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Pressure Builds to Develop East Med Gas Resources

Pressure is building for Chevron to develop and export East Mediterranean gas as Europe grapples with a sharp reduction in imports of gas from Russia.

"There is greater pressure than before to move forward on developing East Med gas," Osama Mobarez, chairman of the East Mediterranean Gas Forum told Energy Intelligence at the Gastech conference in Milan.

Mobarez said the issue would be discussed at the upcoming meeting of the intergovernmental group in December.

Egyptian Petroleum Minister Tarek el-Molla, said all of the pieces are in place, and that the only thing still needed is a decision to move forward.

"Discoveries are there, the market is there — we just need to take the decision and tick this project off," he told the conference.

Europe has made clear that it would like to see fast-track development of the gas discoveries made in the Eastern Mediterranean in recent years.

The European Commission signed a provisional agreement with Israel and Egypt in June to supply Europe with LNG sourced from gas fields in the region.

El-Molla told reporters at Gastech that those agreements are still at a very preliminary stage. But he also said that Europe's interest in replacing Russian gas should help to accelerate development of the resources.

Chevron Weighs Options

Europe is looking in particular to Chevron, which is still weighing options for its Aphrodite gas discovery offshore Cyprus — estimated to hold 4 trillion cubic feet of gas — and a second phase of development at its giant Leviathan field off Israel. However, Chevron does not seem to share the same sense of urgency about developing those resources and delivering them to buyers.

Nigel Hearne, who will become the US major's executive vice president for oil, products and gas on Oct. 1, told Gastech that Chevron was still "working through the technical issues" and that there was "no line of sight yet [on the best option]."

Mobarez said that moving East Med gas via a subsea pipeline for liquefaction in Egypt appeared to be the favored solution, rather than a floating LNG vessel.

Egypt has two onshore LNG liquefaction plants: Idku (operated by Shell) and Damietta (operated by Eni).

A government-to-government deal between Cyprus and Egypt envisaged shipping gas via a pipeline to the Idku LNG plant.

However, Chevron upstream chief Jay Johnson, who is set to retire on Jan. 31, said in a late-July earnings call that floating LNG is also a "viable option" for the company's East Mediterranean gas.

A dispute about the maritime boundary between Aphrodite and Israel's smaller Ishai field is a potential obstacle to fast-track development.

String of Discoveries

Direct EU involvement and funding for Eastern Mediterranean gas development would probably allow Europe to lock in supplies for a fixed period of time and give it an advantage over Asian buyers.

Cypriot Energy Minister Natasa Pilides told Gastech that Cyprus would probably become part of the arrangement agreed by the EU, Israel and Egypt.

Eni recently announced another gas discovery in Block 6 offshore Cyprus called Cronos that it estimated to hold up to 2.5 Tcf of gas in place and pledged to fast-track its development.

The Italian company previously discovered the Calypso field in the same block.

Eni's chief operating officer for natural resources Guido Brusco told the conference that "new things are coming over the next few months."

Exxon also has the Glaucus gas discovery in Block 10 offshore Cyprus, while a Cypriot official said the US major plans to drill a well soon in offshore Block 5, which it acquired in December.

Tom Pepper, Milan

Germany Retains Nuclear Option for Winter Power

Germany has reluctantly included the option of operating two of its last three nuclear plants beyond December as part of a plan for maintaining the stability of its electricity grid during the coming winter.

The government said the move to keep the two plants on standby through April was necessary because of plunging power output from France's nuclear fleet.

It said it would only draw electricity from the two plants if it faced a power emergency.

Separately, Chancellor Olaf Scholz struck a deal with President Emmanuel Macron to guarantee electricity supplies to France this coming winter in return for France guaranteeing gas supplies to Germany.

However, those reciprocal guarantees will not be sufficient to prevent a possible energy crisis this winter.

So, after conducting a second round of stress test analysis, the coalition government in Berlin reluctantly concluded that it had to retain some nuclear power capacity, even though nuclear is deeply unpopular in much of Germany.

Merkel's Phase-Out Plan

Since former chancellor Angela Merkel's government decided in 2011 to phase out nuclear power by the end of 2022, that decision — after a major nuclear accident in Japan — has been a key pillar of the country's energy transition policy.

But Germany now joins Belgium in revisiting a decision to phase out nuclear power.

However, while Germany will only keep the two plants on standby through the first four months of 2023, Belgium is talking to operator Engie about operating its two youngest reactors for another decade after its previously adopted 2025 deadline.

"We are sticking to the phaseout of nuclear power," Economy and Climate Minister Robert Habeck told a press conference late on Monday evening.

Nevertheless, the revised plan calls for the creation of a "deployment reserve" through April, comprising two reactors in southern Germany: E.On's 1,410 megawatt Isar-2 and EnBW's 1,310 MW Neckarwestheim-2.

These two reactors will remain fully staffed under the plan and would be called on if Germany's energy regulator determines that they are needed to meet the country's electricity requirements.

