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INTERNATIONAL OIL DAILY®

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Early 'Loss and Damage' Breakthrough at COP27

The UN's COP 27 climate conference in Egypt has started on a relatively harmonious note, after an agreement was reached on Sunday to include compensation for "loss and damage" in the official agenda for the two weeks of talks.

However, the goodwill could soon evaporate if rich countries prove unwilling to help poor countries cope with climate change at a time when all nations are grappling with high energy prices, soaring inflation and other serious challenges.

Compensation for loss and damage could indeed become the defining issue of this year's conference, exacerbating tensions between rich and poor after recent severe floods in Pakistan and Nigeria highlighted the consequences of climate change.

At the heart of the debate is the idea that past and present carbon emissions of wealthier nations have contributed to climate-related damage in less developed countries and that they therefor have a moral responsibility to help them.

Long a demand of the small island nations most at risk from rising seas and floods, this issue has been discussed during financial sessions at previous UN climate conferences, but never before as a stand-alone agenda item.

Litmus Test

"Loss and damage can no longer be swept under the rug. It is a moral imperative," UN Secretary General Antonio Guterres told the opening session of the conference in the Egyptian resort town of Sharm el-Sheikh.

"Getting concrete results on loss and damage is a litmus test of the commitment of the governments to the success of COP27," he added.

Guterres called for a clearly defined loss and damage roadmap "reflective of the scale and urgency of the challenge" to deliver "effective institutional arrangements for financing." He also repeated his call for governments to tax windfall fossil fuel profits.

"Let's redirect that money to people struggling with rising food and energy prices and to countries suffering loss and damage caused by the climate crisis," the UN Secretary General urged world leaders attending the session.

Campaigners welcomed the elevation of loss and damage at this year's conference as "historic," but demanded substantial progress, including an agreement to create a dedicated fund with sufficient financial resources to provide compensation.

Paltry Funding

Losses in areas such as housing, infrastructure and communities could rise to $580 billion per year in 2030, according to the French Institute of International Relations, but funding for loss and damage remains paltry so far.

The largest pledge to date, a fairly modest $13 million, was made by Denmark in September.

Nicola Sturgeon, first minister of Scotland, which offered $2 million at the COP26 gathering in Glasgow last year, said in Sharm-el-Sheikh on Monday that she would announce a further financial commitment soon.

With Western governments reluctant to commit to massive increases in public funding for climate aid, efforts are instead focusing on trying to boost private sector funding for initiatives in developing economies.

The US and EU are both working on proposals to help achieve this, including an increase in "blended" finance packages where funding is provided by multilateral development banks and private sector institutions.

Carbon offsets are seen as another way to to boost the flow of private funds to developing countries, with some press reports indicating that the US could unveil a new carbon credit initiative at COP27 on Wednesday.

Oil Industry Voices

Oil- and gas-producing nations are a more prominent presence at COP27, especially compared with the last few conferences held in European cities.

While producers are often criticized at these gatherings for prolonging dependence on oil and gas, this year's host Egypt has given them a greater opportunity to make the case that they are facilitating the energy transition rather than impeding it.

Speaking on Monday at the Middle East Green Initiative Summit in Sharm el-Sheikh, Saudi Crown Prince Mohammed bin Salman said that the kingdom's sovereign wealth fund will now be targeting net-zero emissions by 2050 within its investment portfolio.

Lauren Craft, Sharm el-Sheikh, Egypt and Ronan Kavanagh, London

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Kuwait's Giant al-Zour Refinery Starts Up

Kuwait's new 615,000 barrel per day al-Zour refinery has finally started commercial operations after long delays, operator Kuwait Integrated Petroleum Industries Co. (Kipic) announced on Sunday.

"Start-up of al-Zour refinery is an important historical event, with the project constituting one of the pillars of the country's development plan," Kipic said.

The refinery was first proposed in 2006, but was delayed by several factors including: parliamentary opposition, objections from Saudi Arabia over the proposed site, the re-tendering of construction contracts and the Covid-19 pandemic.

The refinery has been configured to maximize output of low-sulfur fuel oil for the local market, and its main impact on international markets is therefore likely to be a reduction in Kuwait's LNG imports, rather than exports of refined products.

Al-Zour will boost Kuwait's total refinery capacity from 900,000 b/d to just over 1.5 million b/d and its launch is part of a mini-boom in Mideast Gulf refining capacity.

Last year, Kuwait completed its Clean Fuels Project, a major overhaul of its existing refineries, while Saudi Arabia started commissioning its 400,000 b/d Jizan refinery in the southwest of the kingdom. In September, Iraq started commissioning its new 140,000 b/d Karbala refinery, and in April of next year, Oman is set to launch its new 240,000 b/d Duqm refinery.

