Oil and Gas News Briefs
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Saudi and Russian effort to boost oil prices could backfire long term

(Bloomberg analysis; Sept. 14) - In the new Cold War building between authoritarian states and democracies, petroleum appears to be the most potent weapon. Russian President Vladimir Putin and Saudi Arabian Crown Prince Mohammed bin Salman last week celebrated their recent output cuts, which have pushed up crude oil prices by 23% since the end of June. Costlier oil means more money for Moscow's war machine and Riyadh's construction boom, but higher gasoline and diesel prices for U.S. consumers.

Spying an opportunity to raise the prominence of the yuan, China has meanwhile shifted almost all of its Russian crude imports into its own currency and pressed Riyadh to do the same. The battle lines have been drawn, and President Joe Biden's climate-conscious administration threatens to be brought down by an alliance of oil-stained autocrats. Yet China — the biggest source of additional oil demand in recent decades, accounting for about three-quarters of marginal growth in 2023 — is at a crucial moment in its energy transition. Its gasoline demand will peak this year, according to China Petroleum & Chemical Corp., the massive state-controlled refiner known as Sinopec.

Every dollar that Russia and Saudi Arabia add to the price of oil now will lead to a faster drop in long-term demand from their most important market in China, as well as the nation that is set to take its crude-consumption baton: India. Climate activists should be thanking Moscow and Riyadh. Their misguided swagger will do as much to reduce the world's carbon footprint as a library full of environmental, social and governance reports.

Saudi Arabia sells its crude at higher price than global benchmarks

(Bloomberg opinion column; Sept. 14) - Financial markets focus on two oil prices: Brent and West Texas Intermediate, the grades traded in London and New York. They suggest a price hovering around $90 a barrel. But from the perspective of Saudi Arabia, oil is already touching $100. The discrepancy reflects the pricing power that Saudi Arabia has gained over the past year and a half, allowing it to charge a record premium for its oil, particularly for U.S. and European buyers seeking alternatives to Russian crude.

On Sept. 13, the price of Saudi's flagship oil grade Arab Light rose to almost $98.47 a barrel in Europe, according to data compiled by Bloomberg. Saudi Arabia's renewed pricing power is due to two factors, one deliberate, the second down to happenstance. The first, and perhaps most important, is that Riyadh is taking some of the cake that oil refiners are enjoying. Around the world, refining margins — the difference between the cost of crude and the value of the gasoline, diesel and other products — have surged to records, due to soaring demand combined with a lack of refining capacity.

Riyadh calculates the value of the products that a typical refinery would yield processing Saudi crude and makes sure refiners share some of that extra profit with Saudi Arabia.

The second factor is that the market is particularly starved of the kind of oil that Saudi Arabia produces. That's mostly because of the kingdom's deep production cuts. But it also reflects the fact that the biggest source of extra oil supply – U.S. shale – is very different to Saudi crude. For many refiners, Saudi crude is a staple, allowing them to run their plants better. It's particularly good for diesel, the workhorse of the global economy. By contrast, U.S. shale oil yields comparatively more petrochemicals.

Analysts talk of $100 oil, if even only for a short while

(CNBC; Sept. 15) - Oil prices climbed to their highest level of the year this week, extending a rally that has put a return to $100 a barrel sharply into focus. Indeed, some analysts believe crude prices could hit this milestone before year-end. International benchmark Brent crude futures traded at $93.46 a barrel Sept. 15 in London, while Texas Intermediate futures stood little changed at $90.09. The price rally comes amid growing expectations of tighter supply after Saudi Arabia and Russia moved to draw down global inventories and extend their output cuts through to the end of the year.

“Should OPEC+ maintain the ongoing supply cuts through year-end against Asia's positive demand backdrop, we now believe Brent prices could spike past $100 before 2024,” Bank of America analysts led by Francisco Blanch said Sept. 12 in a research note. Tamas Varga of oil broker PVM said a jump toward the $100 milestone was “plausible,” citing production constraints from Saudi Arabia and Russia, upcoming refinery maintenance, the structural shortage of diesel in Europe, and a growing consensus that the current cycle of economic tightening will soon come to an end.

Christyan Malek, global head of energy strategy and head of oil and gas equity research at JPMorgan, said he believes the price of oil is likely to trade in a range of $80 to $100 in the short term — and at around $80 over the long term. Not everyone believes prices are destined for an imminent return to $100, however. Ole Hansen, head of commodity strategy at Saxo Bank, said the crude sector looks increasingly overbought in the near term and appears in need of a pullback. “We do not join the $100-per-barrel camp but will not rule out a relatively short period where Brent could trade above $90,” he said.