Power Barges

Meanwhile, RWE's 1,335 MW Emsland plant near Germany's northwestern border with the Netherlands will close down at the end of this year as planned.

If necessary, the government said floating oil-powered generation — "power barges" — could be used to safeguard power supplies in northern Germany.

Perhaps to sell the nuclear option to his own Green Party and other political allies, Habeck attributed the government's decision on the situation in France.

"We have enough energy in and for Germany; we are an electricity exporting country," said Habeck. But in France half the nuclear plants "are currently failing."

Habeck's assessment didn't differ much from Macron's. On Monday the French president said "technical challenges" have necessitated maintenance work that affects half of the French fleet.

"Germany needs our gas and we need the electricity produced in the rest of Europe and in particular in Germany," said Macron.

"We are going to contribute to European solidarity in terms of gas and benefit from European solidarity in terms of electricity in the weeks and months to come."

Even if German authorities determine that nuclear power from Isar-2 and Neckarwestheim-2 is needed, it's not yet clear that they will be available.

Neckarwestheim-2 operator EnBW said that "the legal framework" for continued nuclear plant operations "must be created as quickly as possible" and that the government would have to discuss details of its plan with the company.

Only then will EnBW examine the feasibility of keeping its nuclear plant in standby mode beyond year's end, it added.

Phil Chaffee, London

EU Struggles to Wean Itself Off Russian Oil

As the US tries to persuade the rest of the world to impose a price cap on Russian oil, Russia is still exporting over 2.5 million barrels per day of crude oil and refined products to the EU.

Russia has also ramped up its sales to India, which so far has shown much greater interest in taking advantage of deeply discounted prices for Russian crude than participating in sanctions.

Energy Intelligence estimates that Russian crude exports to the EU totaled around 1.8 million b/d in August, a slight increase from July volumes.

Around 560,000 b/d of that total was shipped out of the Baltic Sea ports of Primorsk and Ust Luga, 200,000 b/d from the Black Sea port of Novorossiysk and over 300,000 b/d from terminals in the Arctic Sea.

There was also around 750,000 b/d of Urals crude delivered to Europe via the Druzhba pipeline, most of which went to Poland and Germany in the past.

On the other hand, exports of products to the EU fell by more than 30% in August to around 880,000 b/d, primarily gas oil and fuel oil shipped from Baltic ports.

These numbers show that EU countries' appetite for Russian oil remains robust, despite sanctions that were intended to reduce imports after Moscow sent its troops into Ukraine in February.

Who's Still Buying?

According to port data, the largest EU buyers of Russian seaborne barrels include Romania and Bulgaria — whose refineries rely heavily on Urals crude — as well as Croatia and Greece.

The main Russian suppliers are state-controlled oil giant Rosneft, privately-owned Lukoil and West Siberian producer Surgutneftegas.

Ships are still occasionally discharging Urals crude at the Dutch hub of Rotterdam, Gdansk in Poland and Augusta in Italy, where Algerian state oil company Sonatrach owns a refinery.

Business as usual is not expected to continue for much longer, however.

Under a sixth package of EU sanctions adopted in June, most imports of Russian crude by member states must end by Dec. 5, with only Hungary and Bulgaria receiving exemptions.

An EU embargo on imports of Russian products is set to take effect on Feb. 5.

"The clock is ticking, so European refiners are lining up as many alternatives as they can," says a veteran European oil trader.

Indian Buying Surges

At the same time, there has been a surge in Russian crude exports to India, which previously bought only modest volumes but is now vying with China to become Russia's most important customer.

According to port data, seven shipments of Russian Urals crude are currently on their way to India, having loaded at Primorsk in the last couple of weeks.

Most of those barrels were lifted by Rosneft, which signed a term contract earlier this year with Indian Oil Corp (IOC), the country's largest refiner, to supply several cargoes of crude each month.

Rosneft is also a 49% shareholder in Nayara Energy, the Indian refiner formerly known as Essar Oil, which operates a 400,000 b/d refinery at Vadinar in the western state of Gujarat.

There is also a steady stream of Espo crude to India from the Kozmino terminal in Russia's Far East. Kozmino now handles close to 900,000 b/d of crude, topping the annual average volume for last year.

In August, Espo shipments to India averaged around 120,000 b/d — unchanged from July — all of which was supplied by Rosneft. All of the rest went to China.

For more coverage of the Ukraine crisis, visit [Ukraine Crisis: Energy Impact >]

Paul Sampson, London

Russia Says It's Adapting to Sanctions

Russia's oil and gas output is expected to dip this year, but the country is adapting to "new realities" and is well positioned to divert its exports to "friendly" countries, Energy Minister Nikolai Shulginov told reporters on Tuesday.

Shulginov said an increase in crude oil exports through the Pacific Ocean port of Kozmino showed that Russia was already making progress on rerouting oil flows.

Speaking during the Eastern Economic Forum in Vladivostok, he said that by October shipments from Kozmino would be running about 140,000 barrels per day higher, which implies an increase to an annual rate of around 860,000 b/d.

