Oil and Gas News Briefs
Compiled by Larry Persily
September 9, 2024

OPEC+ has put itself in hot water over prices and production

(Bloomberg columnist; Sept. 5) - OPEC+ is like a teabag — it only works in hot water. The late Robert Mabro, one of the savviest oil-market observers, liked to say the cartel only got the job done when it was under prolonged financial pain. To judge by its latest actions, OPEC+ has yet to realize it's inside a warming kettle. Saudi Arabia, Russia and other oil-producing nations have agreed to delay by two months a planned output hike that was scheduled to start in October. The delay came after Brent fell to the low $70s.

In the short term, postponing the output hikes until December should support prices. By giving up an increase of 180,000 barrels a day in October and November, OPEC would keep the market roughly balanced next quarter rather than creating a surplus. But looking at supply and demand, OPEC+ is simply kicking the can down a very uphill road. In two months, it will have to take another decision. If it wants higher oil prices in 2025, it will have to do far more than delaying the almost 2 million barrels a day of extra production that it penciled it by the end of next year. It will need to cut output outright.

As a group, however, OPEC+ isn't remotely ready for cuts. If anything, the timid deal to delay its production hikes by two months indicates strong internal disagreement. Saudi Arabia wants higher prices even at the cost of lower production; many others think that's leading to market share losses. Riyadh is unlikely to convince its allies of the need to cut output unless prices plunge. The kingdom is already struggling to rein in the United Arab Emirates, Iraq and Kazakhstan, which are all cheating on their production quotas.

Lower oil prices loom in early 2025. Wall Street banks are warning about sub-$70 oil, telling clients of a risk of $50. For the next few weeks, the water temperature will slowly increase. By December, the kettle should be whistling. Then – and perhaps only then – OPEC+ may jump into serious action. But I remain unconvinced that the cartel would coalesce into defending the high price that Saudi Arabia wants by withholding output.

OPEC+ postpones production boost, but prices keep falling

(Bloomberg; Sept. 5) - OPEC+ postponed its supply hike by two months but the move wasn't enough to roll back steep losses in oil prices amid fears about fragile demand. Key coalition members won't increase production by 180,000 barrels a day in October and November, according to a statement on OPEC's website. Yet their longer-term plan to revive 2.2 million barrels a day of idle supplies gradually over the course of a year remains in place, with the completion date pushed back two months to December 2025.

A delay announced Sept. 5 doesn’t change many factors in the market unfavorable to OPEC, said Julius Baer analyst Norbert Ruecker. “Demand is partially stagnant, (and) production grows in the Americas,” Ruecker said. “The oil market will likely head into surplus supplies next year.” OPEC’s rethink came after downbeat economic data from China and the U.S. — the biggest consumers — sent crude prices down last week. (The global benchmark Brent closed at $71.50 on Sept. 6, it’s lowest price since late 2021.)

With some members keen to ramp up supply, OPEC+ had agreed in June on a road map for gradually restoring supplies halted since 2022. But it vacillated as soon as the plan was unveiled, repeatedly stressing the increases could be “paused or reversed” if necessary. “OPEC+ faced a binary choice between delaying tapering or enduring a disorderly crude price rout,” said Bob McNally, president of consultant Rapidan Energy Group and a former White House official. “It appears to have chosen the former.”

But the decision to delay may only defer the challenge for OPEC to next year. World oil surpluses stand to swell in 2025 as consumption growth remains subdued while output from the U.S., Guyana, Brazil and Canada keeps expanding.

Commodity traders expect oil to fall into $60-$70 range

(Reuters; Sept. 9) - Global commodity traders Gunvor and Trafigura anticipate oil prices may range between $60 and $70 per barrel due to sluggish demand from China and persistent global oversupply, executives told a conference on Sept. 9. Oil prices have been under pressure due to concerns about waning demand in key economies of China and the U.S., falling after touching over $90 a barrel earlier this year.

Market relief came after the Organization of the Petroleum Exporting Countries and its allies, the group known as OPEC+, agreed last week to delay a planned oil output increase for October and November. However, commodity traders warn this relief may be short-lived. "The market got a little bit of sugar candy for two months, but really very little," Ben Luckock, global head of oil at Trafigura, told the Asia Pacific Petroleum Conference, adding that oil prices may fall “into the $60s sometime relatively soon.”