OPEC disagrees with IEA forecast of peak oil demand by 2030

(S&P Global; Sept. 14) - OPEC has hit out again at the International Energy Agency, saying its prediction of a peak in fossil fuel demand before 2030 presents a "dangerous" risk to global energy security by stoking calls to end investments in oil and gas projects. In a sharply worded response to IEA Executive Director Fatih Birol's Sept. 12 op-ed in the Financial Times that declared the hastening decline of hydrocarbons a "welcome sight," OPEC Secretary General Haitham al-Ghais accused the agency of ideologically driven fear-mongering that would destabilize the world economy.

"Such narratives only set the global energy system up to fail spectacularly," al-Ghais said in a Sept. 14 statement. "It would lead to energy chaos on a potentially unprecedented scale, with dire consequences for economies and billions of people across the world." With oil demand likely to hit record levels in 2023 — and grow again in 2024, according to most forecasts — boosted by the tailwind of the pandemic recovery and continued growth in emerging markets, climate change concerns have run headlong into energy security considerations for policymakers.

The debate is sure to be heightened in the lead-up to the U.N. climate change summit in November, hosted by the UAE, a core OPEC member that is rapidly expanding its crude production capacity in anticipation of future demand for its oil. Neighboring Saudi Arabia is also aggressively investing in new drilling to boost its spare capacity.

Guyana accepts bids for more offshore oil exploration blocks

(Associated Press; Sept. 13) - Guyana has opened bids for 14 offshore oil blocks for exploration and development as the South American country seeks to ramp up its oil production. Six companies and groups submitted bids for the blocks on Sept. 12 after the process was postponed three times to provide more time for interested parties to evaluate the blocks' data.

ExxonMobil has successfully drilled more than 30 wells in waters off Guyana, now considered one of the world's biggest offshore oil producers. The latest blocks cover a total area of at least 386 square miles. ExxonMobil once again teamed up with its partners in Guyana — U.S.-based Hess Corp. and China National Offshore Oil Corp. — to submit a bid in the latest round. Meanwhile, France's TotalEnergies partnered on bidding with companies in Qatar and Malaysia. Also submitting bids were companies and groups based in the U.S., Ghana, Saudi Arabia, Guyana and London.

The government said it would start evaluating bids next week and expects negotiations with bidders to start by mid-October. Decisions could be announced by early November. Guyana has seen its economy soar after a massive oil discovery in 2015 that so far has led to the production of nearly 400,000 barrels of oil a day. The number is expected to rise to 1 million barrels a day since the Exxon-led consortium has applied for approval to explore more blocks. The U.S. Geological Survey estimates Guyana's coastal area has roughly 13.6 billion barrels of oil reserves, and gas reserves of 32 trillion cubic feet.

[U.S. shale drillers work harder to find more oil]

(Bloomberg; Sept. 14) - Since the advent of the shale boom, U.S. oil producers have drilled both downward and sideways deep beneath the Earth's surface. But now that the easiest-to-reach crude has been extracted, those companies are testing the limits of their technology even further by boring more than 3 miles horizontally, elevating both the operational risk and the potential rewards.

One in five new wells in the Permian Basin of West Texas and New Mexico will rely on subterranean horizontal holes of 3 miles or longer in 2024, double the share this year and up from virtually zero just two years ago, according to research firm Rystad Energy. U.S. producers including Pioneer Natural Resources and Diamondback Energy say the new technique will be key to future oil output for a U.S. industry starting to show its age.

Following the adoption of techniques like fracking and sideways drilling in the early 2000s, U.S. shale became the world's leading source of oil growth. Now that the best acreage has been tapped, the shale patch is struggling to keep up. Some operators trying to wring out hard-to-reach hydrocarbons are going so far as to drill in zigzag and U-turns under miles of rock in hopes of getting more oil. "It's a risk-reward decision, because if something bad happens at 18,000 feet, that's an expensive mistake," Kaes Van't Hof, president of producer Diamondback, said on a call with analysts.

[Russia's Novatek starts putting together its next LNG project]

(Upstream; Sept. 13) – Novatek, Russia's largest independent gas producer, has secured the first deal to underpin its plan to build an electro-driven liquefied natural gas plant near the Barents Sea port of Murmansk. The company has not indicated the expected timeline to resolve other key issues. Novatek said it had signed a strategic cooperation agreement with Russian state-controlled electricity utility Rosseti to secure connections between the Kola nuclear power station and the future liquefaction facility.