The increase would be achieved through the use of chemical additives to boost flows through the Espo pipeline and through rail shipments.

Industry sources tell Energy Intelligence that Russia has also approved a plan to expand the capacity of other crude oil export outlets, including the country's Baltic and Black Sea ports.

Moscow believes that this will help it reroute some of the crude carried by the Druzhba pipeline to Europe.

Druzhba's biggest customers in the past — Germany and Poland — have announced plans to stop oil imports from Russia by year's end.

The US, the EU and other countries have sanctioned Russia following its invasion of Ukraine, and Russia has responded by stepping up its oil exports to countries such as India, China and Turkey.

The latest such measure is a proposal to cap the prices that overseas buyers of Russian oil would pay. The EU is also talking about a similar price cap on imports of Russian gas.

In addition to bans on imports of crude oil and petroleum products from Russia, EU sanctions also include a ban from Dec. 5 on the provision of insurance services for vessels transporting Russian oil.

Shulginov said Russia is talking to shippers of its oil about using insurance companies from friendly countries or setting up a new national insurance company in Russia.

In an interview with the Tass news agency, Shulginov said Russia's crude production is expected to dip by 2% this year, while refinery throughput should contract by 8%.

Russia produced around 10.5 million b/d of crude oil and condensate in 2021.

Russia's gas production is expected to fall 7% this year, largely because of a reduction in exports to EU countries.

Russia produced 762.3 billion cubic meters of gas in 2021, of which 514 Bcm was produced by Gazprom.

Russia's gas output in January-August of this year totaled 456.2 Bcm, down 8.6% versus the same period of 2021.

Staff Reports

Abu Dhabi's Adnoc Eyes Faster Capacity Expansion

Abu Dhabi National Oil Co. (Adnoc) has quietly accelerated its efforts to expand its oil production capacity and may speed it up even further, Energy Intelligence understands.

Adnoc has officially retained 2030 as the target date to reach a production capacity of 5 million barrels per day, but it is said to have brought its internal deadline forward to 2027 some time ago.

Energy Intelligence understands that the idea of potentially bringing the target date further forward to as early as 2025 has been floated for internal evaluation.

However, it's unclear whether that much earlier target would be feasible or considered for implementation.

Adnoc declined to comment.

Industry sources previously told Energy Intelligence that Abu Dhabi — which holds almost all of the United Arab Emirates' oil and gas reserves — had begun considering a plan to boost its oil production capacity to 6 million b/d.

If studies show that an expansion of capacity to 6 million b/d is feasible, reaching that level would likely take Adnoc six to seven years, given the long-cycle nature of the required upstream projects and investments.

Upstream Progress

Abu Dhabi has made significant progress on its upstream expansion plans in recent years. It is currently estimated to have oil production capacity of nearly 4.3 million b/d.

The emirate's capacity is complemented by an estimated 30,000-40,000 b/d pumped in neighboring Dubai, taking the UAE's overall current oil production capacity to just above 4.3 million b/d.

This makes the UAE Opec's No. 3 producer behind Saudi Arabia and Iraq, which have capacity of 12 million b/d and 5 million b/d respectively.

The UAE's actual oil output currently stands at close to 3.2 million b/d, in line with limits set by the Opec-plus producer alliance.

Of its present capacity, more than 2.2 million b/d is estimated to be available offshore, while around 2 million b/d is understood to be available onshore.

Accelerating Change

In July, Adnoc set up a dedicated project management office aimed at helping the company adapt to a global energy landscape that's undergoing rapid change.

The so-called Accelerate 100X unit is set to speed up decision-making as Adnoc responds to challenges such as the energy transition, market volatility and shifts in the geopolitical environment.