Oil Industry Shake-Up

The start-up of Al-Zour coincided with Kipic's acting CEO Walid al-Badr being confirmed as CEO — part of a wider restructuring of Kuwait's oil industry leadership announced on Sunday.

In October a new government was sworn in, including a new oil minister, Bader al-Molla, who replaced Mohammad al-Fares. Al-Molla is a former lawmaker, who headed parliament's budget committee.

Ahmed Jaber al-Aydan was appointed as CEO of upstream-focused Kuwait Oil Company (KOC), while Wadha al-Khateeb was appointed to head downstream-focused Kuwait National Petroleum Company (KNPC).

Sheikh Nawaf al-Sabah, head of Kuwait Petroleum Corp (KPC) — parent company of Kipic, KOC and KNPC — expressed his confidence in the new leaders' ability to further develop Kuwait's oil and gas industry.

KOC is Kuwait's only upstream player, producing all of the country's crude oil, except for the country's 50% of output from the Neutral Zone that it shares with Saudi Arabia.

Domestic political paralysis and unfavorable commercial terms have proven major obstacles to meeting Kuwait's oil-industry goals by limiting foreign investment and technology, which have become increasingly necessary at its mature oil fields.

The country's sustainable crude oil production sank to 2.829 million b/d at the end of 2021 — down 371,000 b/d from the previous year, and marking a third consecutive year of decline.

In October of last year, KPC outlined a relatively modest near-term plan to develop an additional 500,000 b/d of production capacity to reach 3.2 million b/d by 2025.

The original plan was to reach 4 million b/d by that year, but that milestone — which excludes output from the Neutral Zone — has been put back to 2035.

Rafiq Latta, Nicosia and Amena Bakr, Dubai

Oman's PDO Eyes Higher Output, Lower Emissions

Petroleum Development Oman (PDO) plans to increase oil and gas output in the coming years, but it will do so in a more sustainable fashion as it pursues a target of net-zero emissions by 2050, according to its top executive.

"We know that we will go on growing our core hydrocarbon business in oil and gas, but we will also do that in a more sustainable fashion. We will do that by reducing our own emissions associated with hydrocarbon production," Managing Director Steve Phimister told Energy Intelligence in an interview.

PDO — 60% government-owned — is the largest oil and gas producer in Oman, accounting for about 70% of the sultanate's overall output.

The company currently produces some 750,000 barrels per day of crude oil and condensate, which is set to increase to about 800,000 b/d by 2025, including 100,000 b/d of condensate, Phimister said.

Those numbers compare to crude and condensate production of 650,000 b/d in 2012 and just above 600,000 b/d in 2007.

PDO has used various enhanced oil recovery (EOR) techniques to reverse a decline in its output that occurred in the early 2000s.

Oman is the largest Arab crude producer that is not a member of Opec, but it does belong to the broader Opec-plus alliance.

The sultanate has a smaller hydrocarbon endowment than neighboring Mideast Gulf states and its reserves are harder to access.

The non-state shareholders in PDO are Shell (34%), TotalEnergies (4%) and Thai company PTTEP's Partex unit (2%).

Sustainability of the Energy System

As it expands its oil and gas production capacity, PDO will also work on growing new value chains and will invest in other forms of energy, Phimister said on the sidelines of last week's Adipec conference in Abu Dhabi.

"We know that the energy system needs to be secure for the nation. We know it has to be affordable, and we know that it has to be sustainable, clean," he said.

"That means investing in an abated or a sustainable fashion in oil and gas whilst developing the new energy portfolio."

Phimister said the company will also step up exploration and development of Oman's gas resources amid projections of rising demand.

PDO's goal of net-zero emissions by 2050 is aligned with Oman's national target and Oman's 2040 energy master plan.

Costs and Competitiveness

Phimister said the company plans to focus on its costs and competitiveness as it seeks to lower emissions from its own operations.

"We have set a net-zero target for 2050 for our own Scope 1 and 2 [emissions], which is consistent with the nation's target," Phimister said.

"But we've also put in place an interim measure ... by 2030. So we've got to go from about 12 million tons per year of emissions down to about 6 [million]. And we think we have ... line of sight of that now through our decarbonization roadmap by 2030," he added.

"We know that the world doesn't stand still and that macro parameters are going to change. Maybe [there will be] carbon prices. We don't know what's going to happen with product prices. It's a cyclical world. So our external macro environment is going to force us to essentially avoid having stranded assets," Phimister said.

PDO will also seek to expand into new areas — not to become a major producer of renewable energy or green hydrogen, but in areas such as blue hydrogen and carbon capture and storage (CCS).