"The market wants to know ... that OPEC is not going to bring those barrels back or at best is going to bring it back much slower and on a deferred basis,” Luckock said. Oil's fair value is $70, as there is more oil currently produced globally than consumed and the balance is set only to worsen over the next few years, said Torbjorn Tornqvist, co-founder and chairman of energy trader Gunvor. "The problem is not in OPEC … they've done a great job to manage this," Tornqvist said. "But the problem is that they don't control where the (supply) growth is right now outside OPEC, and that's substantial."

Morgan Stanley joins chorus forecasting lower oil prices

(Bloomberg; Sept. 9) - Morgan Stanley reduced its Brent crude price forecasts for the second time in a matter of weeks, as demand challenges mount while supplies remain plentiful. The global benchmark will average $75 a barrel in the fourth quarter, according to a note from analysts including Martijn Rats. That compares with an earlier projection of $80 between October and December, which was issued just last month in a cut from the prior outlook of $85. Predictions for most of next year were also pared back slightly.

Brent has tumbled to the lowest close since late 2021 as sustained concerns about weaker Chinese demand fused with signals that the U.S. economy may be slowing. At the same time, output remains ample, forcing OPEC+ to defer a plan to relax its own production curbs. “The recent trajectory of oil prices has similarities to other periods with considerable demand weakness,” Rats and his colleagues said in the report Sept. 9.

Morgan Stanley’s rethink about the outlook has been echoed by concerns at other leading banks. Goldman Sachs Group pared its view last month, while more recently Citigroup said the market looked oversupplied and prices could average $60 a barrel in 2025 unless OPEC+ cut deeper. Brent — which sank almost 10% last week — traded near $72 a barrel on Sept. 9, with major commodity trader Trafigura telling an industry conference in Singapore that the price was set to drop into the $60s in the near future.

Oil prices far below what Saudi Arabia needs to cover spending

(CNBC: Sept. 5) - Saudi Arabia has a superpower. Not only is it the largest exporter of crude oil in the world, its production costs for oil projects are also the lowest in the world at around just $10 per barrel. When about 75% of your fiscal revenue comes from oil, that’s a big deal. And for a time, its fiscal breakeven oil price — what it needed to sell a barrel of crude for in order to balance its budget — was fairly comfortable, too.

But that’s changing as the kingdom embarks on huge spending projects as part of Vision 2030, which aims to modernize its economy and diversify its revenue sources away from oil. With each passing year, that projected breakeven oil price gets higher, and the kingdom’s deficit widens. In May 2023 the International Monetary Fund forecast the kingdom’s breakeven oil price at $80.90 per barrel, which moved it back into a fiscal deficit following its first surplus in nearly a decade.

The latest forecast, in April, put that figure at $96.20 for 2024; a roughly 19% increase on the year before and about 32% higher than the current price of Brent crude, which is trading at around $73 as of Sept. 4. “At least until 2030, Saudi will have massive budgetary needs due to the need to demonstrate some significant outcome in key Vision 2030 projects and to prepare for and host big sporting and cultural events” like the World Cup 2034 and Expo 2030, said Li-Chen Sim, a non-resident scholar at the Washington-based Middle East Institute.

Chevron tells U.S. it should be allowed to keep pumping in Venezuela

(Wall Street Journal; Sept. 5) - Days after Venezuela's Nicolás Maduro declared electoral victory and began cracking down on dissenters, Chevron offered U.S. officials its stance: It is critical Chevron be allowed to continue pumping oil there. Two years ago, the Biden administration scaled down Trump-era sanctions to let Chevron resume operations in Venezuela as part of an effort to persuade Maduro's authoritarian government to hold free and fair elections.

In meetings with White House and State Department officials days after the election, Chevron executives said its presence in Venezuela bolsters global oil supplies and U.S. energy security, according to people familiar with the talks. The executives said Chevron also serves U.S. interests as a bulwark there against geopolitical adversaries gaining additional footholds in the country. Maduro has since rounded up hundreds of dissidents, testing whether the Biden administration will reimpose stricter sanctions, including on the oil sector, the country's most important industry.