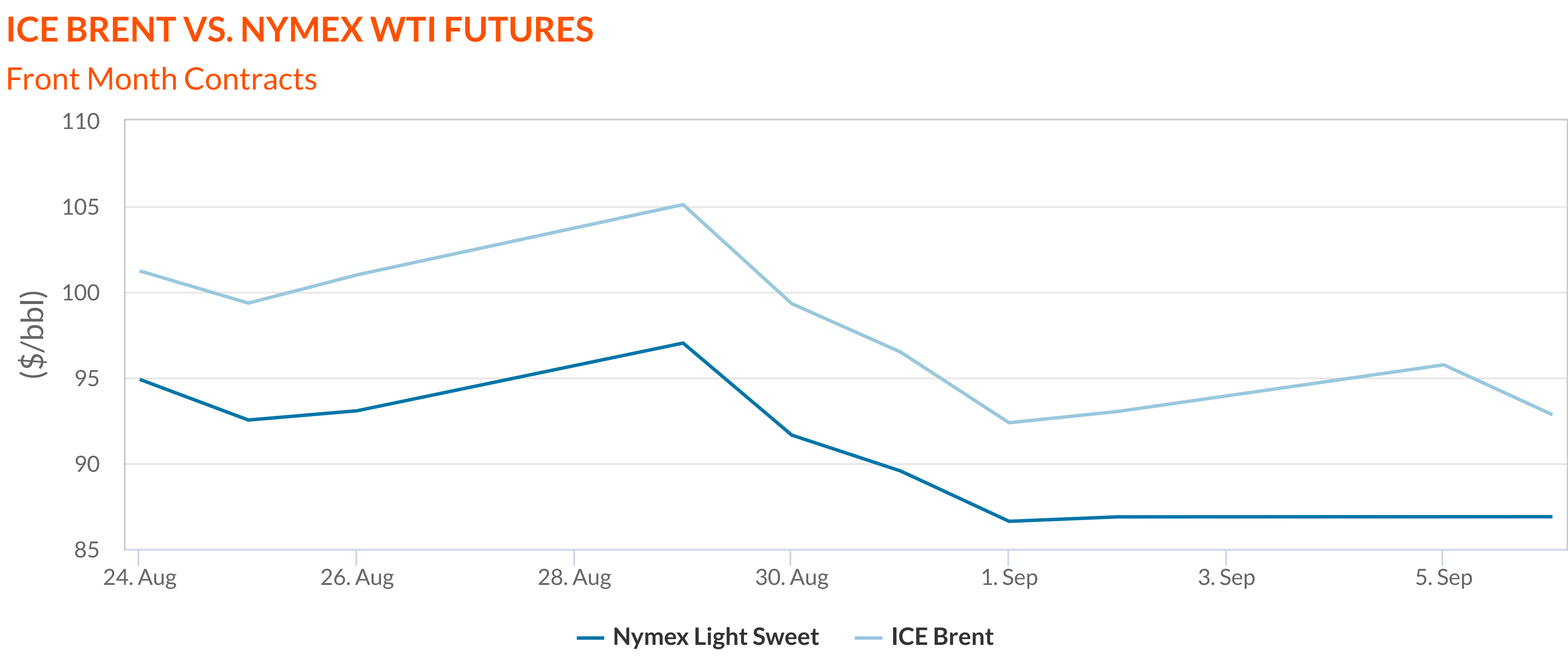
Late last year, Adnoc's board approved plans to raise capital spending for 2022-26 to $127 billion from $122 billion for 2021-25.

Oliver Klaus, Dubai

Brent Slides as Oil Market Volatility Continues

Oil futures were mixed on Tuesday, with global benchmark Brent crude selling off heavily while its US counterpart was relatively flat.

In London, Brent contracts for November delivery settled $2.91 lower at $92.83 per barrel. In New York, October West Texas Intermediate (WTI) rose a penny to close at $86.88/bbl, while the November contract ended the session 3¢ higher at $86.51/bbl.



Brent's drop reversed Monday's rally, which came after a decision by Opec and its allies to cut production in October. The trading action also came in the wake of the Labor Day holiday in the US, which had kept Monday's trading volumes relatively low.

Market players and watchers said oil continues to navigate strong cross currents.

On the one hand, note commodity analysts with Bank of America, "a global recession could drive oil demand growth much lower while an Iran nuclear deal could push supply higher. Extended Covid-19 protocols in portions of China and central bank actions aimed at curbing inflation could also hamper demand.

Meanwhile, with the Labor Day weekend past, so-called peak demand season for gasoline has drawn to a close in the world's largest economy.

October gasoline on Nymex dropped by 4.77¢ to settle at $2.4159 per gallon, while the diesel contract edged 0.42¢ lower to close at $3.5838/gallon.

The US dollar rallied against a basket of other currencies on Tuesday. Analysts say a strong dollar tends to be bearish for oil as it makes the commodity, which is priced in greenbacks, more expensive.

On the other hand, the energy sector — particularly in Europe — continues to face supply challenges. High natural gas prices in Europe could prompt rising demand for oil products amid fuel-switching, for example.

Market players note that the war in eastern Europe stemming from Russia's invasion of Ukraine shows little sign of slowing down, and the resulting fallout for energy prices persists.

“The gap between the political antagonists is wider than ever and the unbridgeable differences will create a supply shortage both in oil and gas in coming months,” noted Tamas Varga of oil brokerage PVM.

The G7 is implementing a price cap on Russian petroleum and “the EU has also outlined a plan to do the same on Russian natural gas deliveries,” Varga said.

Frans Koster, New York

IN BRIEF

UK Gets New Energy Minister

Jacob Rees-Mogg has been appointed as the UK's secretary of state for business, energy and industrial strategy. He replaces Kwasi Kwarteng who has been appointed chancellor (finance minister).

Rees-Mogg — who most recently held the post of minister for Brexit opportunities — is a contentious appointee having often played down the importance of tackling climate change.

He is a vocal supporter of hydraulic fracturing of shale gas formations (fracking) in the UK and of the country's North Sea oil and gas industry.

In his new position, Rees-Mogg will be responsible for overseeing the UK's efforts to achieve net-zero carbon emissions by 2050.

