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Majors Poised to Seize on Russian Gas Void

Europe's efforts to diversify its gas supplies away from Russia could offer a significant opportunity for some of the Western majors to step in to fill the gap. The European Union is hoping to source an additional 50 billion cubic meters of gas (37 million tons) through additional LNG imports, as part of a plan to trim Russian gas imports by two-thirds (100 Bcm) by the end of this year. European majors, particularly Shell and TotalEnergies, that have spent the last five years building flexible LNG portfolios, are better placed to capture upside in spot markets than their US competitors. European Commissioner for Energy Kadri Simson estimated that the bloc had already cut its dependence on Russian gas from 40% of total supplies in April 2021 to 26% in April this year. With total LNG sales of around 124 million tons, Shell, Total and BP accounted for one-third of the 372 million tons of LNG sold globally in 2021. Energy Intelligence assessed LNG prices for southwest Europe at $17.50 per million Btu for the week of May 16, up from $9/MMBtu at the same time last year, with spot LNG netbacks rising as high as an estimated $23-$25/MMBtu.

The majors' exposure to the European market, particularly the spot market, varies broadly. Each has constructed their LNG portfolio based on their equity volumes, offtake agreements and target markets. European majors Shell, Total and BP have all worked to construct flexible portfolios of LNG supply, paired with active trading desks. US giants Exxon Mobil and Chevron have significant LNG businesses themselves but do not have the same degree of flexibility in their operations. But even those volumes that may not be capturing the spot prices in Europe are still soaring in value as the run-up in oil prices has dramatically boosted margins on oil-linked LNG

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Energy Crisis Shifts Weight of ESG Pressure

Energy security concerns and soaring commodity prices are contributing to a significant shift in environmental, social and governance (ESG) pressures on the oil and gas sector. With international oil companies (IOCs) putting in place transition strategies over the last couple of years, mainstream investors now seem inclined to give them breathing room to implement — while ensuring that they stay on track. That's created a disconnect with activist investors seeking to up the game with demands for stronger action. The result: weaker support this year for radical shareholder proposals that would hasten the transition away from fossil fuels, at the risk of destabilizing the global economy. BlackRock, the world's largest money manager with $10 trillion in assets, illustrates the trend. The US-based investor said recently it is less likely to vote in favor of climate-related shareholder proposals this year due to their more prescriptive — and potentially value-destructive — nature. For oil and gas, this means being "mindful of the current geopolitical context, energy market pressures and the implications of both for inflation," with the world likely needing higher production of both hydrocarbons and renewable energy in the wake of the Russia-Ukraine crisis. BlackRock instead favors initiatives that focus on enhanced disclosure so that investors can assess whether companies are sufficiently managing climate risk.

Climate resolutions have been a more critical tool for US investors. The number of these proposals has surged under the administration of Democratic President Joe Biden after the regulatory Securities and Exchange Commission (SEC) loosened rules on allowable resolutions. That

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has seen more radical climate resolutions make it to a vote, but investors like BlackRock have signaled they will remain cautious. BlackRock flagged particular concern with shareholder resolutions that seek to halt fossil fuel financing, push for the decommissioning of hydrocarbon assets, demand strategies that adhere to a singular 1.5°C climate scenario (often the International Energy Agency's net-zero by 2050 scenario) or demand absolute Scope 3 (end-use) emissions reduction targets. The willingness to deem existing strategies as sufficient appears to extend beyond BlackRock. Shareholders in ConocoPhillips, Occidental Petroleum and Valero Energy recently struck down resolutions demanding strategies that set Scope 1-3 emissions reduction targets. Caution may also be influenced by moves by Texas and other conservative/producing states to punish financial firms perceived as discriminating against fossil fuels.

Shareholder pressure to date has focused heavily on hydrocarbon supply — where IOCs have been the primary target — but demand is now gaining more attention. The Church of England Pensions Board, an influential activist investor that has slashed its oil and gas exposure to just 0.28% of its assets, has shifted its engagement from supply-side oil and gas toward demand. The rationale is that it will be hard for IOCs to produce future fuels such as hydrogen while large industrial consumers are still using equipment fired by oil and gas.

Mainstream investors, particularly in Europe, look content with the progress they have made in recent years in changing IOC strategies to reflect climate risk — notably targets to reduce Scope 3 emissions. While they will continue to consider reasonable shareholder proposals, their emphasis now is on direct engagement with IOC management teams to make sure they stay on track with their capital spending plans to achieve decarbonization targets. This suggests IOCs' current transition plans could be safe. Indeed, shareholders at BP and Equinor last week rejected calls for larger reductions in Scope 3 emissions "consistent with the goal of the Paris climate agreement" while endorsing both companies' transition strategies. Keen to not "micromanage," BlackRock says it is "increasingly inclined" to support management-led shareholder proposals that put company energy transition strategies up to a vote, including in cases where alternative shareholder models are on the ballot. Similar resolutions will feature at Chevron, Exxon Mobil, Shell and TotalEnergies during their annual general meetings next week.