Chevron was careful not to advocate specific policies, according to a person familiar with the talks. But its message — that its oil production should continue in Venezuela — has carried weight with the administration, say people familiar with the matter. The U.S. has condemned the electoral crackdown but is so far eschewing severe reprisals. Chevron's position in Venezuela is important to the company: It is the last remaining U.S. oil giant in a country with massive oil reserves.

Oil and gas industry employment in Houston on the decline

(Houston Chronicle; Sept. 6) - The oil and gas industry has dominated Houston's job market for decades, employing more people than nearly any other segment of the city's economy. Now, its reign over Houston is waning as the industry consolidates and slashes its spending. Houston is expected to take a significant hit as Shell moves to cut 20% of its global oil and gas development and exploration division. Experts say the proposed cuts point to a larger trend: energy giants spending less and less on the geoscience and exploratory drilling needed to find and develop new oil reserves.

Leading international oil companies such as Shell, ExxonMobil and their peers are spending about 67% less than they were in 2013 on exploring new oil territories, said Hassan Eltorie, an executive director at S&P Global Commodity Insights. And, in Houston, the impact of those cuts has been significant. The industry's share of the city's overall workforce is falling as the companies consolidate, produce more oil with fewer employees and spend less on long-term prospects.

Oil and gas companies — including those that work in oil fields, transport oil and gas through pipelines and process it into gasoline and chemicals — employ about 290,000 people in Houston. That's down from roughly 350,000 jobs at the industry's employment

peak in 2014, said Patrick Jankowski, the Greater Houston Partnership's longtime chief economist and senior vice president for research. In 2014, the industry employed more people than any other segment of the city's economy, Jankowski said. Now, it's the fifth largest employer, overtaken by health care, retail, hospitality and government.

Bank of America backs carbon capture project in North Dakota

(Wall Street Journal; Sept. 5) - A technology that has struggled to get off the ground is getting a boost from a landmark tax-credit deal with Bank of America that is one of the largest-ever investments in carbon capture. The bank is providing $205 million in exchange for tax credits from an ethanol producer that captures the carbon produced at a North Dakota plant. It is the first deal of its kind since the 2022 climate law increased the federal tax credits available for capturing carbon and storing it underground.

Carbon capture has a dismal record but is pursued by governments and companies as a way to reduce emissions from industries that can't easily switch to renewable energy. "You can only do so much renewables build-out," Noah Zerance, a director on Bank of America's sustainable finance team, said. "There has to be an element of trying to address the emitters that are in the market today and helping them decarbonize."

Harvestone Low Carbon Partners, the company that raised the money, said it started capturing carbon from its plant near Underwood, N.D., last October, joining a handful of operating U.S. projects. The plant makes corn ethanol blended with gasoline to comply with regulations for reducing fuel emissions. Harvestone said the facility can capture all of its carbon emissions of over 200,000 tonnes annually, roughly equal to the annual emissions of 42,000 gas-powered cars. Bank of America is betting the plant will keep operating for at least a decade and meet the criteria to qualify for federal subsidies.

Germany rejects carbon credits over suspected fraud

(Reuters; Sept. 6) - Germany's Environment Agency announced on Sept. 6 that it had rejected carbon credits for 215,000 tons of CO_2 emissions from oil companies due to suspected fraud involving climate projects in China. These projects — and their credits — were meant to help oil companies meet European Union greenhouse gas reduction targets, which require them to make their fuel more eco-friendly.

Usually, companies meet these targets by using plant-based biofuels or through "upstream emission reduction" (UER) projects. UER projects allow companies to earn credits by funding initiatives that cut emissions during their oil production, like stopping gas flaring. The agency uncovered irregularities in eight climate projects in China that oil companies had financed to get carbon dioxide credits.

Concerns first arose over a year ago, when doubts surfaced about whether some of these projects actually existed or met the required standards. The issue has sparked criticism from biofuel producers that argued they had been unfairly disadvantaged by the cheaper but questionable UER projects. Seven out of the eight applications for project approval have been withdrawn after legal and technical issues were pointed out. The German agency is now reviewing 13 additional projects.