Under the agreement, Rosseti will build about 225 miles of new electrical lines and a 1.2-gigawatt substation to manage incoming feed energy so it can be supplied to the LNG plant. Novatek sees the nuclear station as a prime supplier of cheap electricity to the future LNG plant. Speaking on Sept. 12 in Vladivostok, Novatek executive chairman Leonid Mikhelson said the company is aiming to take a final investment decision on the project in the first half of 2024, with construction to begin in the second half of 2024.

However, unlike Novatek's other LNG project that is nearing a final investment decision — Obsky LNG, on the Yamal Peninsula — Russian databases contain no information on any tenders for services or supplies for the proposed Murmansk LNG project. Speaking earlier this week in Vladivostok, Russian President Vladimir Putin reiterated he considers Murmansk the most suitable location for Russia's next LNG export project.

He called on Novatek and gas producer Gazprom to agree on construction of an 806-mile pipeline that would transport gas from the country’s trunkline network to the plant.

Further U.S. sanctions target Russian LNG producer

(The Barents Observer; Norway; Sept. 15) - Leonid Mikhelson, leader of Russia’s largest liquefied natural gas producer, Novatek, likely is tearing out his hair in despair over new U.S measures. Novatek is a key target in the updated sanctions list that was announced on Sept. 14. Several subsidiary units of the company are on the list. The same goes for a number of the companies that supply Novatek with equipment, technology and manpower.

On the list are also the company’s two new floating LNG storage and transsshipment units. The 1,312-foot-long Saam FSU and Koryak FSU arrived this summer at their destinations off the Kola Peninsula in western Russia and Bechevinskaya Bay in Kamchatka in the Far East. They will enable Novatek to boost shipments of LNG to foreign markets. The U.S. sanctions also aim at several of the key companies assisting Novatek in building platforms and LNG production units.

The net is tightening around Mikhelson and Novatek. The man who for decades has been a close Putin ally and made billions on gas from the Arctic will now face additional troubles with pushing ahead with new energy projects. Novatek, its subsidiaries and suppliers will now increasingly have to lean on Chinese technology and goods.

ConocoPhillips expands its LNG presence in Europe

(Reuters; Sept. 14) - ConocoPhillips said Sept. 14 said it has signed a 15-year liquefied natural gas throughput deal in the Netherlands, starting in 2031, to secure additional regasification capacity in Europe. The deal signed for use of the natural gas distribution hub at the Port of Rotterdam expands ConocoPhillips’ global LNG presence. It follows LNG agreements secured since 2022 in Germany for offloading and regasification, and in Mexico, Qatar and the U.. for taking a share of LNG production.

Conoco’s agreement for use of the Netherlands’ terminal covers 1.5 million tonnes per year of LNG. "Expanding our LNG footprint with agreements like this further enhances a balanced, diversified and attractive portfolio as we progress our global LNG strategy," said Bill Bullock, chief financial officer of ConocoPhillips.

In August, ConocoPhillips signed 20-year deal to receive 2.2 million tonnes of LNG a year from Mexico Pacific's Saguaro export facility on the West Coast of Mexico. The company also has equity positions in Qatar and Australia LNG projects and offtake and equity in Sempra’s Port Arthur LNG Phase 1 project on the U.S. Gulf Coast. The Port Arthur, Texas, project, estimated at $13 billion, is scheduled to start operations in 2027.

Japan’s INPEX looks at next LNG project in Indonesia

(Upstream; Sept. 13) - Japan’s INPEX Corp. is reportedly now aiming for mid-2024 to enter the front-end engineering and design phase for its Abadi liquefied natural gas project in Indonesia, with the final investment decision expected some two years later for the terminal planned for 9.5 million tonnes per year production capacity. INPEX has already signed letters of intent with potential LNG customers for its greenfield Abadi project, CEO Takayuki Ueda said on the sidelines of Gastech 2023 in Singapore.

INPEX is looking to enter FEED around mid-2024, “or by the end of next year at the latest,” after the company gets approval from Indonesian authorities for a revised plan of development — which includes carbon capture and storage— said Ueda, adding that it “expects to reach FID about two years after the start of FEED.” He said potential customers include buyers in Japan, South Korea and Southeast Asia. “We would not be able to take the FID without securing long-term contracts and subsequent finance.”

