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Europe Gorges on Russian Oil Ahead of Ban

The European Union still has six months to go before its ban on Russian crude and refined product imports takes effect, but indications so far are that the continent isn't rushing to replace Russian oil. After initial steps to limit crude imports shortly after Russia invaded Ukraine in late February, efforts to wean off Russian oil through self-sanctioning have stalled. In fact, shipping data show that Europe is currently buying even more Russian diesel and other products than it did last year. Crude volumes have reduced to 70% of 2021 volumes but are up from May. The EU imported 2.2 million barrels per day of Russian crude last year, including 1.4 million b/d via seaborne imports from Russia's Baltic and Black Sea ports and the balance via the Druzhba pipeline. European refiners and traders responded to the outrage over Russia's invasion of Ukraine by pledging to stop buying Russian spot crude and to not renew term contracts. But those pledges are not yet translating into steady import declines. Intake of Russian seaborne crude fell to 800,000 b/d in May – but the decline coincided with refinery maintenance schedules. Imports have bounced back to 1 million b/d so far in June, shipping data show. Druzhba flows have fallen by 150,000 b/d from last year to 675,000 b/d, but total EU imports of Russian crude remain a robust 1.7 million b/d in June. Russian product imports have proved even more troublesome. Volumes tallied 1.2 million b/d during the first three weeks of June, exceeding last year's 1.1 million b/d average.

Despite Europe's limited progress to date shunning Russian oil, the EU ban looms large over the global industry and will trigger a massive rerouting of trade flows over the coming months. The continent has already begun buying up hundreds of thousands of barrels per day

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Supply Problems Dog EU's Gas Storage Plans

Europe faces a difficult summer as fears of a Russian gas cutoff and an extended outage at the US Freeport LNG plant complicate plans to refill storage tanks ahead of the winter season. The EU is aiming to replace two-thirds — or 100 billion cubic meters — of Russian-sourced supplies this year through increased renewable capacity, energy efficiency measures and import diversification, and is requiring countries to fill EU-wide storage tanks to 80% by Nov. 1 this year. The refill targets are just about achievable despite recent setbacks, but they depend on volatile variables such as continued US LNG imports that will ensure continued high gas prices into next year and beyond. Storage inventories are needed as a buffer against unexpected bouts of high demand and pricing volatility, commonly brought upon by winter cold snaps. At current storage levels of around 54 Bcm as of mid-June, the EU still needs to inject around 25 Bcm of additional gas to meet the 80% November requirement. To put the challenge into perspective, US LNG exports to Europe so far this year total roughly 26 million tons, or around 35 Bcm. This already exceeds the previous full-year record of 24.1 million tons of US LNG that Europe imported in 2021, according to commodities data provider Kpler. More broadly, the EU is looking to source 60 Bcm of additional alternative piped gas and LNG from non-Russian suppliers.

The plans also depend on Russia not instituting a sudden and complete gas supply cutoff before stocks are full. Lower Russian gas sendout to Europe following technical problems with

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Gazprom's Nord Stream 1 gas pipeline to Germany has triggered alarms that Moscow could be ready to use its leverage and shut off supplies entirely. Nord Stream 1 capacity has been slashed to around 67 million cubic meters per day, or 40% of capacity, with Gazprom blaming the reduction on a turbine stuck in Canada due to sanctions. This is the equivalent of almost 8% of Europe's total supplies. If Russia completely halts supplies, consultancy Wood Mackenzie reckons Europe would only be able to refill inventories to around 60% by November, considerably lower than the five-year average. Finding additional supplies in a pinch would be extremely difficult. Saad al-Kaabi, CEO of LNG behemoth QatarEnergy and Qatari energy minister, recently admitted there are no replacements for Russian supplies for Europe in the event of a full cut. "It is not logical that Qatar or anyone else can [replace] it in the short term," he said.

A Jun. 8 outage at the 15 million ton per year Freeport LNG plant, which makes up 18% of US export capacity, is making things more difficult. The plant is expected to resume partial operations in three months and full operations in late 2022, but this timetable could always be extended further. Some of Freeport's exports can be offset by other US plants, but not all — removing a crucial source of flexible global supply for an indeterminate period. Consultancy Rystad Energy says other US facilities could potentially offset the bulk of the estimated 303.5 billion cubic feet of gas (8.3 Bcm) not exported by Freeport between June and December. However, even if Sabine Pass, Cameron LNG and Calcasieu Pass are able to cover two-thirds of the losses at Freeport this year, it would still leave a shortfall of 100 Bcf (2.7 Bcm), Rystad notes.

Demand for gas in both Europe and Asia are crucial factors determining the ultimate availability of supply to refill EU stocks. Helpfully, higher global gas prices are disincentivizing Asian gas usage and buying in price-sensitive markets, freeing up LNG supplies for Europe. And in the wake of lower Russian flows, many European countries — including the region's largest Russian gas buyer, Germany — are reducing gas use and temporarily boosting coal-fired power generation despite its higher emissions. German Economy Minister Robert Habeck said it was "bitter" to take such measures, but filling storage during summer and autumn is "top priority." Austria, the UK and the Netherlands have also indicated they will boost coal power temporarily if needed. If Russian flows stop altogether, EU storage will deplete during winter unless more demand or supply measures are taken, Woodmac says.