Investor pressure to decarbonize has always been more intense in Europe than in the US, but the gap seemed to be narrowing. It could widen again now as calls mount — even from the climate-minded Biden administration — for US producers to increase output to reduce high prices and help Europe kick its reliance on Russian imports. The flipside is that financial institutions on both sides of the Atlantic are working through their own net-zero targets, and the implications for oil and gas. Essentially, the upshot is that all IOCs may have greater leeway to increase near-term oil and gas production — so long as projects align with long-term decarbonization goals.

Oil Stocks in Danger Zone as Summer Looms

Already low inventories of crude and refined products must drain further to meet peak summer oil demand. That points to higher prices unless material demand destruction kicks in. Inventories are at multiyear lows, with the situation particularly dire for refined products. Tanks will not refill as refiners can not meet rising summer demand. Low storage levels have already pushed prices for diesel, gasoline, jet fuel and fuel oil to record highs. Uncertainty over Russia's ability to export its products in the face of a possible EU ban has added volatility to the trade. Such a ban could push an already tight market into panic mode. Energy Intelligence reckons that OECD commercial inventories dropped by 20 million barrels in April. Crude added 9 million bbl to just over 1 billion bbl, but product inventories fell 29 million bbl to 1.6 billion bbl. OECD forward demand cover dropped to 55 days in April from 56.8 in March — the lowest demand cover since the summer of 2008, when Brent traded around $130 per barrel versus $110/bbl now. OECD diesel stocks of 468 million bbl were their lowest in 17 years. US diesel stocks of 104 million bbl were the lowest since 2008 — and they have been draining fast as US refiners export diesel to Latin America and ship more to Europe to help offset 400,000 b/d in lost Russian product exports.

Inventories are following seasonal trends, but base levels are much lower. In the first four months of 2022, industry crude tanks increased by 100 million barrels while product storage fell by 60 million bbl. But this data disguises some key trends that are unique to 2022. For instance, demand so far this year has been smothered by slow economic growth in the US and Covid-19 lockdowns in China. This summer should also see pent-up demand unleashed as the world emerges from the pandemic. US demand was more than 1 million barrels per day lower than Energy Intelligence projected in the first four months of 2022. China is expected to lose 800,000 b/d of demand in the second quarter from Covid-19 lockdowns. But as summer arrives in the Northern Hemisphere, pent-up demand should be unleashed after after two consecutive summers of pandemic restrictions, no matter the oil price. Our balances show demand rising to 100.1 million b/d in the May-September period from 97.5 million in the first four months of the year. Refiners will have to step up runs to meet that demand. Our forecast now sees refiners' crude throughput rising to an average 80.4 million b/d in the May-September period, but that is just up 600,000 b/d from January-April — and is 2 million b/d below the expected increase in demand. The difference — a total 300 million bbl — will have to come out of already slim product inventories.

More intense demand destruction from rising prices and macro-economic headwinds may be necessary to provide relief to the market. Rising interest rates increase the possibility of a global recession, which would lower oil consumption, especially for tight diesel. In April, Energy Intelligence lowered its forecast for demand growth this year by 400,000 b/d to 2.1 million b/d. More downward revisions could be forthcoming. Consumers are seeing prices prices rise for all goods and services amid the worst inflation in decades, which could mean less tolerance for higher fuel prices. Record fuel prices have not clobbered global demand yet, but some signs of weakness can be seen in important markets like India.

Inventory data would look worse if it not for releases from strategic petroleum reserves (SPRs) held by large consuming nations. But the bulk of these releases are crude and thus do not address the bigger problem in markets — the acute shortage of products. The International Energy Agency (IEA) announced the release of 183 million bbl in March and April. Of that, 73% will be crude, while diesel will account for just 14%, the IEA expects. Unilaterally, the US releases more crude oil, which lifts total SPR fuel coming to market above 300 million bbl — a combined release of 1.3 million b/d through October. France already released 5.2 million bbl and Germany 1.2 million bbl in middle distillates in March, according to the IEA.

EU Struggling to Strangle Russian Oil Exports

The European Union is struggling in its bid to impose an embargo on Russian oil imports, as a group of member states led by Hungary resist a move they say will leave them with no alternative supplies and wreak havoc on their economies. But other members, most notably Germany, the EU's largest importer of Russian oil, are already stepping up their intake from other sources, including the US and Mideast Gulf, with a view to eliminating Russian barrels altogether by year's end. Russian crude supplies to the EU, which averaged more than 1.5 million barrels per day last year — including 850,000 b/d pumped via the Druzhba pipeline to Central Europe — have shrunk at least 10% since the invasion of Ukraine on Feb. 24 and are set to drop further as Russia's traditional customers look elsewhere. Urals shipments from the Baltic Sea are still going into Northwest Europe, especially the Dutch hub of Rotterdam, and the Mediterranean, but more volumes are now heading to India. Russian exports of light and heavy oil products to the EU have also declined, raising fears of much higher diesel prices later in the year at a time when inflation across the EU is growing.