Australia confronts likelihood that it will need to import natural gas

(Australian Broadcasting Corp., Sept. 5) - On a dock alongside reminders of Australia's industrial past — blast furnaces and coal stockpiles — a piece of the country's energy future is taking shape. It is both a beacon of hope for some and, to others, a symbol of successive failures and all that is wrong with Australia's energy policies. Crucially, according to industry analyst Rick Wilkinson, it is the "only" solution to a looming gas supply crisis that threatens to push up energy bills in Australia's most populous states.

"We're in this position because, quite simply, we've run out of time," says Wilkinson, CEO of consultancy EnergyQuest. For the first time, and in spite of Australia's position as one of the world's top gas exporters, the country is preparing to do something that was once unthinkable. It is on the cusp of gas imports. At Port Kembla, about 65 miles south of Sydney, the company controlled by iron ore magnate and climate evangelist Andrew Forrest is building a $1 billion liquefied natural gas import terminal.

Rob Wheals, CEO of Forrest's Squadron Energy, says the reason is simple: The East Coast is about to run short of gas. "The decline will be as much as 40% from current supply in southern markets and it's not being replaced." The Australian Energy Market Operator forecasts that within a few years, gas supply to the East Coast could fall well short of demand at peak times, typically in winter.

Sitting behind the forecast is a precipitous decline in Bass Strait reserves, which have formed the bedrock of supply for the southern states of Victoria, New South Wales and South Australia. Similar declines are hitting historic fields in central Australia. In addition, too few new gas fields have been developed, a consequence of growing opposition to the gas industry in many places. And much of the gas from other regions is under long-term export contracts or not necessarily connected by pipeline to population centers.

Agency faces deadline to redo Gulf leasing environmental review

(Bloomberg; Sept. 4) - A fight over Gulf of Mexico oil production is looming in Washington as U.S. regulators race to redo guidance on how to protect endangered species ahead of a deadline that could ultimately threaten about 15% of the nation’s crude output. The standoff stems from a scientific assessment that underpins oil and

gas operations in the Gulf. Under a court ruling, the U.S. government has until Dec. 20 to revise that analysis, when the current one will be tossed out.

If regulators don't finish by the deadline — and courts or Congress don't intervene to provide more time — existing oil and gas operations that depend on the evaluation could grind to a halt. The effects could be sweeping: If the Gulf of Mexico were a country, it would rank among the world's top 12 oil producers globally. At issue is the government's main Endangered Species Act analysis of oil and gas activity in the Gulf, a so-called biological opinion released in 2020 documenting how drilling, pipeline construction and other operations might jeopardize protected species in the region.

The assessment provides a legal foundation for oil and gas activity. U.S. offshore drilling and leasing regulators generally rely on it instead of doing case-by-case evaluations. Environmental groups challenged the biological opinion four years ago, arguing it didn't properly analyze how operations affect endangered and threatened species. A federal district judge agreed last month, tossing out the biological opinion — effective Dec. 20 — and sending it back to the National Marine Fisheries Service for a redo. The agency told the court it might not be done "until late winter or early spring 2025."

U.S. gas pipeline operator plans capacity expansions to meet demand

(Reuters; Sept. 4) - U.S. natural gas pipeline company Williams Cos. is on track to add 12 projects representing about 4.2 billion cubic feet per day of capacity from 2024-2027, company CEO Alan Armstrong said at the Barclays CEO Energy-Power Conference on Sept. 4. The additions come after the company placed 17 projects representing about 5 bcf per day of capacity into service 2018-2023, the company said in a presentation.

The new projects include the 1.8 bcf-a-day Louisiana Energy Gateway gas pipeline, which is under construction and expected to enter service in the second half of 2025, and the 1.6 bcf-a-day Southeast Supply Enhancement, which is under development and could enter service in the fourth quarter of 2027. Armstrong said the $1.45 billion Southeast Supply Enhancement would help meet growing demand from residential, commercial and industrial customers in several U.S. Mid-Atlantic and Southeast states, including the fast-growing demand for electricity from data centers.

He said power demand for gas was increasing as coal-fired power plants are retired. The company said it has about 30 additional projects under development representing about 11.5 bcf per day of capacity and roughly $10.2 billion in capital expenditures in its backlog that could enter service from 2026 to 2032. The company said the new projects would serve growing demand for gas from industrial, power generation and liquefied natural gas export customers.