Iraq Faces Disruption as Russian Oil Heads East

Mideast producers are bracing for disruption as Western sanctions force Russian oil to greatly expand market share in Asia. Iraq, for one, faces potentially serious challenges in carving out alternatives. For now, Iraqi officials appear comfortable with levels of Asian demand, but are keeping a close eye on the situation. Some signs of pressure are already evident: China's demand for spot cargoes from the Mideast has been relatively soft, and Iraqi state marketer Somo last week failed to award a tender for July-loading Basrah Heavy. But at a meeting in Singapore last weekend, Somo's main Asian customers all expressed interest in buying more Basrah crude, according to a senior Somo official. "Before the meeting, yes, I think we were worried," he told Energy Intelligence, referring to the sharp rise in the sale of discounted Russian crude to China and India that threatens to erode the market share of the top Mideast Gulf producers. The official argued that Russian crude volumes diverted to India and China remain relatively modest in an Asian market that gobbles up roughly 35 million barrels per day. But those Russian flows east are rising. China's Russian oil imports hit a record of almost 2 million b/d in May, up 400,000 b/d from April — and customs data show Russian crude selling at $16 per barrel less than rival Saudi imports. India's May imports of Russian crude more than doubled versus April to 850,000 b/d. Those flows appear to be taking on a more permanent character, with Indian refiners like Bharat Petroleum discussing term contracts with Russia despite Western pressures.

Iraq insists it is not being complacent. State marketer Somo has expanded its list of customers in Asia and this month slashed the official formula prices for its crude exports to Asia by $1.30 per barrel, relative to comparable Saudi grades. Somo chief Alaa al-Yassiri said this week that the

marketer is also approaching European firms it does not have contracts with, in a bid to boost exports to Europe. Somo has begun negotiations with companies refining in Northern Europe, notably Germany and Poland, that rarely take Iraqi crude. Unlike rival Saudi grades, Basrah only tends to make it as far north as Rotterdam. "Our target is to maintain our Asian market share, and to increase in Europe," the senior Somo official told Energy Intelligence. Iraq is assessing different scenarios, and hopes that competition from Russia won't simply intensify in its main Asia market when an EU embargo comes into force in December. Officials hope that European refiners will continue to buy some Russian crude under the radar. A proposed European ban on insuring Russian oil shipments may further restrict volumes heading east. Turkey could also mop up more cheap Russian crude.

But Somo is disadvantaged compared with some of its Mideast rivals. It does not have equivalent trading operations to Saudi Aramco and Abu Dhabi National Oil Co. Its crude has quality issues — Basrah has a high sulfur content and fuel oil yield, and is more carbon intensive, thanks to Iraq's chronic gas flaring problem. And Iraq's exports are notoriously less reliable. Such factors may make it harder to penetrate new markets in Europe. Still, Somo is hopeful that European companies will ask for more volumes and new term contracts next year, based on negotiations under way and the many requests it says it has already received from customers seeking additional allocations this year. Stronger US demand — last month saw a surge in exports from Iraq — could also offset some declines in Asia. Nominations for next year's Basrah crude term contracts will be submitted in September, with deals to be signed in November. Another consideration for Iraq is its difficulty in raising exports. Iraq has already hit an effective ceiling due to infrastructure constraints. Somo may be reluctant to easily give up Asian market share as it weighs its priorities.

Qatar Assembles Dream Team for LNG Expansion

The first tranche of awards for equity stakes in Qatar's $28.75 billion North Field East (NFE) project have gone to TotalEnergies, Exxon Mobil, Italy's Eni and ConocoPhillips. Others may join later, but these June awards will make up the lion's share of international investment in Doha's 32.6 million ton per year LNG mega-expansion. Apart from Eni, QatarEnergy has gone for familiar faces, choosing investors from its existing LNG portfolio. All NFE investors were required to bring marketing capabilities and commitments, Qatari Energy Minister Saad al-Kaabi told attendees at signing ceremonies in Doha this week, suggesting marketing muscle is a key metric for successful entrants. For all winning firms, this is flagship project. The North Field is "the world's largest gas field. It has the lowest cost of supply. It has the lowest [greenhouse gas] intensity of any development around the world today," ConocoPhillips CEO Ryan Lance told reporters in Doha on Monday. His firm and Eni won 3.25% stakes in NFE, with Total and Exxon each getting shares twice as large. The combined 18.75% dolled out so far is substantially less than the up to 30% QatarEnergy originally envisaged awarding to outside investors. Al-Kaabi declined to state whether either or both of Shell and Chevron — the other two shortlisted for NFE — could yet join the project. Offers may need to improve. Key Asian customers could yet be bolted onto one or more of the joint ventures provided they "add value," al-Kaabi noted.