UK media reports claim that newly-elected Prime Minister Liz Truss has struggled to fill junior energy and climate roles in the government, with potential candidates unwilling to work with Rees-Mogg because of his views on climate change.

Environmental group's have expressed disappointment at his appointment.

Jason Eden, London

DATA SNAPSHOT

Oil and Gas Prices, Sep. 6, 2022

All data are produced by Energy Intelligence in cooperation with Refinitiv.

CRUDE OIL FUTURES

($/bbl)	Chg.	1st Mth.	2nd Mth.
ICE Brent	-2.91	92.83	91.97
Nymex Light Sweet	+0.01	86.88	86.51
DME Oman	-0.12	92.82	90.12
ICE Murban	-0.10	94.40	91.56

INTERNATIONAL SPOT CRUDES

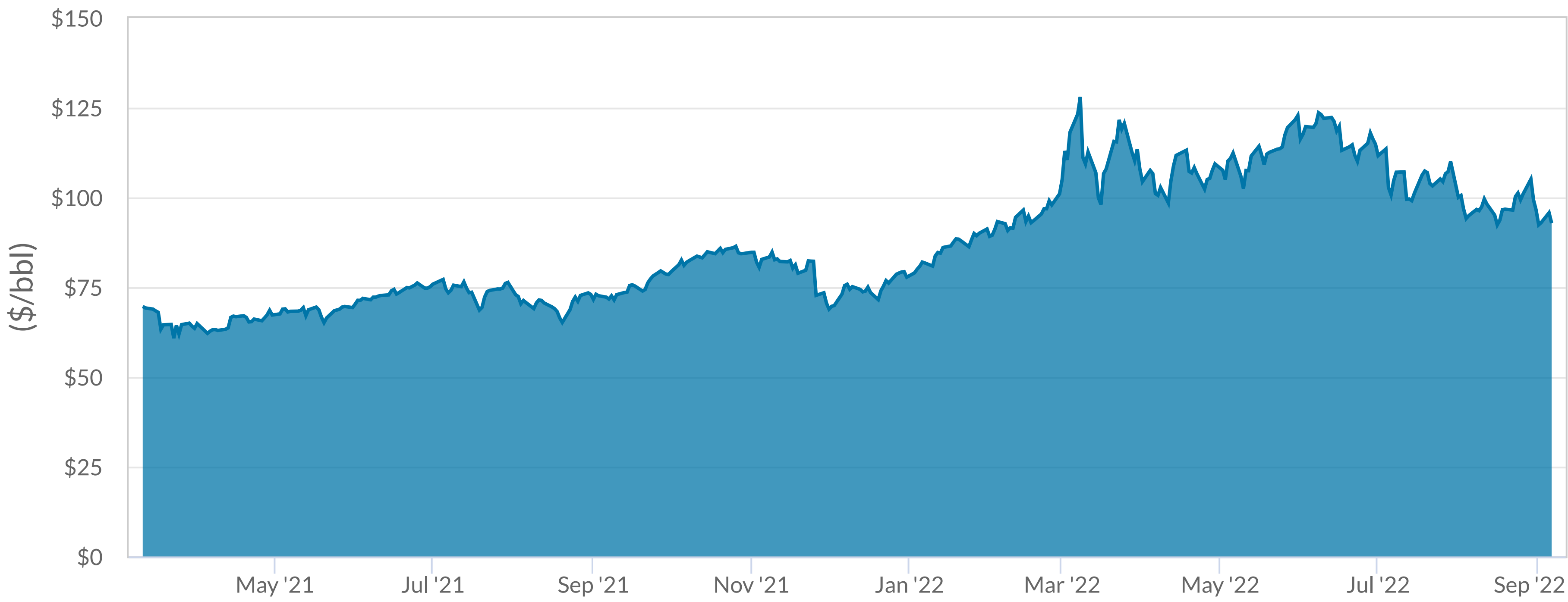
($/bbl)	Chg.	Price	Prior Close
Brent (Dated)	-2.78	91.43	94.21
Dubai	-0.14	95.20	95.34
Forties	-3.82	90.67	94.49
Bonny Light	-2.85	95.14	97.99
Urals	-2.85	73.14	75.99
Opec Basket*			99.84

*Opec price assessed.