Brussels had hoped to unveil a new round of sanctions against Russia last week that would, for the first time, directly target its oil exports. A draft was prepared that would not only impose a crude import ban, coming into effect at the end of the year, but also include sanctions on EU shipping companies that continued to transport Russian oil. But the strength of the resistance soon became clear: Hungary said an embargo would unfairly penalize countries, such as itself, Slovakia and the Czech Republic, that depend on Russian crude delivered from the Druzhba line and would be left with shortages if supplies were stopped. Hungary's foreign minister, Peter Szjjarto, said the costs of replacing Russian barrels would be exorbitant, with more than €500 million ($525 million) required to upgrade its main refinery on the Danube and a further €200 million to increase the capacity of the Adria pipeline that can bring in non-Russian crude from Croatia's Adriatic port of Omisalj. The EU had to drop its proposed shipping ban after Greece and Malta, whose shipowners send tankers back and forth to load oil at Russian ports, said it would damage their economic interests. When the new round of sanctions is finally unveiled, its impact on Russia will be limited.

The situation is complicated by the fact that Russian oil companies have refining interests in the EU, which they may be forced to relinquish. State-controlled giant Rosneft has a majority stake in the Schwedt refinery in eastern Germany, which depends on Urals imports via Druzhba, while Lukoil has refineries in Italy, Romania and Bulgaria. German regulators are toying with the idea of taking over management of Rosneft's Schwedt shareholding, on the grounds of national security, as they did with the German subsidiary of gas colossus Gazprom.

Existing EU sanctions are helping disrupt Russian oil export flows, however. On May 15, a ban on any commercial transactions with a group of Russian state-controlled companies came into force, giving Western trading giants Vitol and Trafigura no choice but to end their offtake deals with giant Rosneft. The two traders, who between them had been lifting more than 500,000 b/d of Russian crude pre-invasion, have slashed their volumes, according to port data. In their place, some new, obscure offtakers have appeared as lifters of Urals crude, including Bellatrix Energy and Sunrise, while a Hong Kong-based trader called Livna has emerged as a prolific shipper of East Siberia-Pacific Ocean blend crude from the Kozmino terminal in Russia's Far East. Trading sources say Livna works closely with a Geneva-based company, Paramount Energy, which gets all its oil from small Russian producers.

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contracts. Shell has the largest LNG portfolio of the majors at 64 million tons of sales in 2021, followed by Total with 42 million tons sold last year. Shell CEO Ben van Beurden estimated that one-third of the UK major's LNG portfolio was dedicated to short-term sales. "We [were] already the world's leading supplier of LNG before this crisis started, but we can now use this position of strength to help countries replace supplies," he told investors. BP CEO Bernard Looney said BP had sold 55 cargoes into Europe, with 10 of those going into the UK, since the start of the year.

The impact of Europe's shift in energy policy has not gone unnoticed by the majors. Since Russia's Feb. 24 invasion of Ukraine, Total, Shell and Exxon have all increased their exposure to US LNG offtake. Those volumes are linked to US Henry Hub prices, which remain much lower than those in Europe and Asia and do not have the restrictions on offloading destinations. Outside the US, the majors have ongoing investments in areas that Europe is eyeing for additional long-term LNG supply, including projects in Canada, Egypt, Israel, Angola and Qatar. Executives at both Exxon and Chevron flagged an interest in increasing exposure to the LNG market and diversifying their portfolio of supply options to take advantage of the new opportunities. "A very important part of our strategy in LNG going forward is making sure that we've got barrels that we can then move and trade in the marketplace and move across the different regional demand centers," Exxon CEO Darren Woods told investors. The US major recently signed its first contact for LNG offtake from the US. Chevron CEO Mike Wirth said LNG markets in the Atlantic Basin were looking "a little bit different" and said the company is investigating potential options to add US LNG supply to a portfolio that already includes significant gas reserves in the Eastern Mediterranean.

Back on Top, Aramco Plots Next Moves

Soaring oil prices and refining margins have helped cement Saudi Aramco's position as the world's most profitable company. The recent oil boom, combined with a meltdown in the broader equity market led by technology stocks, has made Aramco the most valuable company in the world, surpassing Apple in market capitalization. The question now is how will Aramco leverage its enviable position. The state-controlled oil giant is banking on continued strength in hydrocarbon demand with plans to expand both upstream and downstream capacity. But Aramco also faces unique pressures, including demands for higher royalties to the state as oil prices rise. Energy Intelligence also understands there could be pressure on management to monetize parts of the company further after its late-2019 initial public offering (IPO). Aramco posted huge first-quarter results that again beat analysts' expectations. It posted an 82% year-on-year increase in net profits to $39.5 billion, the highest quarterly profit since its IPO. Strong oil prices, rising production and robust downstream margins boosted earnings, which dwarfed those of all industry competitors. Aramco's focus now is on expanding upstream and downstream capacity under this year's capital spending plan, which will fall in the $40 billion-$50 billion range. Upstream, Aramco aims to increase capacity by 1 million barrels per day to 13 million b/d. Saudi Arabia overall plans to have capacity of up to 13.4 million b/d by late 2026/early 2027.