"The CCS will start from EOR and enhanced gas recovery using CO2 that will move into CCS for our own Scope 1 and 2 emissions, and we'll also be looking to partner with other industrial customers to help them with decarbonization," Phimister said.

This would potentially include partnerships with blue hydrogen producers, he added.

Oliver Klaus, Dubai

Rosneft's Big Arctic Oil Venture Loses Investors

Rosneft's Vostok Oil project in Arctic Russia may soon be left without any major international partners as Western sanctions take their toll on foreign energy investment in Russia.

Singapore-based oil trader Trafigura said in July that it had sold its 10% stake in Vostok Oil to an obscure Hong Kong trading outfit called Nord Axis for an undisclosed sum.

Trafigura was the original foreign investor in Vostok Oil, having paid €7 billion ($8.5 billion at the time) for its stake in December 2020.

In return Trafigura secured a long-term contract to market future production from the project, where Rosneft is targeting production of 2 million barrels per day of crude oil from a group of onshore fields by 2030.

The other two non-Russian partners in Vostok, Swiss trading giant Vitol and its Singapore-based partner, Mercantile & Maritime Energy (MME) jointly acquired a 5% stake in September 2021 for €3.5 billion.

They have subsequently signaled their desire to sell out, but it is far from clear that they will be able to offload their shares given the lack of buyers willing to take the risk of investing in Russia in the current environment.

MME — owned by Canadian-Pakistani tycoon Murtaza Lakhani — said in its recently-published annual report for 2021 that it intends to dispose of its 1.25% stake in Vostok Oil to an undisclosed "third party."

It said it had paid $295 million for the shares, which are held via a Swiss investment vehicle called Amur Holding 1, in which Vitol owns a 75% interest.

Rosneft Says All is Well

Bloomberg reported that an earlier version of MME's annual report said that that the company had transferred its stake in Vostok to a Dubai-based entity called Fossil Trading in July for 100,000 Swiss francs.

The news service quoted an MME spokesperson as saying that the original annual report had contained "certain inaccurate statements," which were subsequently withdrawn.

Energy Intelligence was unable to get hold of a copy of the original annual report and could not reach an MME spokesperson for comment. An email request for comment went unanswered.

Fossil Trading appears to have been set up only recently and has no visible trading presence anywhere. Energy Intelligence was unable to contact it.

However, Fossil Trading is the current parent company of Energopole, a Geneva-based company that acted as an oil trading arm of Rosneft for several years.

Energopole was previously a fully-owned subsidiary of Rosneft and had been supplying crude oil to Rosneft's refining system in Germany before the government in Berlin took control of those assets in September.

Despite all of these distractions, Rosneft Chief Executive Igor Sechin says the Vostok Oil project is progressing well and is on schedule.

New infrastructure is being developed, including the expansion of a new terminal on Sever Bay, which is set to become Russia's largest oil loading terminal with the capacity to ship over 2 million b/d of Vostok crude via the Northern Sea Route.

Before Russia invaded Ukraine, triggering international sanctions, Rosneft had estimated that the project would require an investment of $85 billion.

Paul Sampson, London

IN BRIEF

China's October Crude Imports Rise

China's crude oil imports rose to 43.14 million tons (10.2 million barrels per day) in October, posting their fourth consecutive monthly increase.

Imports were up 367,000 b/d from September — a gain of about 3.6% — according to Chinese customs data, suggesting that China's crude demand is on the mend.

October imports were also about 14% higher than in October 2021, when imports were well below the 2021 average.

The increase in October imports comes after China's Ministry of Commerce (Mofcom) allocated an additional 15 million tons of export quotas for refined products in September, spurring refiners to buy more crude to ramp up refinery operations.

Mofcom also allocated an extra 120 million barrels of 2022 crude oil import quotas to several small refiners, state-owned ChemChina, and privately owned Zhejiang Petrochemical (ZPC), which must be used before the end of the year.

This could result in a further increase in crude imports for the last two months of this year.

Trial runs at two new refineries — PetroChina's 400,000 b/d Jieyang plant and private player Shenghong PetroChemical's 320,000 b/d plant — also contributed to the increase in imports, as the two refineries build up crude stocks before start-up.

Maryelle Demongeot, Singapore

Sakhalin-1 Crude Exports Rise

Exports of Sokol crude oil from Russia's Sakhalin-1 project are rising as production picks up after US major Exxon Mobil's recent exit from the project.

Exports from the 200,000 b/d Sakhalin-1 project stopped in May when Exxon declared "force majeure" — apparently out of concerns about using tankers owned by Russian shipping giant Sovcomflot, which is subject to Western sanctions.

Exxon quit the project after a new Russian operating company was set up for the project in accordance with a presidential decree.