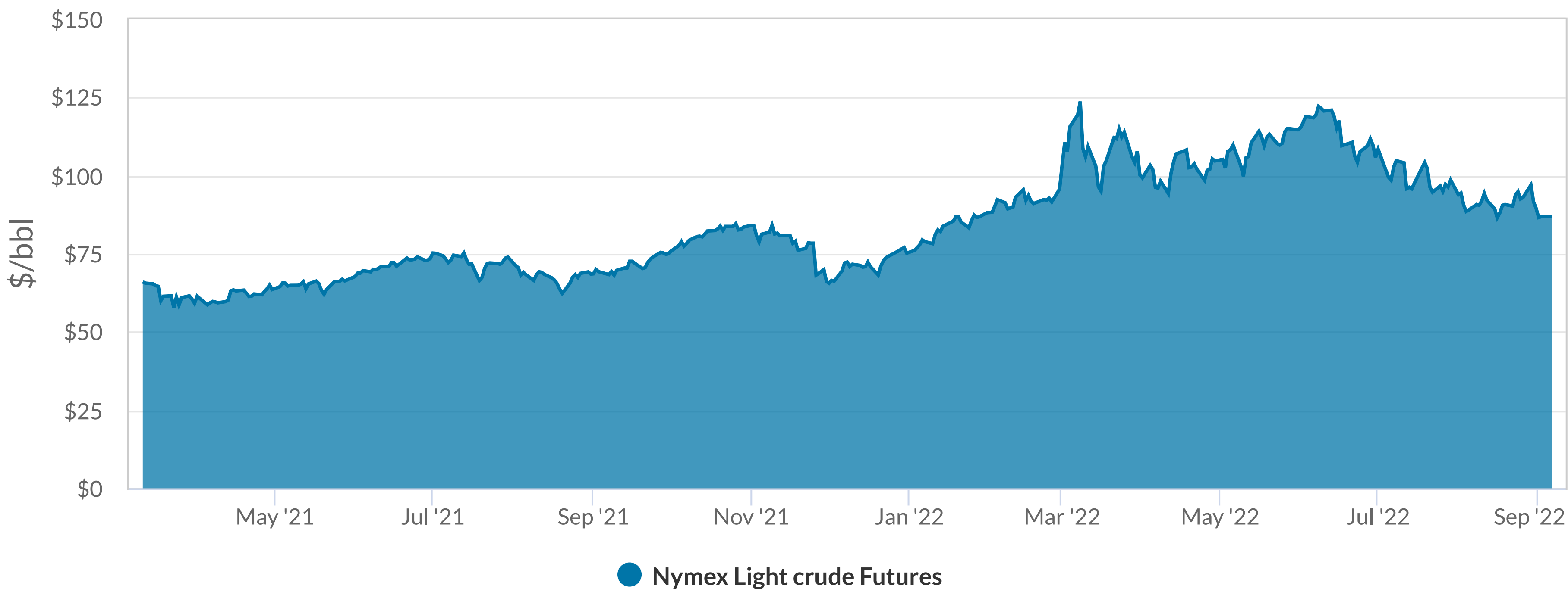
NORTH AMERICAN SPOT CRUDES

($/bbl)	Chg.	Price	Prior Close
WTI (Cushing)	+0.06	87.35	87.29
WTS (Midland)	+0.31	86.80	86.49
LLS	+0.16	89.75	89.59
Mars	+0.21	86.25	86.04
Bakken	+0.06	91.85	91.79

ICE BRENT CRUDE FUTURES



NYMEX LIGHT CRUDE FUTURES



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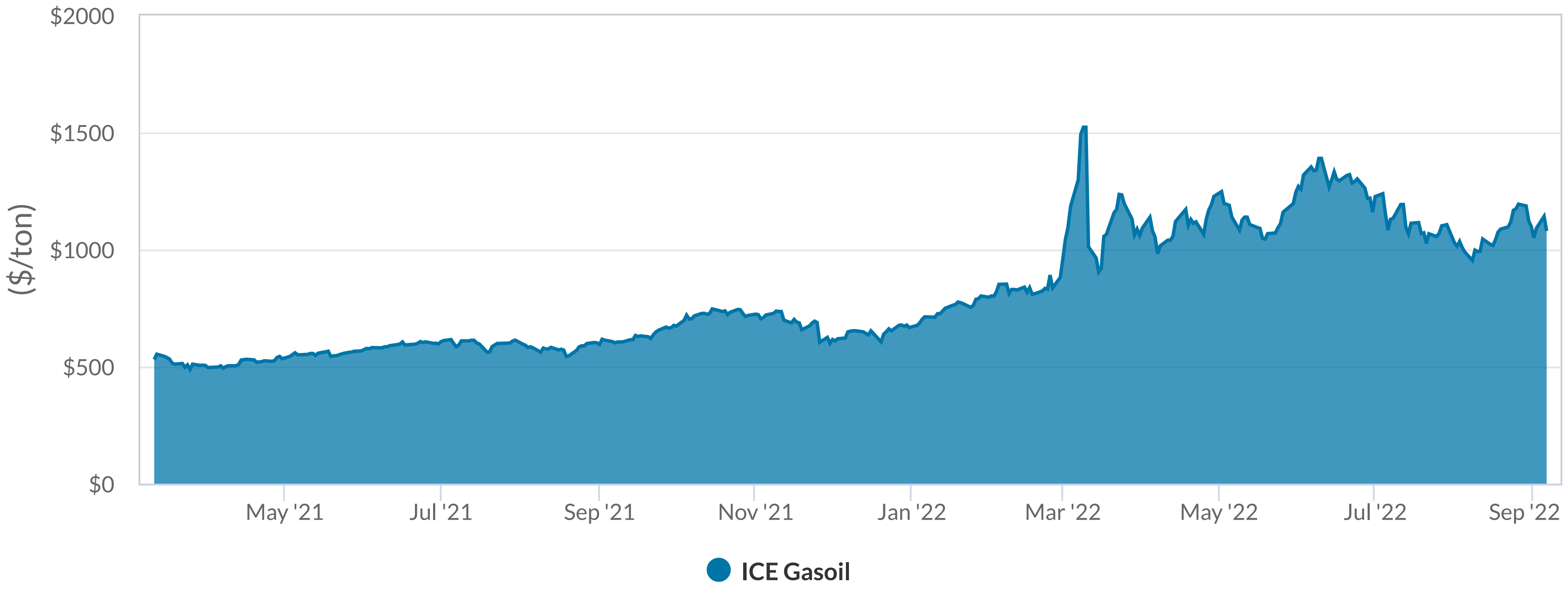
REFINED PRODUCT FUTURES