For Exxon, the start-up of NFE in 2026 should reverse years of net declines from its Qatari operations, the engine room of its Mideast presence. NFE marks Exxon's most significant investment in the oil and gas heartlands of the Gulf since its 2017 Upper Zakum deal offshore Abu Dhabi. For Conoco, NFE enables it to reinforce what has been a profitable regional investment footprint. For European NFE stakeholders boasting radical climate targets, the project will be critical in helping transition portfolios to less carbon-intensive output. Total has committed to reducing its emissions from operations by 40% by 2030 versus 2015. Eni has also been aggressive, achieving 26% reductions in upstream emissions last year versus 2018, and targeting net-zero Scope 1, 2 and 3 emissions by 2050 from its energy activities and products sold. NFE catapults Eni into an exclusive club of major Qatar equity investors, underlining the growing recognition of the Italian firm as a top player. In recent years, it has expanded its regional footprint dramatically, taking major stakes in Iraq, Abu Dhabi and entering two other emirates in the United Arab Emirates — Sharjah and Ras al-Khaimah — as well as neighboring Bahrain and Oman.

With the bulk of the investor selections made, focus will now switch to marketing. Europe in particular is hoping Qatari LNG will replace Russian gas volumes, including output from the 16 million ton/yr Phase 2 of the expansion. While markets will dictate gas sales, Doha currently envisages around 50% of incremental Qatari LNG volumes heading west of Suez, al-Kaabi said. He also affirmed that, provided offers remain attractive, Phase 2 — dubbed North Field South (NFS) — will have a similar investment structure as NFE. Existing NFE partners

will be well positioned for NFS selection. But NFS is a different beast than NFE. While NFE requires 80 wells, NFS will need 50 wells to deliver half the gas volume. NFS gas is also drier, producing few of the lucrative associated liquids that augment the attractiveness of NFE, sources say. NFE is expected to produce 250,000 b/d of condensate, 11,000 tons per day of liquefied petroleum gas and 4,000 tons/day of ethane alongside its gas, pushing total daily output to 1.4 million barrels of oil equivalent. One question surrounding NFE is whether it will meet its ambitious start-up schedule of 2026 — already a slippage from late 2025. One source says work is going well on the project, but there is some concern that monsoon season, which runs from June through September, might delay the transportation of seven rigs coming from Asia.

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of additional US and West African crude, as well as sourcing more from its own North Sea production. The far trickier task will be rearranging refined product flows in a market already desperately short refining capacity. European traders say they are reluctant to trade Russian diesel, and pricing firm Platts dropped Russian fuel from its ultra-low-sulfur diesel (ULSD) assessment on Jun. 1. But the discounts on offer have not incentivized an urgent scouting of alternatives. Europe's diesel imports from the Mideast and Asia actually fell 25% between June and May as some cargoes were diverted to West Africa, and diesel flows from the US have failed to pick up the pace. A formal ban will of course force the issue next year, putting the US, the Mideast and India in line to be the go-to suppliers of additional diesel and jet fuel to Europe. But those supplies will come at a big premium. Physical Russian diesel supplies are available at a steep $90 per ton discount to non-Russian physical diesel supplies, even if both are priced well above the ICE gasoil contract in Europe. Shipping data show that the EU loaded up on 635,000 b/d of Russian diesel so far this month, above the roughly 500,000 b/d imported last year.

As Europe grapples with replacements, Russia is bouncing back from the initial shock of a US ban and Europe's self-sanctioning. Moscow's key trick is simple: offer discounts. Russian crude oil exports are higher than before the war, contrary to dire early forecasts. Domestic oil production is bouncing back — and so are product exports and domestic refinery runs. Sharply higher oil prices mean Moscow's oil income is much higher than last year despite the discounts, giving Russia cover to get creative with ways to keep barrels flowing. Russia's crude output recovered to 9.75 million b/d during the first three weeks of June, up from a 9.1 million b/d low in April and just below its 10 million b/d prewar levels, Energy Intelligence calculates. Seaborne crude oil exports from the Baltic and Black Sea have been a steady 2 million b/d so far this month, some 300,000 b/d higher than before the war. The additional volumes, as well as the crude shunned by Europe, is heading to Asia at up to $40/bbl discounts. Product exports of 2 million b/d are down about 400,000 b/d versus prewar volumes, but new tricks are emerging. Sales of fuel oil to Opec-plus allies Saudi Arabia and the United Arab Emirates have begun. And the EU is now importing nearly 70,000 b/d from Estonia — a country that lacks a refinery. Estonia has become a fast-rising export center of Russian refined products handled by the local Alexela Group. The trade has not received the same public stigma since the products are shipped by a member of the EU.