After Exxon's exit, production and exports have started to recover and tenders for Sokol crude were announced last month.

Kpler data show that exports of Sokol crude resumed in late October, with three tankers leaving for South Korea in October and early November. Two more tankers are currently waiting to load cargoes of Sokol crude.

India's ONGC Videsh has decided to retain its 20% stake in the Sakhalin-1 project, while Japan's Sodeco consortium also decided late last week to retain its 30% stake in the project.

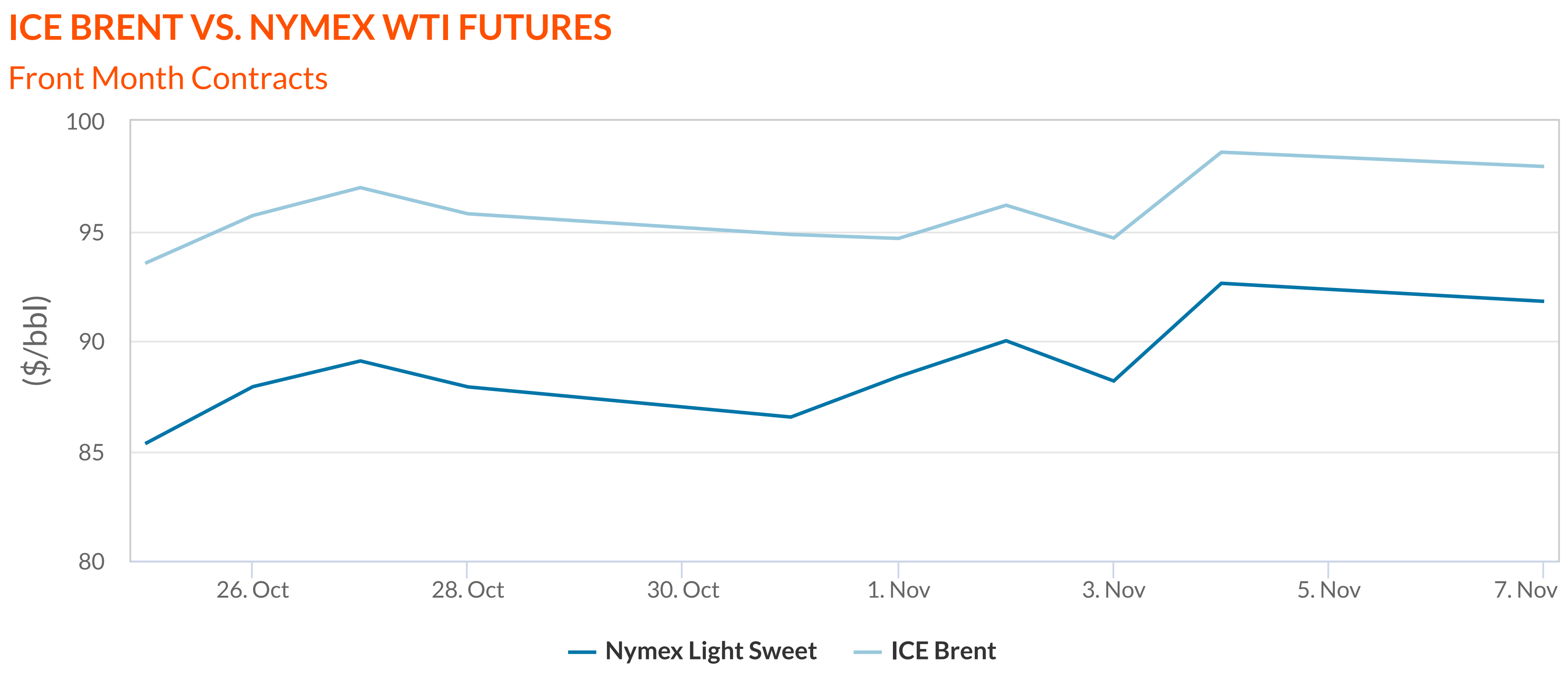
Staff Reports

Oil Prices Slide as Demand Concerns Flare

Oil futures dropped on Monday amid persistent demand concerns.

In London, Brent crude for January delivery settled 65¢ lower at $97.92 per barrel. In New York, December West Texas Intermediate (WTI) on Nymex slipped by 82¢ to close at $91.79/bbl, while the January contract ended the session down 72¢ at $90.73/bbl.

December Nymex gasoline dropped 8.17¢ to settle at $2.6531 per gallon, while the diesel contract plunged by 13.37¢ to close at $2.6531/gallon.



Market watchers said that concerns about demand, especially in China, helped weigh on oil futures.

“China’s Covid cases are at a six-month high and that might support holding onto their zero-Covid policy a little while longer," said Edward Moya of Oanda. "A China reopening is coming, but no one can say for sure when that might happen."