The exceptional performance of Aramco's downstream segment illustrates the currently lucrative market for refiners, particularly those with export operations, as the world grapples with a shortage of refining capacity and oil products. Aramco's downstream generated $10.2 billion in

profits in the first quarter, up 130% from the same period in 2021. It is thus not surprising that the company has rediscovered its appetite for downstream expansion abroad. In January, Aramco agreed to acquire a 30% stake in Poland's 210,000 b/d Gdansk refinery, along with sole ownership of an associated wholesale business. Aramco also agreed to acquire a 50% stake in a Polish jet fuel marketing joint venture with BP. In China, Aramco made a final investment decision to participate in the development of a major integrated refinery and petrochemical complex. The joint venture with North Huajin Chemical Industries Group Corp. and Panjin Xincheng Industrial Group includes a 300,000 b/d refinery. Aramco is set up well for additional deals, if it chooses. Its gearing ratio, a measure of how much debt it carries, fell to 8%, the lowest level since the company's 2020 acquisition of a 70% stake in petrochemicals giant Saudi Basic Industries Corp. . Aramco's gearing has dropped from a peak of 23% in late 2020/early 2021.

Energy Intelligence understands that the goal to monetize more of Aramco over time is still very much alive. But how this takes shape will ultimately be left to the Saudi leadership. Aramco stock is up 25% year-to-date and about 35% since its IPO, pushing its market cap above $2 trillion. Oil stocks have been strong performers amid the recent correction in stock markets, but valuations remain cheap on a historical basis relative to earnings. Industry sources say one monetization option that Aramco's management is considering is an IPO of its trading arm, which has been generating strong revenues. International banks advising the company welcome the idea since it would generate big fees. But oil industry sources told Energy Intelligence it would be a "bad move" for Aramco given the strong link between trading and crude supply operations, as enhanced disclosure as a public entity could hinder profit-making. They think an IPO of Aramco's lubricants unit makes more sense. IPOs aside, Aramco is still shouldering the bulk of the funds needed for the kingdom's economic diversification plans. In the first quarter, Aramco paid $18 billion in royalties as the kingdom claims rights to 80% of excess revenues above the $100 per barrel mark. Aramco must also consider its minority shareholders, even though they own only about 1.5% of the company. Some told Energy Intelligence they were slightly disappointed that Aramco granted no special dividends considering that Brent crude continues to trade above $100/bbl. Payment of special dividends could help promote any future listing of Aramco, they added.

High Prices Dim India's Fuel Demand Outlook

Oil product consumption in India, the world's third-largest oil consumer, is looking shakier amid rising fuel prices. Unlike China, the oil market's other big engine for demand growth, India has opted against aggressive lockdowns in the face of the rapidly spreading Omicron variant of Covid-19. But higher product prices are starting to bite, prompting analysts to revise 2022 forecasts for Indian demand lower. Indian demand hit a record 5.4 million barrels per day in February but has faltered since amid price increases for products like diesel, gasoline and liquefied petroleum gas. India's state-owned refiners, which hold a 90% market share, resumed daily revisions in diesel and gasoline prices from Mar. 22, ending a 137-day freeze that was imposed to keep voters happy as five states went to the polls. Refiners raised gasoline prices by 10% and diesel by 11.5% in the two weeks through Apr. 6, stoking public unrest. Rates have remained unchanged since Apr. 7, but fuel retailers need even higher prices to avoid losses on sales. They need a further 8.3% increase in gasoline and 13.3% in diesel prices, Mumbai-based brokerage Motilal Oswal said in a May 16 note.

Indian refiners with export markets are having a field day, however, and limiting the overall impact on crude demand. These firms, led by privately owned Reliance and Nayara, are cranking up runs to seize on huge refining margins for products in lucrative markets abroad. Indian product exports hit a multiyear high of 6.7 million tons (roughly 1.6 million b/d) in March, according to the latest oil ministry data. Preliminary commerce ministry data shows the value of petroleum product exports more than doubled in April from a year earlier to $7.73 billion. India's clean product exports, comprising naphtha, gasoline, jet/kerosene and diesel, totaled 1.2 million b/d in April and have held relatively stable in the first two weeks of May, Serena Huang, head of Apac Analysis at data analytics firm Vortexa said. Huang expects India's clean product exports, of which Reliance and Nayara account for 85%, to remain robust through 2022 as global supplies, particularly diesel, are extremely tight, while inventories in major storage hubs are near historical lows. Reliance maximized its earnings from middle distillate products by shifting production from jet fuel to diesel and postponing refinery maintenance work. The International Energy Agency (IEA), in its latest *Oil Market Report*, forecast that India's refinery runs will rise by 510,000 b/d in 2022.

