have been required to transport Western gas to Pieridae's Goldboro LNG site. Without pipeline access to gas, Pieridae has shelved its proposal to build the 10-million-tonne-per-year export project.

Pieridae CEO Alfred Sorensen said he is keeping hopes alive for a scaled-down version of a project that would export 3 million tonnes a year of LNG from a proposed terminal in Nova Scotia. "We have no interest in taking Western Canadian gas any longer, and that is why the project has shrunk in size," Sorensen said in an interview. The revised proposal hinges on whether the New Brunswick government would be willing to lift a moratorium on hydraulic fracturing to produce gas in that neighboring province.

"It's a bit of a long shot, but it's the only shot," Sorensen said. He acknowledges opposition from climate activists in New Brunswick, where then-premier Brian Gallant introduced a fracking ban in 2014. Except for a small exemption, the moratorium has stayed in place under Premier Blaine Higgs, who took office in 2018. With Europe experiencing an energy crunch after Russia invaded Ukraine in 2022, Higgs has reiterated his position that the fracking ban in New Brunswick should be re-examined.

Europe needs LNG, but does not want to buy from Russia

(Bloomberg; March 28) - European Union officials are stuck between a rock and a hard place: How to curtail reliance on liquefied natural gas from Russia without triggering a spike in prices? Europe needs all the LNG it can get to fill the void left by dwindling Russian piped-gas supplies. In fact, the bloc boosted imports of the liquefied fuel from the country by more than 30% last year. EU leaders, now facing the political fallout from that trade, are scrambling to change course.

EU ministers are set to back a proposal allowing member governments to stop Russian LNG exporters from booking the import terminals they need. Meanwhile, top buyer Spain has sent letters to energy firms urging them to diversify supply away from Russia. But LNG traders chasing profits aren’t deterred. There still aren’t any concrete sanctions or timelines for quitting Russian LNG, and comments remain vague enough to allow for deliveries to continue with no recourse.

The EU is in a tough spot. Increasing imports of LNG from Moscow runs counter to the bloc’s hardline approach against Vladimir Putin. But slapping a ban on the fuel risks gas shortages and higher prices at home. And there’s no sign an embargo would get the unanimous support needed from member states, despite a push from some Baltic countries. Unless Europe imposes sanctions on Russian LNG — as it did with coal and oil — the deliveries are set to continue, according to traders surveyed by Bloomberg.

Portugal will test market for blending hydrogen with natural gas

(Reuters; March 27) - Portugal will launch a pioneering auction in the second half of this year for rights to sell hydrogen for injection into the national gas grid, which some see as a key step in kickstarting Europe’s fledgling hydrogen market. Under the terms of the auction, energy group Galp Energia will contract to buy hydrogen mixed with natural gas from producers and resell it to meet demand, a system designed to boost investment in production by giving suppliers a guaranteed buyer. That would remove the need for dozens of bilateral contracts between suppliers and consumers.

The first auction for transporting hydrogen to consumers in Europe via pipeline is being watched to see if it can resolve one of the sector's stickiest conundrums — balancing producers' need for more demand with clients' desire for supply and price guarantees before making costly technology switches. Investors have pledged about $76 billion to build green hydrogen plants, according to the Hydrogen Council and McKinsey & Co., but just $6 billion had reached the final investment decision stage as of May 2022.

The auction is designed to foster the development of hydrogen technology in Portugal, Environment Minister Duarte Cordeiro's office said in written responses to Reuters. The Portugal solution could be an effective way of resolving the "chicken and egg" situation of waiting for demand to justify investment, said Dilara Caglayan, senior research associate for hydrogen at Aurora Energy Research. Blending hydrogen into the existing gas network could help generate demand to get the market up and running, she said.

Shell signs third long-term LNG deal with proposed Mexico terminal

(LNG Global; March 27) - Shell and a subsidiary of Mexico Pacific Ltd. have signed their third long-term sales and purchase agreement for LNG from a North American West Coast terminal. The deal calls for Shell to purchase approximately 1.1 million tonnes per year of LNG from the third train of Mexico Pacific's proposed Saguaro Energia LNG export project in Puerto Libertad, Sonora, Mexico, on the Gulf of California.