Regulators give OK to start up newest Louisiana LNG plant

(Reuters; Sept. 6) - Federal regulators on Sept. 6 gave Venture Global permission to begin preparations for the start-up of liquefied natural gas equipment at its Plaquemines export plant in Louisiana, taking a step closer to first production at the facility, about 20 miles south of New Orleans. A tanker containing LNG has been docked at Plaquemines with a cargo since late August, according to Venture Global LNG and data from financial firm LSEG. The cargo is expected to be used to cool equipment for initial operations.

Venture Global LNG has said it expects the first phase of the Plaquemines plant to begin exports later this year. When in full operation, the facility, at up to 20 million tonnes per year, will become the second-largest LNG production facility in the U.S. It will be the company's second LNG export terminal on the Louisiana coast.

Russian LNG exporter uses non-ice class ship for first time in Arctic

(gCaptain; Sept. 8) - In a risky move aimed at overcoming Western sanctions, Russian LNG producer Novatek dispatched the non-ice-class LNG carrier Everest Energy onto the icy waters of the Northern Sea Route. It is the first time a conventional carrier has attempted the route. The voyage represents a further escalation of the risk profile of Arctic shipping. Everest Energy does not hold a permit by Russia's Arctic permitting authority, the Northern Sea Route Administration. It is also traveling under a suspended Palauan flag with its insurance status unknown.

Everest Energy is part of Russia's emerging LNG shadow fleet. It traveled to the Arctic LNG 2 project for a second time last week and departed on Sept. 6. It has since entered the Kara Sea traveling east toward Asia. Since 2017 the Northern Sea Route has seen hundreds of deliveries of liquefied gas from the Yamal LNG project, a neighbor to Arctic LNG 2, using highly specialized ice-capable vessels. But the 21-year-old Everest Energy's is the first regular carrier looking to transit the 3,500-nautical-mile-long route.

Ice extent is traditionally lowest during mid-September when the annual minimum ice-extent is recorded in the Arctic. "It remains to be seen whether Everest Energy will be escorted off Wrangel Island, as there is a lot of drifting ice. This brings us right up to date with the risk of non-ice-class vessels navigating autonomously. This is a far cry from the Northern Sea Route Administration talk of safe navigation," said Arctic shipping expert and Chief Professor of Maritime Education at the French Maritime Academy.

Russia's oil and gas revenue up 21% from a year ago

(Bloomberg; Sept. 4) - Russian government revenues from taxes on oil and gas surged by a fifth in August from a year ago following higher prices for the nation's crude and

stronger gas flows to foreign markets, including China. The levies brought in 778.6 billion rubles ($8.7 billion) last month, up by 21% from a year ago, the Finance Ministry said Sept. 4. The August budget revenues reflect prices, production and exports for July.

Oil and gas are key contributors to the nation's coffers, under pressure from Western sanctions and the growing military cost of the Kremlin's invasion of Ukraine. In the first seven months of the year, the oil and gas sectors accounted for over a third of Russia's budget revenues. The Russian oil industry has benefited from surging prices for Urals crude, the key export blend. August oil taxes were calculated based on a Urals price of $74.01. a barrel, up from $64.21 a year earlier.

Discounts on Russia's oil to the Brent benchmark narrowed by over a third from a year ago, as its producers adapted to international sanctions, including a price cap and a European ban on Russian crude by finding new buyers for its crude and deploying a massive shadow fleet of tankers. Tax proceeds from the oil industry would have been even higher in August without state subsidies to refiners, which received 163.3 billion rubles from the state for domestic sales of gasoline and diesel, the ministry's data show.

U.S. adds more LNG tankers, shipping companies to sanctions list

(Bloomberg; Sept. 5) - The U.S. has sanctioned two more vessels along with two related shipping companies in its latest effort to block Russian liquefied natural gas exports from the Arctic. The Treasury Department's Office of Foreign Assets Control on Sept. 5 added the vessels Mulan and New Energy to its sanctioned list, following seven vessels first placed under sanctions in late August. India-based companies Gotik Shipping and Plio Energy Cargo Shipping were also sanctioned.

The sanctions are in relation to Russia's Arctic LNG 2 project, which was previously sanctioned by the U.S. The latest move is a yet another blow to Russia as it has spent months developing what is believed to be a shadow fleet of LNG tankers in a similar way it did for transporting crude oil and products. Such vessels have opaque ownership, unknown insurers and deploy practices such as hiding their location by switching off or manipulating their automatic identification systems.