Opec-Plus Starts to Look Beyond Output Cuts

Opec-plus is nearing decision time as its two-year-old production deal winds to a close — but the market will likely have to wait a while longer to see what comes next. At the next ministerial meeting on Jun. 30, the producer group is expected to continue reviewing market conditions. Altering policy for August is an option, but so far, delegates say that seems unlikely. Ministers will, however, start to focus on what new policy could be adopted from September, after existing cuts have run their course. Opec-plus at its last meeting decided to compress the unwinding of cuts into July and August, accelerating the timeline by one month. Also feeding into deliberations is the upcoming visit to Saudi Arabia of US President Joe Biden, scheduled for mid-July. As oil prices soared in recent months, Washington has exerted steady pressure on Opec-plus producers to release more oil to the market. Opec-plus, led by Saudi Arabia, eventually offered a modest olive branch with the acceleration. But Riyadh has been treading a fine line, pursuing a parallel priority of keeping Russia on board. Some US officials suggest the Biden visit may result in Saudi Arabia and other Gulf states increasing their production in collaboration with Opec-plus, but this is far from certain. Riyadh may have other asks beyond a thawing in relations, including a different tone from the Biden administration on the speed of the energy transition and encouraging more investment in the upstream sector. There's also a broad understanding on both sides that global spare production capacity is limited and that using up remaining volumes could stoke rather than ease market concerns. In this context, Gulf states are keen to manage their limited spare capacity carefully to avoid upsetting either the market or their relationships with other Opec-plus producers.

The top priority for Saudi Arabia and others is to keep the Opec-plus alliance intact, including the participation of non-Opec's largest producer, Russia. That requires not moving too quickly to fill any gaps left by Western sanctions on Russia. Sanctions have so far largely disrupted Russian crude trade flows and product exports, but are expected to hit harder as an EU embargo takes effect late this year. From the Opec Secretariat's perspective, the oil market outlook is far from certain anyway, with risks on both the supply and demand sides. Opec technocrats in Vienna this week discussed the outlook for 2023, and agreed that demand growth is likely to be slower, delegates say — although forecasts have not been finalized yet. In a sign that the Saudi-Russian relationship remains intact, Saudi Energy Minister Prince Abdulaziz bin Salman flew to St. Petersburg this month and held talks with Russian Deputy Prime Minister Alexander Novak, declaring that relations were "as warm as the weather in Riyadh." Novak stressed that cooperation with Opec-plus would continue, conveying a more stable tone to the relationship than two years ago, when Moscow walked away from the group. On a post-cut arrangement, Novak said options include "some kind of quota" or simple "interaction within the framework of the charter."

One important issue that Opec-plus must address sooner or later is production baselines. Many members have struggled to meet their quotas and their baselines no longer accurately reflect capabilities. In May, the 19 members with production quotas pumped 37.59 million barrels per day, a 337,000 b/d increase on April and the largest monthly rise since November. Still, the gain was 95,000 b/d less than the agreed tapering. The alliance has raised the monthly increment to 648,000 b/d in July and August, and the market will be watching closely to see how much of this can be fulfilled. The overall shortfall between Opec-plus' targeted output and actual production swelled to 2.8 million b/d in May. In the past, Opec has skirted difficult quota discussions by agreeing on a collective production ceiling, without allocations for individual members. That could be an option for September, with members' concerns about protecting market share — even if theoretical — one obstacle.

West Africa No Help to Opec's Capacity Problem

As Opec-plus casts around for capacity additions to raise output, West Africa appears unlikely to provide much help — either in the near term or over the next few years. In the short term, Nigeria and Angola's governments are expected to spend more of their oil windfalls on pre-election patronage and subsidies on gasoline and diesel than on boosting production capacity. Even after the elections, the scope for meaningful capacity increases will be limited. Nigeria has plenty of accessible oil reserves and infrastructure, but governance has been chaotic, international oil companies (IOCs) and local firms have slowed investment, and thieves and saboteurs continue to ransack key pipeline systems. The country pumped 1.17 million barrels per day of crude in May to dip below Angola, which managed 1.23 million b/d, according to Energy Intelligence estimates. Nigeria has the highest compliance rate of all Opec members at 857%, while Angola's is 457%. Angola's leaders are trying to make the most of maturing deepwater fields but cannot turn back the geological clock. Mature producer Congo (Brazzaville) and minor producer Equatorial Guinea reported compliance of 576% and 506%, respectively, as sub-Saharan Africa struggles to pull its weight in Opec-plus.

In theory, Nigeria could produce another 300,000 barrels per day from the Bonny and Brass systems in the eastern Niger Delta by mid-2023 if Nigerian National Petroleum Corp. and operators repaired infrastructure damage. But this is unlikely to happen unless security is tightened and sabotage is brought under control. State and federal actors are using stolen oil to fund campaigns ahead of elections in February and to settle debts in the aftermath. Government attempts to stall the departure of Shell and Exxon Mobil from the country's onshore and shallow water are meanwhile preventing local firms from taking over and developing the assets while prices are high. Qua Iboe has 12 discoveries that could be developed and hooked into existing shallow water pipeline infrastructure, but the infrastructure needs to be upgraded. The additions would boost output some way beyond the current 150,000 b/d — although Qua Iboe will never recover to its glory days of more than 400,000 b/d. Persistent theft has reduced output of Bonny Light in the eastern Niger Delta below 30,000 b/d, a fraction of its 200,000 b/d capacity. Nigeria's deepwater fields are meanwhile all in decline except for Egina, where output has varied between 100,000-150,000 b/d in recent months. It will be sustained by the 65,000 b/d Preowei tie-back after 2025. The big deepwater field Bonga Southwest-Aparo has been designed and postponed several times. Zabazaba on OPL 245 has been delayed by litigation.