Both the IEA and Opec have cut their projections for Indian oil demand this year, as the prospect of demand destruction in a faltering global economy beset by high inflation gets real. The IEA now sees 2022 demand growth of 294,000 b/d to 5 million b/d, down from its 324,000 b/d growth

projection in February. Opec cut its growth forecast to 310,000 b/d from 390,000 b/d in February, now pegging Indian demand at 5.08 million b/d this year. On Monday, industry lobby group the Confederation of Indian Industries demanded that the federal and state governments should collaborate to cut taxes on liquid transportation fuels to bring down inflation and provide consumer relief. Presently, taxes make up 37% of diesel and 43% of gasoline prices in New Delhi. India's wholesale price inflation jumped to 15.08% in April, its fastest pace in at least 17 years, mostly due to high energy prices. Morgan Stanley recently trimmed its economic growth outlook for India in the current financial year to 7.6% from 7.9%, citing higher commodity prices and the slowdown in the global economy. The cost of India's oil imports surged to a record $19.5 billion in April, up 81% year on year, ratings agency Icra noted. Indian refiners have been trying to blunt the impact by lapping up discounted cargoes from Russia despite US warnings to cut shipments. The IEA says Indian refiners loaded about 770,000 b/d of Russian crude in April compared with less than 50,000 b/d on average in 2021.

Gasoline Cracks Start Competing With Diesel

After months of signals to maximize diesel yield, refiners — especially those in North America — are seeing incentives to hike gasoline output. But the global downstream is stretched thin and faced a tall-enough task meeting demand for diesel. Against a backdrop of tight inventories, supply outages and stubborn demand in the face of high prices, the effects of choosing one fuel over another will have outsized impacts, and refiners' ability to meet current demand let alone replenish inventories is far from assured. Gasoline futures are now outperforming those for diesel on Nymex, a structure typical for this time of year given the impending summer driving season in the US, but one that arrived significantly later than usual. Backwardation in gasoline is steep — June trades almost 50¢ above September contracts. Within the refinery gate, Energy Intelligence's downstream model shows gasoline crack spreads against incremental barrels of crude quickly gaining on those for diesel: along the US Gulf Coast, for example, the premium for diesel cracks against Mars crude went from some $33 per barrel on average in April to just some $7.50/bbl as of mid-May. As gasoline continues to gain on diesel, refiners are tweaking yields and swinging capacity. Systemwide in North America, experts say yield patterns between gasoline and diesel can shift as much as 10%-15%.

At face value, rising gasoline cracks ought to spur significantly higher gasoline output. And preliminary data suggest the downstream is increasing gasoline yield. But refiners say there are several factors impeding their ability to respond to signals that the market needs more gasoline. These challenges come in both acute and more structural forms and reflect not only the continued ripple effects of Russia's invasion of Ukraine and resulting sanctions, but also the long-lasting impacts of the Covid-19 pandemic and the energy transition. PBF Energy executives recently explained that a US ban on imports of Russian petroleum complicates operations for refiners. That's because Russia was a key source of intermediate feedstocks used in the refining process, and these volumes cannot easily be sourced elsewhere given Latin America's moribund downstream and lower outright global refining capacity and thus lower outright supply of unfinished oils. With intermediate feedstocks tight, refiners must be cautious about how they use them — every molecule used for gasoline is one that cannot be used for diesel, and the stakes are high. Exacerbating the problem is that Russian crude outages affect medium grades. European refiners especially need to process more light, sweet crude, which in turn yields fewer intermediate feedstocks.

Meanwhile, downstream capacity underwent a dramatic rationalization between 2019 and today, with North America alone losing over 1 million barrels per day in throughputs. Much of this came in the form of conversions to produce renewable fuels, but some closures also reflected the demand impacts of the Covid-19 pandemic. Globally, downstream capacity has declined some 4 million b/d since 2019. Remaining refiners are already operating close to ceiling utilization, sources say. The longer they operate close to the ceiling, the greater the need for maintenance. In addition, the Atlantic hurricane season is approaching. Storms have intensified amid climate change and recent ones have seen massive outages of products as they flood and shutter refineries.

Even as refiners look to supply thirsty gasoline markets, diesel remains in near crisis. Cracks for the fuel remain stunningly high even as gasoline catches up — demand is not yet being destroyed for either fuel, it seems. Europe is looking for alternatives to Russian diesel, which provided over 1 million b/d of the product to the EU last year. Market sources say US and Indian refiners are increasingly supplying Europe — in the US' case even at the cost of domestic markets in the Northeast. To wit, the forward curves for both products suggest gasoline's period of dominance will be short-lived. Nymex gasoline futures outperform the diesel contract only through July, with diesel posting a 2¢ premium in August.

What's New Around the World

GENERAL

SANCTIONS — The White House is expected to relax certain sanctions targeting Venezuela as negotiations between the de facto government of President Nicolas Maduro and the opposition move forward. The US plans to grant a "narrow license authorizing Chevron to negotiate the terms of the potential future activity in Venezuela," a senior administration official told reporters. Chevron will not yet be able to change how it operates in the country, the official said. "Fundamentally, what they're doing is [they are] just allowed to talk." A spokesperson for Chevron did not respond to a query on what needs to be negotiated with state-owned Petroleos de Venezuela over its license. The US' previous license for Chevron — as well as services providers Halliburton, Schlumberger, Baker Hughes and Weatherford International — only provided for "the limited maintenance of essential operations" or "the wind-down of operations" in Venezuela. That license is slated to expire on Jun. 1. Sanctions have compounded years of oil industry mismanagement in Venezuela, and the country's oil output has faltered. It does not appear that any liberalization of Venezuelan oil exports is on the table, although multiple spokespeople from the US government did not respond to direct requests for comment.