Traders are also looking ahead to a meeting by the US Federal Reserve this week. The central bank has been struggling to curb inflation via interest rate hikes, which strengthen the dollar. A strong dollar tends to be bearish for oil by rendering the commodity more expensive for holders of other currencies, analysts say.

“With the dollar being so strong, this should hurt US exports and weigh on the economy,” said Fawad Razaqzada of StoneX.

Frans Koster, New York

DATA SNAPSHOT

Oil and Gas Prices, Nov. 7, 2022

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

CRUDE OIL FUTURES

($/bbl)	Chg.	1st Mth.	2nd Mth.
ICE Brent	-0.65	97.92	96.36
Nymex Light Sweet	-0.82	91.79	90.73
DME Oman	-0.38	93.81	92.07
ICE Murban	-1.19	96.45	94.66

INTERNATIONAL SPOT CRUDES

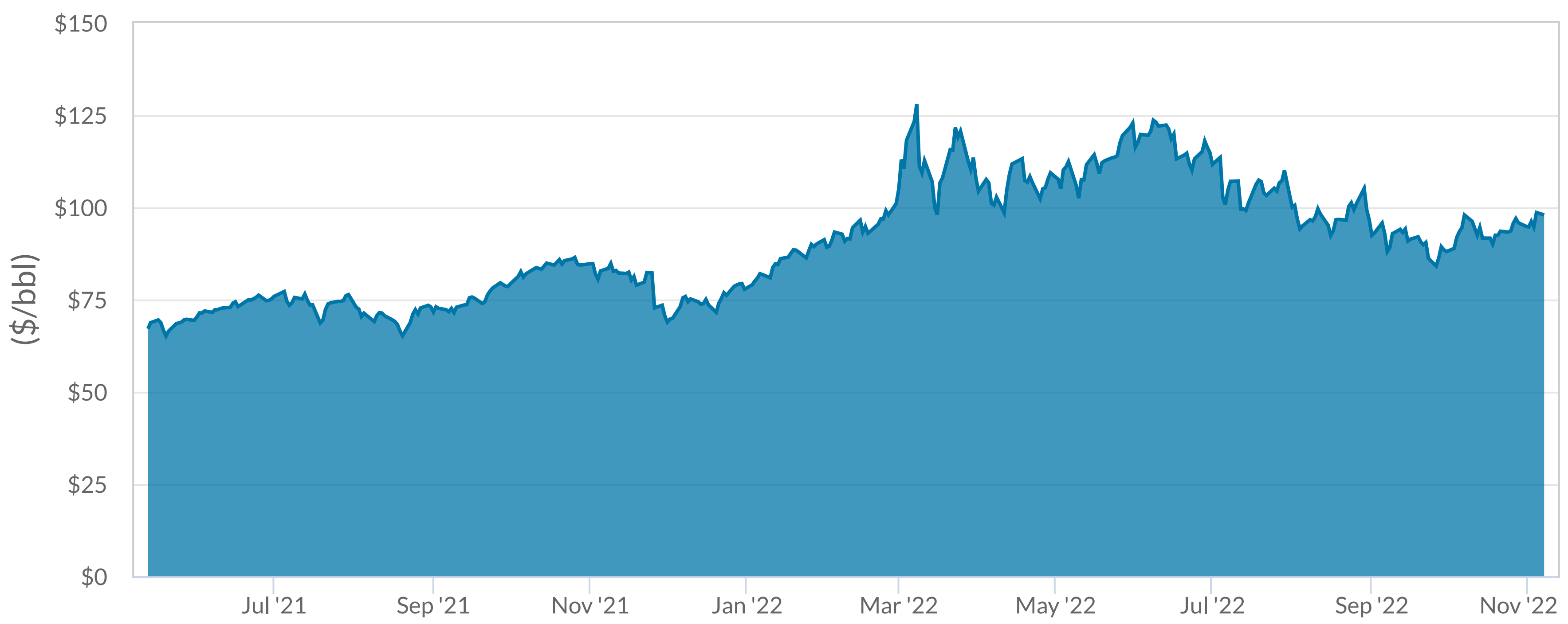
($/bbl)	Chg.	Price	Prior Close
Brent (Dated)	+0.35	99.87	99.52
Dubai	+0.65	92.90	92.25
Forties	+4.01	102.46	98.45
Bonny Light	+2.76	103.16	100.40
Urals	+2.76	82.78	80.02
Opec Basket*			96.15

*Opec price assessed.