Angola's government has a clearer strategy to make the most of its remaining reserves and has largely succeeded in stabilizing production declines. But it will take new elephant finds to fully reverse the trend. Legislation has encouraged exploration around developed fields, while licensing rounds have targeted frontier basins and the onshore. Unlike in Nigeria, most IOCs appear willing to continue with short-cycle tie-back projects, and even have a few new floating production, storage and offloading (FPSO) units on the horizon. The standalone projects, which could deliver around 200,000 b/d, won't bear fruit until 2025-26. They include TotalEnergies' planned development of the Cameia and Golfinho pre-salt fields on Blocks 20/11 and 21/09, and Eni's planned FPSO to develop the northern section of the Agogo field on Block 15/06. Moves to explore and develop the onshore Kwanza and lower Congo Basins will be complicated by the lack of experienced, well-funded firms awarded licenses.

Southeast Asian NOCs Push Capex Higher

Southeast Asian national oil companies (NOCs) have set some of their highest capital expenditure plans of the past decade amid windfall revenues from soaring commodity prices. Growing concerns about energy security amid oil and gas supply crunch fears, plus a need to advance projects delayed during the pandemic, help explain the surge in planned investments. Malaysia's Petronas expects to invest 60 billion ringgit ($14 billion) this year, up from initial plans of 40 billion-50 billion ringgit. This marks the company's second-highest spending plan since 2015 and a reversal of last year, when the NOC invested just 30.5 billion ringgit against guidance of 40 billion-45 billion ringgit. In Thailand, PTT Exploration and Production (PTTEP) is allocating $27.2 billion for the 2022-26 period, its highest five-year investment plan since 2016. It plans to spend $5.66 billion in 2022 alone — its highest level in the past seven years. Indonesia's Pertamina is targeting spending of $70 billion-$80 billion over 2022-26, including annual capex of $9 billion. This is up dramatically from the $5.68 billion Pertamina spent last year.

The bulk of capital is being allocated to the development of core regional oil and gas projects, many of which were slowed or deferred due to Covid-19. But significant investments will also be made in exploration, particularly to find commercial gas resources to meet domestic needs given heightened energy security concerns following Russia's Feb. 24 invasion of Ukraine. Gas and LNG are seen as crucial transition fuels for the region. Petronas' higher spending will enable it to "catch up" on projects delayed by the pandemic, CFO Liza Mustapha said recently. These include Gumusut Kakap Phase 3 offshore Sabah and the Bayan Gas Redevelopment Project Phase 2 off the coast of Sarawak. New developments like Kasawari and Limbayong also factor in to this year's plans. PTTEP has allocated $288 million for exploration this year, its second-largest exploration budget since 2016. Rystad Energy analyst Prateek Pandey notes that PTTEP is a "bit more aggressive on exploration" compared to fellow Southeast Asian NOCs, in part due to its success with the drill bit over the past couple of years — including several significant discoveries in Malaysia. Its five-year plan also includes investments in the Erawan gas field in the Gulf of Thailand, which it took over from Chevron. Production should rise from 250 million-300 million cubic feet per day to 800 MMcf/d by April 2024. Pertamina aims to drill 29 exploration wells and 813 development wells en route to 1 million barrels of oil equivalent per day of production this year. "Overall, the exploration investment outlook in the Southeast Asia region looks strong in the near to midterm (by 2025) given the recent policy changes, committed activities, delayed appraisal wells getting back in plans, lower cost compared to other regions and strong gas demand outlook," Pandey says.

The capital hikes also mean larger investments in the energy transition, which tends to be a synonym for diversification among Southeast Asian NOCs rather than a pure focus on renewable energy. Petronas will allocate about 10% of its capital spending for "nontraditional spaces" like specialty chemicals and solar energy as part of its transition strategy. Petronas and private equity firm Financiere Foret acquired Sweden-headquartered specialty chemicals company Perstorp for €2.3 billion ($2.4 billion) in May. The group is expecting 30% of its future revenues to come from nonhydrocarbon-related operations. PTTEP plans to spend $4.4 billion over the 2022-26 period in power and new businesses, which include renewables, carbon capture and storage, low-carbon fuel and artificial intelligence and robotics. The Thai firm expects a 20% income contribution from these ventures by 2030. Pertamina is also growing its transition outlays. It allocated around $11 billion for the development of gas and new and renewable energy projects for 2022-26, up from $8 billion in 2020-24. This will represent about 14% of Pertamina's five-year capex plan, up from 9% in the previous cycle. Renewables investments will initially focus on solar, wind, hydro and geothermal.