COUNTRIES

BRAZIL — Brazil's new Energy Minister Adolfo Sachsida has wasted no time in moving to privatize state oil company Petrobras and state entity PPSA, which plays an administrative role for the country's pre-salt fields. Sachsida presented documents to Brazil's economy ministry late last week requesting studies on the privatization of the state entities, a move he highlighted as one of his three top priorities as energy minister. Brazilian President Jair Bolsonaro has consistently floated the idea of privatizing the remainder of Petrobras, which is already publicly listed. The government and the country's development banks are the company's largest shareholders with a combined stake of about 36% as of April. Fully privatizing Petrobras would push it another step down the path it has taken since 2016 toward adopting a market-oriented approach focused on results and profitability, which has turned the company into an impressive cash generator in recent years. Bolsonaro faces a tough re-election fight against leftist former President Luiz Inacio "Lula" da Silva in October. He was expected to pursue the privatization of Petrobras in a second term, but he is running well behind Lula in opinion polls, and that plan has now been accelerated.

COLOMBIA — Colombian state oil firm Ecopetrol said it has signed an offshore exploration agreement with US producer Occidental Petroleum for the technical evaluation of four blocks offshore Colombia as well as the drilling of one well. The agreement includes the deepwater COL-1, COL-2, COL-6 and COL-7 Blocks. Oxy will act as operator with a 60% stake, while Ecopetrol will hold the remaining 40%, Ecopetrol said. The companies are already partnered in a range of ventures, including shale development in the Permian Basin in West Texas. Ecopetrol CEO Felipe Bayon affirmed the move was in line with the company's strategy to strengthen its exploration operations through 2040. Exploration activity off Colombia has been regaining steam this year — a change in momentum after follow-up drilling stalled on several discoveries made in the late 2010s. Sky-high natural gas prices and the accelerating energy transition to lower-emission energy sources have also raised the profile of Colombia's offshore reserves, which have so far been gas-prospective. Shell has lined up two follow-up wells to prior finds on its blocks in Colombia's waters, while Brazilian state oil firm Petrobras is also spinning the bit in the Tayrona Block.

RUSSIA — Gazprom exported 5.8 Bcm (390 MMcm/d) of pipeline gas to Europe (including Turkey) and China in the first 15 days of May, Energy Intelligence calculates based on the Russian gas giant's data. Those volumes were down 24% versus the same period of last year, reflecting lower levels of demand because of a sharp increase since late last year in Gazprom's hub-linked prices for gas delivered under long-term contracts. Gazprom's prices track spot gas prices at European hubs with a time lag of several months. Since the start of this year, Gazprom has exported 55.9 Bcm of pipeline gas, down 26.5% from the same period of 2021. Compared with the first 15 days of April, Gazprom's May exports fell 5%, as warm weather and an influx of LNG cargoes relieved some of the upward pressure on spot market prices, prompting buyers to reduce their offtake of pipeline gas from Russia. Europe plans to slash and eventually stop its imports of Russian gas because of the war in Ukraine, but it is far too dependent on Russian gas to halt those imports immediately.

UNITED KINGDOM — Business leaders have urged UK lawmakers to resist slapping a windfall profits tax on North Sea oil and gas companies ahead of a key vote in Parliament. The Aberdeen & Grampian Chamber of Commerce (AGCC) warned that "this short-term economically illiterate move will achieve little apart from making the North Sea — already one of the world's most mature basins — less attractive to investors." AGCC Chief Russell Borthwick said a windfall profits tax would put jobs, tax revenues and domestic energy security at risk, while also limiting investment in low-carbon research and development. "The view of the industry is clear; a windfall tax will divert investment, which, perversely, has the potential to drive up energy bills in the long term," Borthwick wrote in a letter to members of Parliament. The opposition Labour and Green parties planned to force a vote on the issue as they seek to help consumers struggling with high energy bills. Energy companies reported bumper profits during the first quarter as they reaped the benefits of soaring commodity prices, stoking the debate about a windfall profits tax in the UK. Ministers have urged producers to present clear plans that show how they will reinvest oil and gas profits in UK energy projects that will ultimately increase energy supplies and hopefully provide some price relief to consumers.

UNITED STATES — Chevron and TotalEnergies have sanctioned a $1.6 billion tie-back development for the Ballymore field in the deepwater Gulf of Mexico, a technically challenging project designed to add 75,000 b/d of production from the region. The companies will develop the Ballymore field as a three-well tie-back to Chevron's Blind Faith production platform, located about 3 miles to the southeast. First oil is due in 2025. Ballymore lies in the challenging Jurassic-aged Norphlet trend, which only Shell has successfully produced to date. The final investment decision comes as project activity in the US Gulf ramps up, with at least three new large schemes slated to come on line this year and a batch of other developments given the green light, paving the way for future flows. Ballymore would be only the second project to produce from the Norphlet after Shell's Appomattox, which came on line in 2019. Appomattox has demonstrated some of the technical uncertainty that appears to be characteristic of the Norphlet. Shell took a $1.27 billion partial impairment on the project in 2020 due to what the company described as challenges with the reservoir. Ballymore is the only other commercial discovery in the Norphlet, drilled in 2018.