Shell agrees to flexible, lower terms for LNG supply to Turkey

(S&P Global; Sept. 5) - Shell's 10-year agreement to supply Turkey's Botas with liquefied natural gas is priced against two benchmarks. The cargoes delivered on an ex-ship basis will be priced per million Btu of gas against an oil benchmark, at just below 11% to 11.2% of the price of a barrel of oil. The cargoes sold on a free-on-basis basis will be tied to the U.S. benchmark Henry Hub natural gas price, market sources said.

The deal is influenced by flexible terms under the contract that Shell has the option to exercise, including the option to cancel delivery of up to two cargoes per year and the flexibility to divert cargoes to Europe under a margin-sharing mechanism between Shell and Botas, according to market sources. Market sources said the deal demonstrates how some sellers can aggressively use flexible terms in LNG long-term contracts to offer a competitive price and secure buyers.

For most term deals in Asia, participants use a crude oil "slope" formula in lieu of a spot LNG price reflecting market fundamentals. The Platts Japan Korea Marker for October deliveries was at $13.16 per million Btu on Sept. 4. A fixed formula of 11% to Dated Brent of $75.225 per barrel would imply an LNG price of $8.27 per million Btu. The price range of 11% to 11.2% slope to oil signals a further deterioration in prices for oil-linked contracts. Qatar's contract with Taiwan's CPC in June was priced around a 12.7% to 12.8% slope for 4 million tonnes per year of LNG over 27 years, beginning around 2027.

Nigerian company receives regulatory OK for LNG export project

(Bloomberg; Sept. 6) - Nigeria’s UTM Offshore has received approval to build the West African nation’s first-ever floating liquefied natural gas production facility — five years after it was first announced. The Nigerian Midstream and Downstream Petroleum Regulatory Authority issued a so-called license-to-construct to the company for an LNG project estimated at 2.8 million tonnes per year of production capacity.

Nigeria, Africa’s largest crude producer, is trying to pivot away from its reliance on oil by promoting investment in the country’s largely unexploited 200 trillion cubic feet of proven gas reserves. Most of the nation’s gas output is currently either flared or re-injected into wells. UTM was initially granted a license to build a 1.2 million-tonnes-per-year LNG plant in 2019, but it was upgraded to 2.8 million tonnes because of increased LNG demand in the market.

The plant, located in offshore Akwa Ibom state in the oil-rich Niger Delta, is expected to be commissioned in 2028, with first gas a year later. It will produce LNG, petroleum gas and condensate. The company had signed a memorandum of understanding with the African Export-Import Bank in 2021 to raise as much as $2 billion for the project. A final investment decision is expected in the last quarter of the year. The company has concluded contracts with Japan’s JGC and Houston-based KBR to design the project, with Vitol Group having an off-take agreement for LNG produced at the facility.

Egypt emerges as surprise buyer of LNG amid gas shortages

(Bloomberg; Sept. 5) - Egypt is seeking winter cargoes of liquefied natural gas for the first time in years, highlighting a deepening energy shortage that will increase global

competition for the fuel. State-owned Egyptian General Petroleum Corp. issued one of its biggest tenders, asking for 17 shipments October through December for its floating import terminal at Ain Sukhna and three more cargoes to be delivered into neighboring Aqaba, Jordan, according to people with knowledge of the matter.

The emergence of Egypt as a surprise buyer in the winter months means a new competitor for LNG on Europe's doorstep. While the heating season will start with full inventories in Europe, costs could quickly spiral as competition intensifies or global outages squeeze supply. The LNG imports are a sign of the shift in Egypt's position and raise the prospect of the country becoming a net importer of gas again.

LNG imports this summer have helped Egypt largely end rolling power outages that had caused widespread public discontent and hit industries. Declining gas production in Egypt and an unusually hot summer have prompted the nation to increase LNG imports to the highest level since 2018. "Egypt has really been the surprise on the global LNG market," said Anne-Sophie Corbeau, a researcher at Columbia University's Center on Global Energy Policy. "The production has totally collapsed. This is the problem, and there is no way around that: either you reduce demand or you increase net imports."