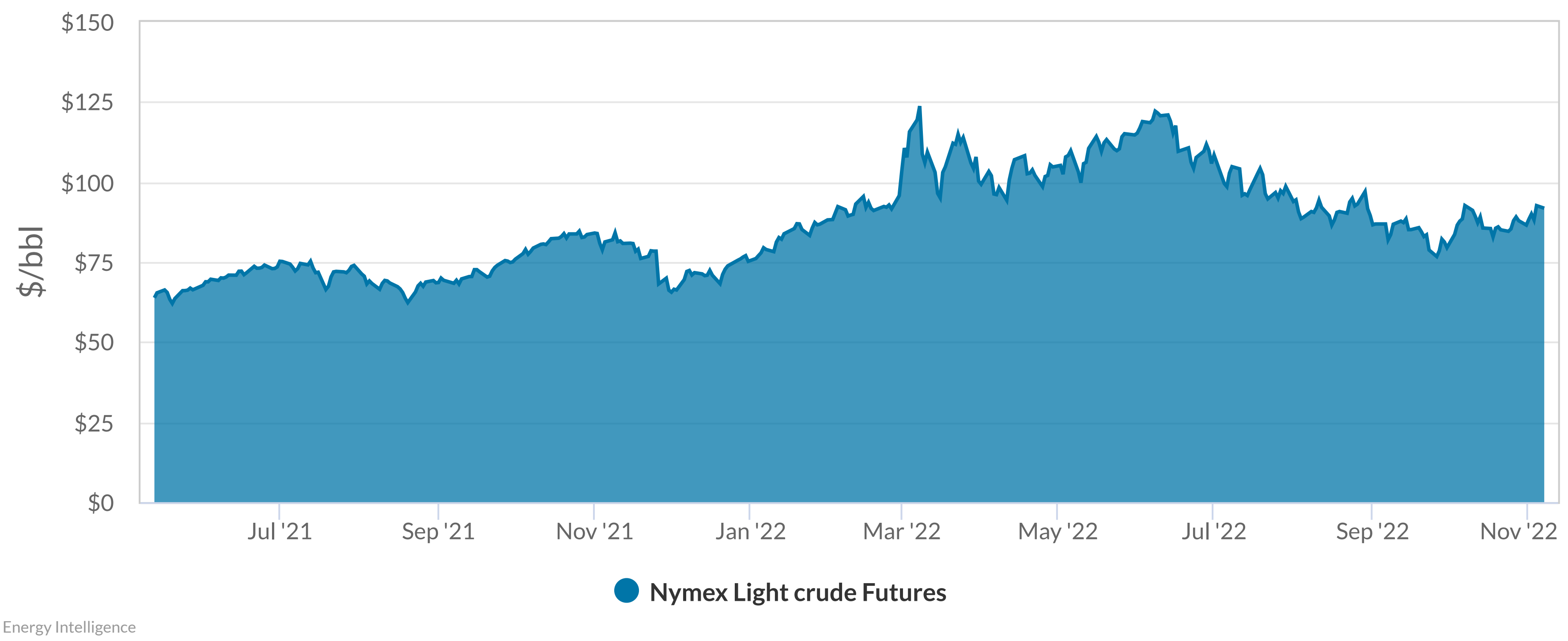
NORTH AMERICAN SPOT CRUDES

($/bbl)	Chg.	Price	Prior Close
WTI (Cushing)	-0.78	91.80	92.58
WTS (Midland)	-0.88	90.80	91.68
LLS	-0.18	95.30	95.48
Mars	-0.28	88.30	88.58
Bakken	-0.78	96.60	97.38