UNITED STATES — Oil producer BP and Ireland-based industrial gas and engineering player Linde are planning to develop a "major" new carbon capture and storage (CCS) project outside Houston to support production of low-emissions hydrogen and potentially help decarbonize other facilities on the Gulf Coast. The planned project is one of a flurry of proposed CCS developments in the region, following previous announcements from Exxon Mobil and Talos Energy and a handful of others that are evaluating opportunities. BP and Linde say their project will be able to store up to 15 million tons of carbon dioxide (CO_2) per year across "multiple sites" onshore. They are currently in discussion with other industrial emitters for potential CO_2 offtake and storage agreements. They aim to have the project up and running by 2026. The next step is to launch a front-end engineering and design study, Energy Intelligence understands. No project cost has been disclosed. The Gulf Coast — particularly on- and offshore Texas — is seen as one of the most promising regions for CCS due to its high concentration of industrial emitters and abundant geology suitable for underground storage.

Marketview

Staying Power

Forecasting the trajectory of Russian oil production this year, and beyond, is akin to tossing darts in the dark. Forget about a bullseye — you're lucky if you can hit the board.

In the first days after war in Ukraine broke out, there was a degree of doom-and-gloom speculation that Russia's oil output, facing widespread stigmatization, would tank by 3 million barrels per day in the second quarter to around 8 million b/d. Others, including Energy Intelligence, were less pessimistic and believed the decline would be about half that.

In the 12 weeks since hostilities erupted, production of crude and gas condensate has indeed fallen, but only by 850,000 b/d to 10.23 million b/d. By mid-second quarter, the decline had stopped and, for now at least, output appears to have stabilized.

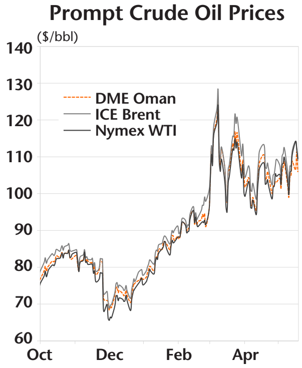
Discount pricing goes far to explain it. Oil is quite dear right now and markets suddenly have a major seller offering cheap barrels — up to $35 per barrel less than physical Brent. For large importers with no horse in the race, such oil is a boon.

This massive geopolitical discount on Russian crude —unprecedented for such a massive exporter — is redefining global trade flows.

To the point, it is also buoying Russia's oil sector. Granted, the economics of production have eroded given the country's tax regimen, and this has vital implications for capacity both near and long term, but wellhead rents and export duties can be fine-tuned. The Kremlin is waging a war, so it will adjust the rules accordingly to prop up exports and maintain steady income. Further out, Moscow can facilitate an infrastructure build-out for rerouting trade.

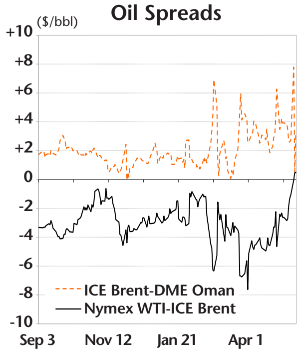
Exports have given Moscow plenty of cheer. If in February Russia exported 4.5 million b/d, then in April sales abroad soared to nearly 5.4 million b/d.

Prompt Crude Oil Prices



Source: Nymex, ICE, DME

Benchmark Crude Oil Spreads



Source: Nymex, ICE, and DME Prompt Settlements

Many feel this increase was the result of "panic-buying," or traders snapping up cargoes before EU sanctions started to bite in May. According to this theory, Russian exports will hit a wall just about now — one that will endure into the third quarter and eventually compel producers like Rosneft to shut in wells.

Others argue that Russian oil is part of the global marketplace that, in an environment of high prices, will find a new home sooner rather than later thanks to bargain pricing and bargain hunters.

India, for instance, is happily snatching up Russian Urals, running it through state-of-the-art cracking units, and exporting light products to — surprise, surprise — Europe, which is experiencing a devastating middle distillate-deficit.

Still, if the EU can stick to its guns and roll out barriers to Russian barrels, Moscow will find itself in a pickle. Russia typically exported 2.4 million b/d of crude and 1.4 million b/d of products to Europe and the UK, and finding offtakers for such sizable volumes will take time. There will be quality mismatches and seasonality issues.

For these reasons, the average consensus currently indicates that Russian crude and condensate production will amount to 10 million b/d this year, a decline of around 600,000 b/d compared to 2021.

Expanding Russian Storage Not Easy

Russia would need to resolve several issues — including potential sources of financing — before it could create something similar to the US Strategic Petroleum Reserve (SPR), according to the head of the country's subsoil agency Rosnedra.