What's New Around the World

GENERAL

CORPORATE — The UK subsidiary of Glencore, the Swiss-based commodities trading giant, has admitted to a London court to paying $28 million in bribes to secure oil allocations from several African countries, including Nigeria, Equatorial Guinea and South Sudan over a period of four years. The case forms part of a wider, long-running corruption investigation involving one of the world's largest traders that markets around 4 million b/d of oil and is also one of the world's largest coal producers. Last month, Glencore said it would pay over $1 billion to settle investigations in the US being pursued by the Department of Justice and Commodity Futures Trading Commission, covering the alleged payment of bribes and manipulation of oil markets, and would also pay a penalty of $40 million to resolve a bribery investigation in Brazil. In a statement Tuesday, the UK's Serious Fraud Office said Glencore UK was convicted by Southwark Crown Court on all seven charges against it and the company pleaded guilty to each one. A sentencing date, which will determine the amount of money Glencore will pay in fines and penalties, is scheduled for Nov. 2-3.

COUNTRIES

CHINA — Russian crude imports spiked by 390,000 b/d from April to 1.99 million b/d in May, their highest level in Energy Intelligence records dating back to January 2007. The increase is even more dramatic at 705,000 b/d compared to last May. A significant proportion of the discounted Russian crude arriving in China would have been bought after Russia's invasion of Ukraine and confirms earlier expectations that Chinese buyers had increased buying of some Russian grades like East Siberia-Pacific Ocean (Espo) crude. Imports of Saudi crude however plunged by 334,000 b/d from April to 1.85 million b/d in May, likely dragged down by lower Chinese appetite for term volumes after Saudi official formula prices earlier spiked by their biggest levels in 21 months. But the tumble in May-arrival imports of Saudi crude needs to be understood in the context that April-arrival Saudi volumes of 2.18 million b/d were the highest on record.

EGYPT — Chevron and state-run Egyptian Natural Gas Holding Co. (Egas) have agreed to a provisional deal to explore sending gas to Egypt's domestic market and exporting it from its LNG terminals. The move follows the European Commission's potential LNG supply agreement with both Israel and Egypt. A Chevron statement said the memorandum of understanding would "assess sending gas from Chevron's regional assets to Egypt for both the domestic and the international LNG market. [We are] also considering other gas monetization opportunities in the region, including floating LNG technology," the US major said. Egypt's petroleum ministry also said in a statement that Chevron is planning to drill a first exploration well in one of its concessions in the Mediterranean by September and that progress is ongoing on shooting seismic in its Red Sea Block. In Egypt, Chevron operates three Mediterranean offshore blocks in separate consortia with Egypt's Tharwa Petroleum Co., in the North Sidi Barrani Offshore Block, North El-Dabaa Offshore Block and the Nargis Offshore Block. It also operates Sector Number 1 in the Red Sea.

INDIA — India's state refiner Bharat Petroleum Corp. Ltd. (BPCL) has started talks with Russia for a crude oil term contract despite Western pressure on the South Asian giant to place sanctions on Moscow amid the ongoing war in Ukraine. As Europe turns its back on Russian oil, India is set to keep importing high volumes of Russian crude, while China continues to snap up most of the Espo crude exported from the Kozmino terminal in Russia's Far East. "Urals have become attractive for discounts," said a senior BPCL executive, who declined to be named. "The discussions are at a very preliminary stage as of now. We are in the process of testing the crude, checking [the] limitation of the refineries, how much they can process, how much blending can happen. All our three refineries have [a] different setup, so there are different permutations and combinations being worked out," said the executive. India's oil imports from Russia hit 850,000 b/d in June, a sharp surge from below 50,000 b/d, on average, in 2021 on the back of steep discounts. Those flows appear to be taking on a more permanent character, with some Indian refiners believed to be looking to sign semi-term contracts for Russia's Urals crude.

KUWAIT — Opec member Kuwait is preparing to start its first-ever offshore drilling campaign as it seeks to develop more of its hydrocarbon reserves to help meet the world's future energy demand, a top official said. "We have now taken the first step into exploration offshore — we never touched the offshore in Kuwait," the CEO of state-run Kuwait Petroleum Corp. (KPC), Shaikh Nawaf al-Sabah, told the Qatar Economic Forum in Doha. "The first offshore drill rig arrived in Kuwait about a week ago and will spud soon," Shaikh Nawaf said. US services firm Halliburton in July 2019 said it would start work on a contract to explore and develop Kuwait's offshore reserves from mid-2020 by drilling the first of six high-pressure, high-temperature exploration wells offshore Kuwait. However, the campaign was delayed due to the coronavirus pandemic. Kuwait produces virtually all of its oil from the onshore, including the massive Burgan field. Shaikh Nawaf added that Kuwait had increased its "investments in building capacity to meet the requirements of the future," and the country's target of raising oil production capacity to 3.5 million b/d by 2025 and ultimately to 4 million b/d remained, supported by the "lowest-cost and the lowest-carbon emissions oil in the world."