ICE BRENT CRUDE FUTURES



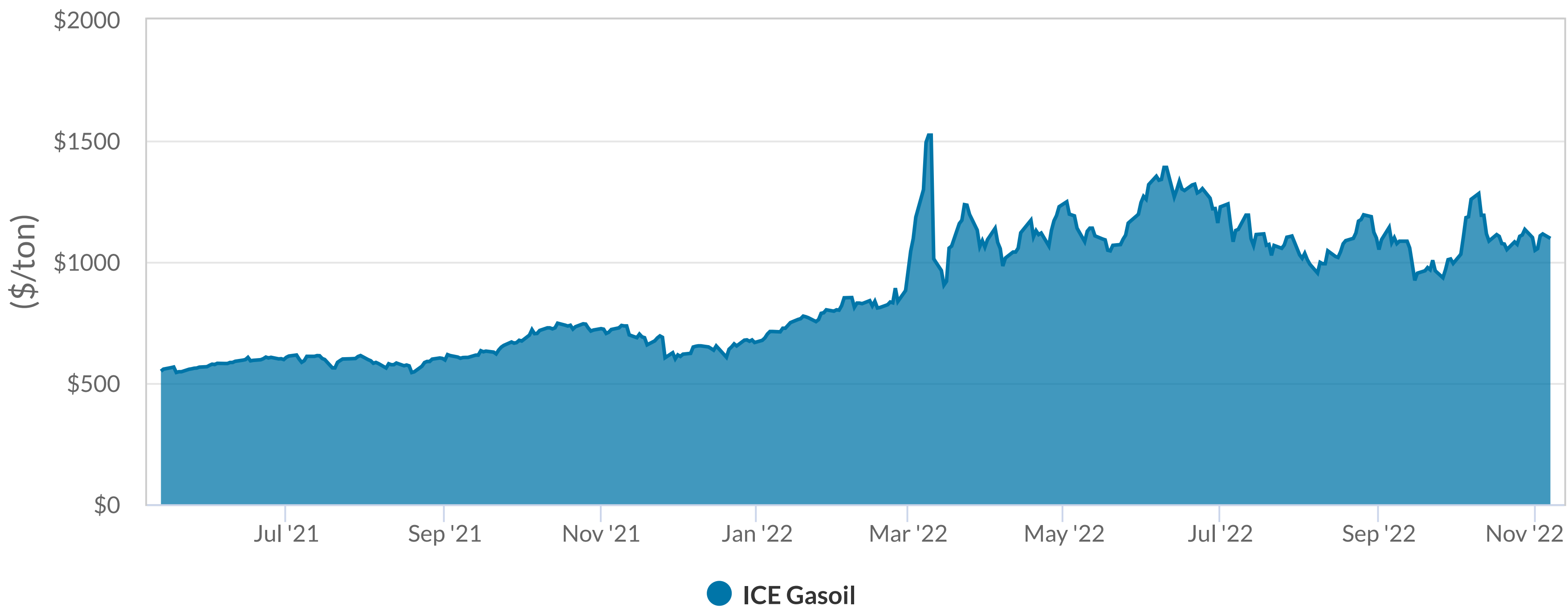
NYMEX LIGHT CRUDE FUTURES



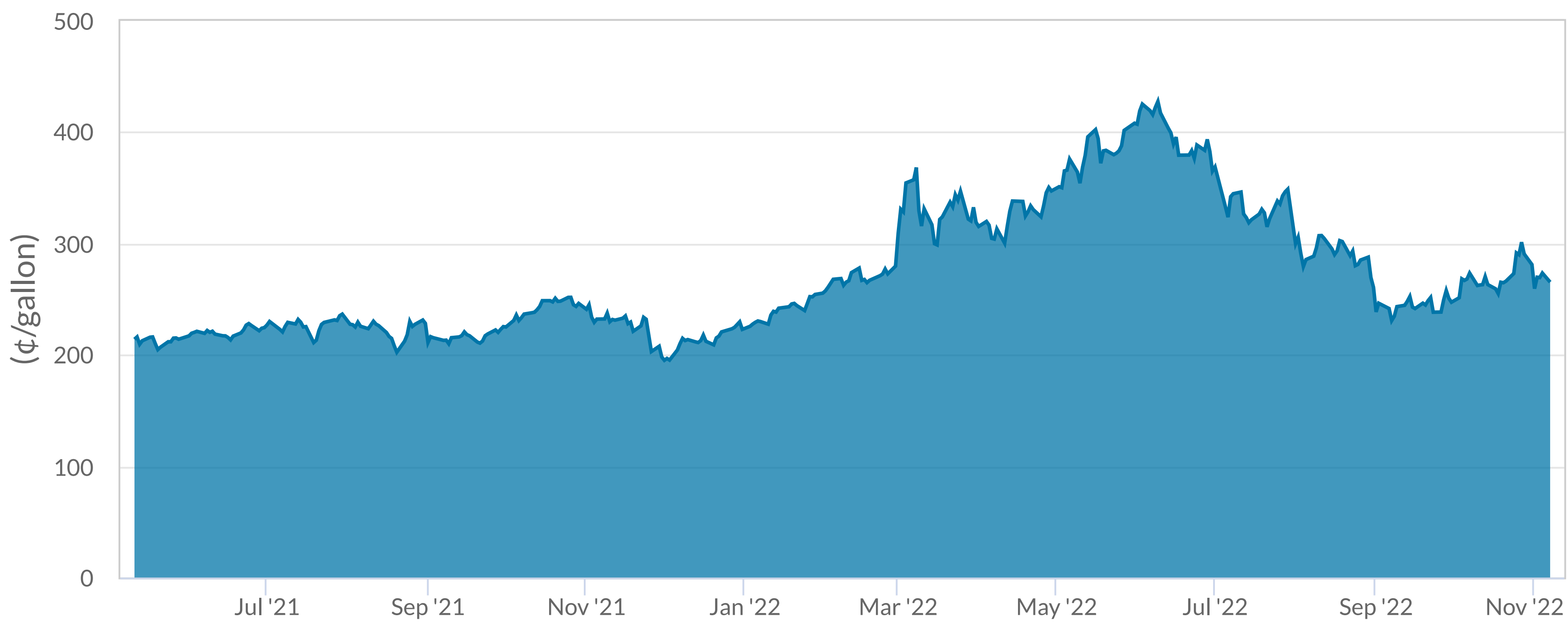
REFINED PRODUCT FUTURES

Nymex	Chg.	1st Mth.	2nd Mth.
Gasoline (¢/gal)	-8.17	265.31	259.23
ULSD Diesel (¢/gal)	-13.37	378.11	361.45
ICE			
Gasoil ($/ton)	-18.50	1096.50	1062.00
Gasoil (¢/gal)	-5.90	349.96	338.95

ICE GASOIL FUTURES



NYMEX GASOLINE FUTURES