Ueda also said INPEX is considering adding a third liquefaction train to its Ichthys LNG project in Australia as the company scales up its LNG operations. Ichthys, which started operations in 2018, carries a nameplate capacity of 8.9 million tonnes per year. It is the only LNG production and export project operated by a Japanese company.

Italy’s Eni sees growth potential for LNG sales in Southeast Asia

(S&P Global; Sept. 14) - Italy's Eni is looking to sell liquefied natural gas into Southeast Asia to tap new emerging buyers and it may also consider taking more U.S. LNG into its portfolio to diversify its supply, Cristian Signoretto, deputy chief operating officer natural resources and director global gas portfolio, told S&P Global Commodity Insights. There is a lot of potential demand in Southeast Asia due to a number of reasons, he said.

Floating regasification technology has made it much easier to get access to LNG compared to an onshore import facility that would cost more and take much longer to build. In addition, the countries have to substitute coal with gas in order to reduce the use of polluting fuels, he said. "So they are coming into the market. And this is a good niche opportunity for portfolio players and producers. We are actively marketing our volumes in those countries," Signoretto said.

While Southeast Asia demand is much lower than South Korea, Japan or China, the region opens up multiple opportunities, he said. Emerging buyers usually have national utilities that provide sovereign guarantees which helps facilitate transactions, he said, although the smaller energy players can be more of a headache because of low credit worthiness. He also said India is a very cautious buyer as the right price is needed to displace other fuels in the country. But at around $15 to $16 per million Btu, the country refrains from buying LNG because it's too expensive. "They can use other fuels."

[Buyers say Australian government policies not helpful for LNG]

(Reuters; Sept. 15) - Long before labor unrest at liquefied natural gas plants threatened to disrupt supplies, Australia was on track to lose its crown as the world's top exporter due to green government policies, measures to protect domestic energy needs and expansion plans from Qatar and the United States. Workers at two LNG plants owned by Chevron, and that account for over 5% of global supply, plan to escalate the rolling strikes they began last week after failing to resolve disputes over pay and conditions.

While the industrial action has rattled European gas markets, buyers of the Australian fuel say they're more worried about a series of measures introduced by the government to meet domestic energy needs, manage soaring gas prices and reduce emissions. "There is a concern that the willingness to invest in Australia and confidence in the country may decline," said a spokesperson for Japan's Kyushu Electric Power, which has long-term contracts with Chevron's strike-hit Wheatstone plant and Woodside Energy Group's North West Shelf facility off the coast of Western Australia.

Australia was the world's top LNG exporter last year, sending out 80.48 million tonnes, according to Kpler data, but export volumes have fallen behind the United States and Qatar for the first eight months of 2023. Japan's top energy producer INPEX, which is considering expanding its Ichthys LNG project in Australia, said the government measures "could reduce investment in Australian LNG projects, which may have a significant impact on the development and growth" of the industry.

[Putin visits Russian Far East shipyard for tanker naming ceremonies]

(Port News; Sept. 15) - Russia's President Vladimir Putin has visited the Zvezda shipbuilding complex in Bolshoi Kamen, Primorsky Territory of the country's Far East, taking part in the naming ceremony of two reinforced ice-class tankers. The shuttle tanker, built by the order of Rosnefteflot, was named after the Soviet writer Valentin Pikul. According to Zvezda, the vessel is designed to transport oil and is capable of independently navigating without icebreaker support in the waters of the northern seas.

The second vessel, a liquefied natural gas tanker built for Sovcomflot, was named after the Soviet politician and statesman Alexei Kosygin. Zvezda said the ice-class LNG carrier is designed to operate in harsh climatic conditions and overcome ice more than six feet thick. Putin said the vessels are “modern and powerful, equipped with the latest technology,” and “without exaggeration, one of the best in their class in the world.”

Valentin Pikul and Alexei Kosygin are the latest ships built at the complex. According to Zvezda, in total 12 vessels have already been launched at the shipyard, including four Aframax oil tankers with a total deadweight of 450,000 tons which have been handed over to customers. In addition, 23 vessels out of more than 50 in the company’s order portfolio are being built. The total deadweight of orders exceeds 3 million tons, Zvezda said. The shipyard specializes building all types of offshore production platforms, icebreakers and large-tonnage civil vessels.