Nymex	Chg.	1st Mth.	2nd Mth.
Gasoline (¢/gal)	-4.77	241.59	236.80
ULSD Diesel (¢/gal)	-0.42	357.38	351.02
ICE			
Gasoil ($/ton)	-62.75	1079.25	1048.00
Gasoil (¢/gal)	-20.03	344.46	334.48

ICE GASOIL FUTURES



NYMEX GASOLINE FUTURES

US SPOT REFINED PRODUCTS

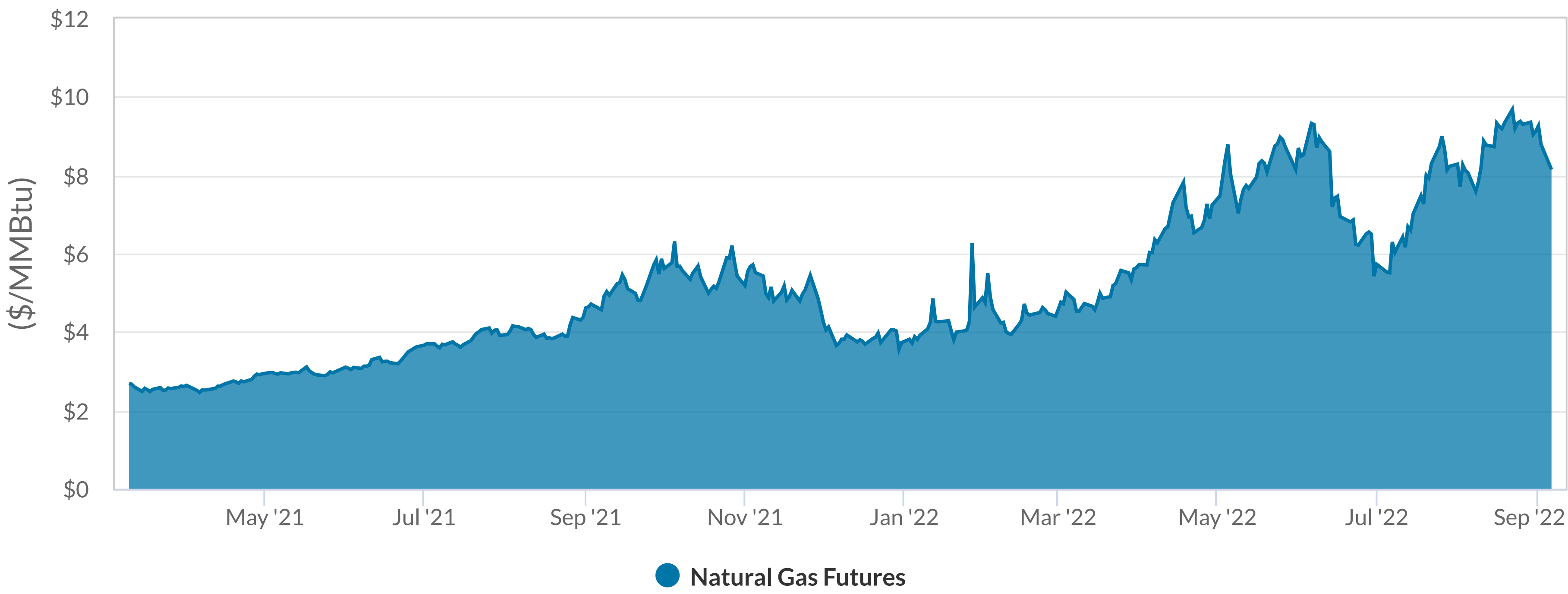
New York (¢/gal)	Chg.	Price	Prior Close
Regular Gasoline	-2.96	259.41	262.37
No.2 Heating Oil	-4.89	343.30	348.19
No.2 ULSD Diesel	-4.89	361.80	366.69
No.6 Oil 0.3% *			85.62
No.6 Oil 1% *			82.67
No.6 Oil 3% *			76.02
Gulf Coast (¢/gal)			
Regular Gasoline	-2.96	252.66	255.62
No.2 ULSD Diesel	-4.89	353.80	358.69
No.6 Oil 0.7% *			85.32
No.6 Oil 1% *			85.32
No.6 Oil 3% *			72.12

*Price in $/bbl. Percentages refer to sulfur content.