RUSSIA — Europe is committing "energy suicide" that will have long-term economic consequences, while the sanctions on Russia have put an end to the "green transition," the CEO of Russia's Rosneft has warned. Speaking at the recent St. Petersburg International Economic Forum, Igor Sechin said that "we already see [the] reduction of Europe's economic potential, the loss of its competitiveness and direct damages for investors." As a result of Europe's decision to turn away from Russian oil and gas supplies, it is fast becoming the region with the highest cost of energy. According to investment bank JPMorgan, for this year alone the Eurozone could pay an additional $550 billion, or 4.5% of GDP due to the prices hike, the Rosneft CEO said. According to Sechin, the "green transition" has been used as a political tool and an instrument to manipulate markets, as it does not make economic sense because of the absence of the required technology to make it work. Europe is searching for any possible sources of hydrocarbons to replace the ones from Russia, Rosneft's boss noted, pointing to the "coal renaissance" in Europe.

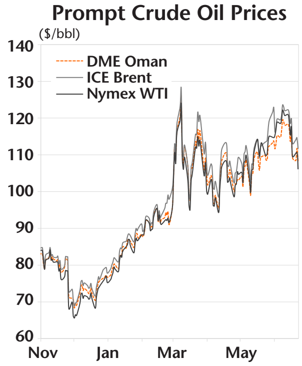
UNITED STATES — –US President Joe Biden will push lawmakers for a three-month break in the nationwide gas tax as the White House attempts to bring down politically-sensitive prices at the pump for US consumers. A senior administration official said the effort will also "call on states to either suspend their gas taxes or provide the equivalent consumer relief in other ways." But federal tax relief will take an act of Congress — no small measure in a divided legislature where energy issues have been fraught. The administration is already in the midst of a nearly 1 million b/d release of strategic stocks, and has authorized the sale of gasoline with a higher ethanol content in an effort to put downward pressure on retail prices. Easing the federal tax — 18.4¢/gallon for gasoline and 24.4¢/gallon for diesel — will create a gap in the Highway Trust Fund. Biden will propose that Congress use a fiscal surplus to cover the estimated $10 billion gap. The White House has a challenging relationship with the oil industry. Oil executives have consistently pointed the finger at the administration and its focus on climate issues for high prices. "Your administration has largely sought to criticize, and at times vilify, our industry," Chevron CEO Mike Wirth said in a published letter addressed to Biden.

Marketview

Foot Off the Gas

The administration of US President Joe Biden is scrambling to put a lid on sky-high prices at the pump, but ultimately has few politically viable tools in the kit. While hardly the politically favorable outcome, a worsening macroeconomic outlook and demand impacts from those high prices may at least offer a buffer against further gains by the oil market. Indeed, crude futures sold off for much of the past week.

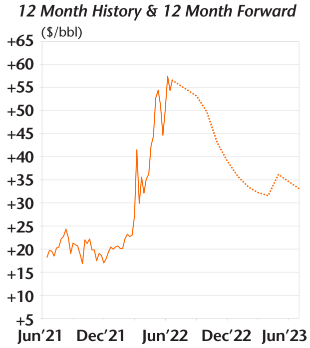
Prompt Crude Oil Prices



Source: Nymex, ICE, DME

Nymex 3-2-1 Crack Spread

12 Month History & 12 Month Forward



3-2-1 = 3 parts crude, 2 parts gasoline, 1 part heating oil

The Biden administration has loosely floated everything from product export bans to mandated refinery restarts as ways to lower gasoline and diesel prices. Market players have been largely dismissive. A product exports ban would likely result in higher prices since it would squeeze global supply and thus raise the cost of imports — something regions like the US East Coast still rely on. Idled and closed refineries are not expected to come back into service voluntarily — especially those with damaged kit — and even forced restarts would likely take months. The US' operating downstream is already running at effective capacity; opening the throttle more raises the risk of unplanned outages.

This week's proposed suspension of federal taxes on gasoline and diesel would offer some relief if passed through, especially if states suspend their own levies. But the plan faces opposition from both parties in Congress, and market experts warn of unintended consequences should lower prices drive demand higher at a time when global supplies are stretched.

Refiners argue that reducing biofuel blending mandates, issuing Jones Act waivers on domestic shipping requirements and lowering environmental specifications on summer gasoline could offer short-term relief. But such proposals are likely unworkable for the White House given political friction created by extending a hand to oil and gas.

Regardless of US political concerns around gasoline prices, the market continues to bias its signals in favor of diesel given global tightness there. Diesel crack spreads against an incremental barrel of medium, sour crude in a complex Gulf Coast facility are over $70, per Energy Intelligence, compared to some $57.80 for gasoline.

Still, increasingly bearish economic sentiment is starting to put pressure on the wider petroleum complex. Surging inflation has prompted a much more hawkish stance from central bankers, with the US Federal Reserve among those raising rates. Recession risks from tightening monetary policy would have direct, negative consequences for oil demand growth.