The 20-year agreement expands upon Shell's initial 2.6 million-tonne commitment from the plant's first two liquefaction trains, bringing the total commitment from Shell to over 20% of the third train's capacity. When fully operational, the facility's first phase will have three trains and a combined capacity of 14.1 million tonnes per year. Mexico Pacific CEO Ivan Van der Walt said the project would provide Asia with low-cost U.S. Permian Basin gas piped into Mexico for liquefaction and export.

As the company works toward a final investment decision on the first two trains, it also is closing out contracting for Train 3 to ensure that an FID can follow quickly. Shell's Executive Vice President of Energy Marketing Steve Hill stressed the importance of investment in liquefaction projects to avoid a supply gap expected in the late 2020s.

India considers strategic reserves of LNG, similar to oil stockpiles

(Bloomberg; March 26) - India is considering building a strategic reserve of liquefied natural gas to guard against future price spikes or supply shortages after last year's energy crisis, according to a senior executive at the nation's top importer. The government has "proposed we should have more storage space for LNG so that when prices are lower we should store, and supply when there is crisis," Vinod Kumar Mishra, finance director at Petronet LNG, said in an interview. "We have seen the crisis and it was difficult for the government to ensure supply."

India curbed LNG imports last year after Russia's invasion of Ukraine upended the market and sent prices surging. While Prime Minister Narendra Modi's administration aims to more than double the share of gas in the country's energy mix, high prices have proved a deterrent for some industries.

Petronet is adding more tanks at its LNG import terminals to store the imported fuel and is working on a floating import plant in the eastern state of Odisha, Mishra said. More governments are looking to set up emergency stockpiles of LNG, similar to the oil industry's strategic reserves, as the fuel becomes a more important element of the global energy mix. Japan said last year that it is considering a similar plan.

Producing more gas for Australia's domestic needs will not be easy

(Reuters columnist; March 27) - The Australian natural gas sector believes it has the solution to warnings of a shortfall in domestic supplies in coming years: Produce more. While that may seem an obvious answer, it's also the solution that is likely to be the hardest to deliver, and even if it could be achieved, it's likely to result in natural gas at prices many customers will deem too high to be economic.

It seems ironic that Australia, which vies with Qatar and the U.S. as the world's biggest exporter of liquefied natural gas, is facing a shortage of the fuel in the populated eastern states of New South Wales and Victoria. But a report warned the domestic market may have insufficient supplies past 2025. It's not that Australia doesn't have gas on its East Coast, it's that about 85% is exported from three LNG plants in Queensland state. The owners generally receive a higher price in Asia than they do in the Australian market.

There are several challenges when it comes to boosting supply. Victoria state, home to Australia's second-biggest city of Melbourne, has imposed a ban on onshore gas production, and the chances of it being lifted are small given the environmental focus of many voters. New South Wales, home to the biggest city of Sydney, no longer produces gas, and a major gas development in planning is facing public opposition. That leaves Queensland and frontier basins in the remote Northern Territory as the best chances of boosting domestic supply, but this will be expensive gas given the need to build pipelines to transport it long distances from the fields to the southeastern cities.

Saudis take $3.6 billion stake in Chinese petrochemical giant

(Bloomberg; March 27) - Saudi Aramco is buying 10% of Rongsheng Petrochemical, one of China's refining giants, for 24.6 billion yuan ($3.6 billion), in a move that expands its presence in the world's biggest energy importer. It's the second deal in two days that will boost Aramco's exports to China, and adds up to commitments to ship nearly 700,000 barrels of additional Saudi oil a day to China for conversion into chemicals.

The timing is fortuitous. Saudi Arabia's position as a dominant supplier of crude to China is being challenged by Russia, which needs new markets after it invaded Ukraine and found itself cut off from sales to Europe. Last month, Russia grabbed the top spot in China as its refiners take advantage of cheaper barrels to feed rebounding demand.

The March 27 agreement with Rongsheng is Aramco's biggest-ever foreign acquisition, according to data compiled by Bloomberg. The Saudi company believes demand for goods such as plastics and paint — mostly made from crude-based chemicals — will continue to rise over the coming decades even as the uptake of electric vehicles potentially leads to lower consumption of fuels such as gasoline and diesel.