INTERNATIONAL SPOT REFINED PRODUCTS

Rotterdam ($/ton)	Chg.	Price	Prior Close
Regular Gasoline	+7.20	844.00	836.80
ULSD Diesel	-32.25	1094.00	1126.25
Singapore ($/bbl)			
Gasoil	-1.45	134.94	136.39
Jet/Kerosene	-2.98	135.61	138.59
VLSFO Fuel Oil ($/ton)	+1.27	678.90	677.63
HSFO Fuel Oil 180 ($/ton)	-6.85	457.98	464.83

NYMEX NATURAL GAS FUTURES



Refinitiv

NATURAL GAS PRICES

($/MMBtu)	Chg.	Price
Henry Hub, Nymex	-0.64	8.15
Henry Hub, Spot	-0.43	8.48
Transco Zone 6 - NY	N/A	N/A
Chicago Citygate	-0.48	7.92
Rockies (Opal)	-0.50	8.01
Southern Calif. Citygate	+0.10	13.51
AECO Hub (Canada)	+1.75	3.01
Dutch TTF (euro/MWh)	+2.40	220.00
UK NBP Spot (p/th)	-96.00	160.00

US/Canada spot prices from Natural Gas Week

Equity Markets, Sep. 6, 2022

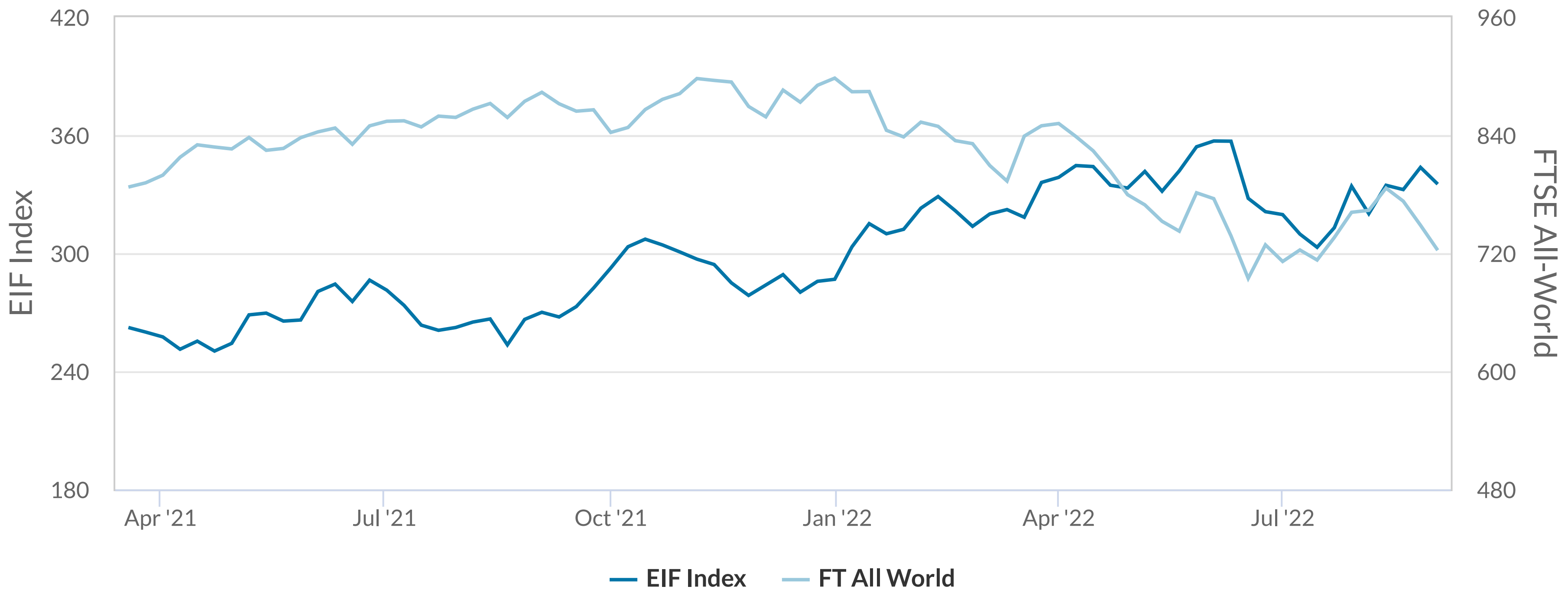
All data are produced by Energy Intelligence in cooperation with Refinitiv.

EQUITY MARKET INDEXES

	Chg.	Index	YTD %Chg.
EIF Global*	+2.20	335.14	+16.87
S&P 500	-16.07	3,908.19	-18.46
FTSE All-World*	-2.40	720.66	-20.03

*Index for previous day

EIF INDEX



EIF Global Oil and Gas Index of 21 traded equities