Softening demand could eventually take the edge off prices, but in the meantime, high prices themselves are starting to create a ceiling on further upside. Retail prices are close to levels at which roughly 75% of US drivers say they will cut down on purchases, according to the American Automobile Association. With prices for groceries, rent, power and leisure activities also on the rise and wage growth not keeping pace, fewer discretionary dollars can be redirected to absorb higher energy costs.

All this is not to say US gasoline prices don't have fuel left in the tank. The upcoming Jul. 4 holiday is forecast to see record numbers taking to the roads, and market players continue to stress the role of pent-up demand and relative inelasticity of gasoline consumption.

Libyan Oil Output at 700,000 b/d

Libya's oil output is hovering at 700,000 b/d — much higher than earlier reports — the country's Oil Minister Mohamed Oun said this week.

After a series of strikes and shutdowns at ports and fields across the country since late April, Libya's oil output had fallen from 1.2 million b/d to between 700,000-750,000 b/d. Recently the media office at Libya's oil ministry had told reporters that output had fallen to just 100,000-150,000 b/d, although further outages at other major fields and ports, which were not seen, would account for the production plunge. Libya's politics remain fractious as rival governments bid for legitimacy, and its crude production levels remain a wild card in volatile oil markets.

PIW Market Indicators

($/barrel)	Jun 20-Jun 22	Jun 13-Jun 17	May 23-May 27
Spot Crude			
Opec Basket	$113.50	$121.27	$116.42
UK Brent (Dtd.)	117.03	125.37	117.75
US WTI (Cushing)	108.94	116.45	113.38
Nigeria Bonny Lt.	124.14	133.03	123.51
Dubai Fateh	108.92	116.36	109.55
US Mars	100.07	109.36	108.14
Russia Urals (NWE)	82.21	90.93	82.41
Crude Futures			
Brent 1st (ICE)	113.51	118.98	115.57
Brent 2nd (ICE)	110.59	115.94	112.46
B-wave (ICE)	112.75	119.54	115.07
WTI 1st (Nymex)	108.42	116.46	111.91
WTI 2nd (Nymex)	106.76	114.17	109.19
Oman 1st (DME)	109.26	114.82	110.31
Oman 2nd (DME)	105.91	110.93	108.35
Murban 1st (ICE)	113.42	118.01	112.33
Murban 2nd (ICE)	109.39	114.59	111.16
Forward Spreads			
Brent (1st-Dtd.)	-$3.52	-$6.40	-$2.18
Brent (2nd-1st)	-2.91	-3.03	-3.10
WTI (2nd-1st)	-1.67	-2.30	-2.72
WTI (3rd-2nd)	-2.17	-2.56	-2.87
Oman (2nd-1st)	-3.35	-3.89	-1.96
Oman (3rd-2nd)	-1.33	-3.48	-2.69
Murban (2nd-1st)	-4.02	-3.42	-1.17
Murban (3rd-2nd)	-2.86	-2.88	-2.98
Grade Differentials			
WTI-Brent (1st)	-$5.34	-$4.81	-$3.66
WTI-LLS	+1.92	-0.87	-0.78
WTI-Mars	+8.87	+7.09	+5.24
Brent(Dtd)-Dubai	+8.11	+9.01	+8.20
Brent(Dtd.)-Urals	+34.82	+34.44	+35.34
Brent(Dtd.)-Bonny Lt.	-7.11	-7.66	-5.76
Term Crude Formulas			
Arab Lt.-US (c.i.f.)	$107.20	$116.49	$115.27
Arab Lt.-Europe (Med)	114.65	121.44	119.97
Arab Lt.-Far East (f.o.b.)	113.47	121.03	119.52
Nigeria Bonny Lt.	118.69	127.03	119.69
Arab Light Gross Product Worth			
Rotterdam	$134.60	$136.59	$132.43
US Gulf Coast	142.75	147.30	138.56
Singapore	132.20	134.93	122.31
Gross Product Worth & Margins			
Rotterdam			
UK Brent GPW	$148.80	$150.23	$127.39
UK Brent Margin	+29.53	+24.05	+8.69
US Gulf Coast			
Mars GPW	135.90	140.54	133.82
Mars Margin	+35.73	+31.08	+25.58
Singapore			
Oman GPW	131.11	135.16	122.76
Oman Margin	+21.48	+17.86	+11.46
US Nymex			
WTI 3-2-1 Crack	+$59.72	+$55.68	+$50.64
Refined Products			
Rotterdam ($/ton)			
Eurobob Gasoline	$1293.20	$1327.56	$1296.44
Gasoil (0.1%)	1351.25	1351.85	1141.35
Fuel Oil (0.5%)*	840.00	870.00	794.60
US Gulf Coast (¢/gal)			
RBOB Gasoline	378.29¢	394.93¢	379.61¢
ULS Diesel	431.65	440.23	380.68
Fuel Oil (0.5%, $/ton)	$885.67	$933.40	$887.80
Singapore ($/bbl)			
Naphtha	$86.17	$87.64	$96.07
Gasoil (0.05%)	171.84	172.74	142.71
Fuel Oil (0.5%, $/ton)	1068.00	1092.00	1004.60

*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.