The stake includes a commitment by Aramco to sell 480,000 barrels a day of crude oil to Rongsheng's 800,000-barrel-a-day refinery in the eastern province of Zhejiang over 20 years. The day before the announcement, Aramco and other Chinese companies agreed to invest in a new $12 billion refining and petrochemical plant in China's northeastern Liaoning province, accelerating developments that were paused during the pandemic. Aramco will supply as much as 210,000 barrels a day of crude to the project.

China a growing source of green hydrogen electrolyzers

(Bloomberg; March 28) – China's capacity to manufacture electrolyzers — the equipment used to make green hydrogen — could grow about 20 times by 2028 as costs of the clean-energy source plunge, according to CICC, a third-part adviser and analytical firm in China. The zero-emissions fuel, produced by using renewable energy to extract hydrogen from water, is on track to achieve cost parity with other methods fueled by natural gas or coal as soon as the end of this decade, which will drive rapid deployments, CICC analysts wrote in a note.

Current production costs of green hydrogen are about 20 yuan ($2.90) a kilogram, compared to 10 yuan with coal and 17 yuan with natural gas. Large-scale deployments, additional renewable-energy capacity and rising carbon prices will all combine to make the newer technology competitive. China's electrolyzer market could be worth about 50 billion yuan by 2028, when domestic demand for the equipment will reach 40 gigawatts and green hydrogen production is likely to top 4 million tons, the analysts wrote.

Leading energy firms including China National Petroleum Corp. are among those investing in the sector, as the nation aims to challenge U.S. and European competitors to meet rising demand. Global electrolyzer shipments should double or triple in 2023 to as much as 3.3 gigawatts, with China potentially accounting for about 1 gigawatt, BloombergNEF wrote in a report this month.

French strikes cause oil tankers to back off and wait

(Bloomberg; March 28) - A fleet of tankers carrying millions of barrels of oil is backed up off the coast of France as strikes over pension reform rumble on. Vessels holding at least 14 millions of barrels of crude oil are currently floating off the country's shores, according to tanker-tracking data compiled by Bloomberg. With strikes hampering port operations, supplies are disrupted and some tankers have sailed to other countries.

France is heavily reliant on crude imports but the rate of arrivals has `more than halved so far this month, according to data compiled by Bloomberg from analytics firm Kpler. The country's domestic fuel production from its oil refineries is simultaneously being crushed by strikes. Union officials representing workers at TotalEnergies and ExxonMobil, which between them run the vast majority of France's fuel-making plants, said there is currently no end date for the strikes, which have been going on for weeks.

Of the crude currently floating, about 11 million barrels is near Fos, a port on the country's south coast where — along with neighboring Lavera — key oil terminals aren't expected to carry out any tanker operations until at least the end of the month. France has sizable strategic stockpiles, some of which it has been releasing to avoid shortages.

OPEC+ expected to hold production steady

(Bloomberg; March 28) - The OPEC+ coalition is showing no signs of adjusting oil production next week, staying the course amid turbulence in financial markets. Group leader Saudi Arabia has said publicly that the 23-nation alliance should keep supplies steady for all of 2023 as it navigates a fragile recovery in global oil demand. Delegates from the group say privately that an online meeting of key ministers on April 3 is set to maintain this position.

With turmoil in the banking sector affecting the economic outlook and sanctions on Russia creating uncertainty about supply, there's no need to deviate from the current plan, the delegates said, asking not to be named because the information is private. Fourteen traders and analysts polled by Bloomberg also unanimously predicted no change from the OPEC+ Joint Ministerial Monitoring Committee, which has the power to call an emergency meeting if it thinks a change in production policy is necessary.

"I suspect they'll be keeping their heads down and eyes open," said Bob McNally, president of Rapidan Energy Group and a former White House official. "It's too soon for any firm conclusions that would trigger a recommendation to call a ministerial meeting before June 4, much less adjust quota policy." Saudi Energy Minister Prince Abdulaziz bin Salman has been particularly clear that current output targets shouldn't be changed. The quota limits are "here to stay for the rest of the year, period," he said last month.