Ireland’s appeals panel denies permission for LNG import terminal

(The Irish Times; Sept. 15) – Ireland’s national planning appeals board has refused permission for construction of a €650 million ($695 million) liquefied natural gas terminal on Shannon estuary near Ballylongford, County Kerry. The 8-2 decision was based on government policy on the importation of fracked gas. The panel decided it would be inappropriate to permit or proceed with the development of any LNG terminals in Ireland pending the review of energy supply, the planning authority said. It also refused permission for an adjoining gas-fired power station and battery storage facility.

The proposal was for regasifying imported LNG on site for distribution into the national gas grid. LNG as a primary fuel source for a power station was contrary to government policy, the board said. Leo Varadkar, an Irish political leader, said, “I’d like to read the decision and understand why that’s been made. It will come as a disappointment to a lot of people in north Kerry because they were looking forward to that investment. I think there is a case for having gas storage.” Politicians with local bases, including some in the European Parliament, were keen for any development that could provide jobs.

Chevron says full production resumes at strike-hit LNG plants

(Reuters; Sept. 18) - Chevron said Sept. 18 that full production had resumed at its strike-hit Wheatstone liquefied natural gas facility in Western Australia after production last week dropped by about one-fifth. Wheatstone and Chevron’s nearby Gorgon facility account for over 5% of global LNG supply, and strikes have not affected scheduled deliveries, Chevron said, with shipping data on LSEG Eikon also showing exports from Wheatstone were unaffected.

Chevron has said it would maintain supplies from the terminals despite the disruptions, which intensified over the weekend as workers escalated their strike action to 24-hour stoppages from brief halts and limited bans on certain tasks. The strikes were set to run until the end of this month but the Offshore Alliance, a coalition of two unions, on Sept.

16 flagged their intention to extend the action. Chevron and unions were scheduled to hold further talks mediated by the Fair Work Commission on Sept. 18 and 19.

Equinor and Kuwaiti partner plan to develop North Sea gas field

(Bloomberg; Sept. 15) - Equinor and Kuwait Foreign Petroleum Exploration plan to develop a new natural gas field in the North Sea and extend the life of the Gina Krog field, with an eye to maintaining Norway's position as Europe's biggest supplier of the commodity. Equinor and Kufpec aim to start producing from the Eirin gas field in the second half of 2025, unlocking an estimated 27.6 million barrels of oil equivalent in recoverable reserves, Norway's Petroleum and Energy Ministry said in a statement on Sept. 15. The project is estimated to cost about 4 billion kroner ($370 million).

The development plan, the first to be submitted this year, follows a rush of applications at the end of 2022 that benefited from a pandemic-era tax package to help avoid a slowdown in Norway's most important industry. The Eirin field, which will be connected to the Gina Krog platform, is another example of oil companies in Norway focusing on assets close to existing infrastructure.

Production from Gina Krog helped bolster the volume of gas that Norway was able to export to continental Europe following Russia's invasion of Ukraine. Previously, it had injected the gas back down into the well to increase oil recovery. The increased demand for the country's gas also raised the stakes for field life extension projects like Eirin. "It is becoming even more important to make up for the decline at existing fields, so that's why we have focused so much on near-field exploration," Camilla Salthe, Equinor's senior vice president for field life extension, said Sept. 15.

TotalEnergies wants to use green hydrogen at its refineries

(Bloomberg; Sept. 14) - TotalEnergies is launching a "massive" green hydrogen tender to reduce the carbon emissions of its six European refineries and two French biofuel plants as pressure mounts on the industry to fight climate change. The French energy giant plans to replace the entire 500,000 tons of gray hydrogen used annually in its refineries in France, Belgium, Germany and the Netherlands with green hydrogen by the end of the decade, the company said in a statement Sept. 14.

That would avoid emissions of about 5 million tons of carbon dioxide a year, crucial for reducing the greenhouse gas releases of its oil and gas operations by 40% between 2015 and 2030. The process will be scrutinized as European governments are pledging billions of euros to support the green hydrogen produced with water and renewable power, at zero emissions. Green hydrogen is tagged by the European Union as key to decarbonize industries such as refining and fertilizers.

However, its global market is currently tiny as it’s more expensive than its widely used “gray” version made with fossil fuels. “Our goal is to find green hydrogen at the most competitive cost from suppliers of various horizons, by testing local markets as well as imports,” Jean-Marc Durand, Total’s head of European refining and petrochemical operations, said at a press briefing. “We imagine that incentives such as European policies can make green hydrogen competitive.”