Creating and maintaining a national oil storage facility would be expensive, and it would be important to determine who would invest in such a project, Rosnedra chief Evgeny Petrov said in an interview with the Interfax news agency. Energy Intelligence estimates Russia has at most about 250 million bbl of storage capacity — just over one-third of the capacity of the US SPR. The storage issue is important because Moscow may soon have to implement deep production cuts as demand for its oil falls after Russia's invasion of Ukraine.

PIW Market Indicators

($/barrel)	May 16-May 18	May 9-May 13	Apr 18-Apr 22
Spot Crude			
Opec Basket	$115.07	$110.27	$109.10
UK Brent (Dtd.)	112.80	107.21	106.95
US WTI (Cushing)	111.97	104.99	104.02
Nigeria Bonny Lt.	115.22	109.50	108.10
Dubai Fateh	110.28	104.68	106.70
US Mars	109.20	103.16	104.19
Russia Urals (NWE)	78.25	72.90	71.19
Crude Futures			
Brent 1st (ICE)	111.76	106.98	108.44
Brent 2nd (ICE)	109.63	105.54	107.80
B-wave (ICE)	112.39	107.17	108.95
WTI 1st (Nymex)	112.06	105.04	103.88
WTI 2nd (Nymex)	109.50	103.46	103.17
Oman 1st (DME)	108.25	103.93	105.80
Oman 2nd (DME)	105.90	101.75	104.53
Murban 1st (ICE)	110.17	106.39	108.08
Murban 2nd (ICE)	108.23	104.32	106.58
Forward Spreads			
Brent (1st-Dtd.)	-$1.04	-$0.22	+$1.49
Brent (2nd-1st)	-2.13	-1.45	-0.64
WTI (2nd-1st)	-2.57	-1.58	-0.70
WTI (3rd-2nd)	-2.92	-1.88	-1.09
Oman (2nd-1st)	-2.35	-2.18	-1.27
Oman (3rd-2nd)	-1.47	-2.25	-1.77
Murban (2nd-1st)	-1.94	-2.07	-1.50
Murban (3rd-2nd)	-2.70	-2.11	-1.75
Grade Differentials			
WTI-Brent (1st)	-$2.26	-$3.53	-$4.90
WTI-LLS	-2.00	-2.27	-1.92
WTI-Mars	+2.77	+1.83	-0.17
Brent(Dtd)-Dubai	+2.53	+2.52	+0.25
Brent(Dtd.)-Urals	+34.55	+34.30	+35.76
Brent(Dtd.)-Bonny Lt.	-2.42	-2.30	-1.15
Term Crude Formulas			
Arab Lt.-US (c.i.f.)	$116.33	$110.29	$109.12
Arab Lt.-Europe (Med)	117.29	112.07	110.85
Arab Lt.-Far East (f.o.b.)	119.04	113.98	111.69
Nigeria Bonny Lt.	114.74	109.15	108.97
Arab Light Gross Product Worth			
Rotterdam	$125.01	$122.37	$125.63
US Gulf Coast	135.71	137.48	126.82
Singapore	122.23	120.57	121.36
Gross Product Worth & Margins			
Rotterdam			
UK Brent GPW	$133.48	$130.57	$122.43
UK Brent Margin	+19.40	+22.03	+14.38
US Gulf Coast			
Mars GPW	131.17	131.66	121.53
Mars Margin	+21.87	+28.41	+17.24
Singapore			
Oman GPW	122.34	121.62	123.57
Oman Margin	+12.66	+16.43	+15.98
US Nymex			
WTI 3-2-1 Crack	+$50.08	+$53.98	+$43.61
Refined Products			
Rotterdam ($/ton)			
Eurobob Gasoline	$1263.67	$1188.08	$1058.90
Gasoil (0.1%)	1084.00	1093.25	1147.55
Fuel Oil (0.5%)*	799.75	749.80	777.00
US Gulf Coast (¢/gal)			
RBOB Gasoline	377.65¢	366.80¢	321.67¢
ULS Diesel	366.37	394.66	391.37
Fuel Oil (0.5%, $/ton)	$874.00	$833.40	$859.60
Singapore ($/bbl)			
Naphtha	$100.38	$100.10	$100.96
Gasoil (0.05%)	141.05	143.66	144.58
Fuel Oil (0.5%, $/ton)	916.33	851.60	865.60

*ARA fuel oil prices for 1% sulfur fuel oil (LSFO) have been discontinued as the market becomes increasingly illiquid. The new 0.5% sulfur fuel oil (VLSFO) specs reflect the transition to new emissions standards set by the International Maritime Organization effective Jan. 1 2020. Latest week's data are preliminary. For GPW and margin calculations, see Refining Profitability Methodologies on the Energy Intelligence website in Reference Tools Publication Methodologies. Spot prices from Thomson Reuters. Opec basket source, Opecna. 3-2-1 crack spread for 3 parts crude, 2 parts gasoline, and 1 part heating oil. PIW Numerical Datasource subscribers can download all indicators in Excel worksheets.