US SPOT REFINED PRODUCTS

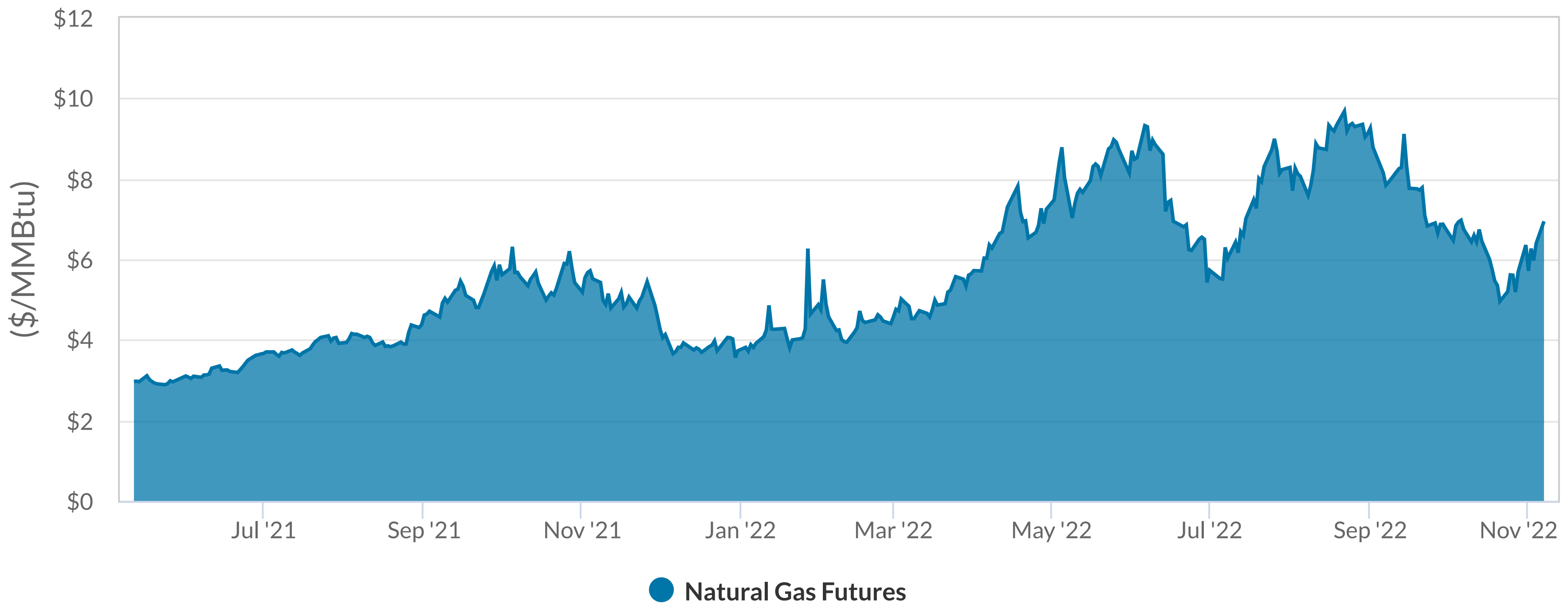
New York (¢/gal)	Chg.	Price	Prior Close
Regular Gasoline	-7.29	315.87	323.16
No.2 Heating Oil	-7.74	447.37	455.11
No.2 ULSD Diesel	-11.74	468.37	480.11
No.6 Oil 0.3% *			98.80
No.6 Oil 1% *			90.45
No.6 Oil 3% *			67.77
Gulf Coast (¢/gal)			
Regular Gasoline	-5.79	270.12	275.91
No.2 ULSD Diesel	-20.74	369.37	390.11
No.6 Oil 0.7% *			89.27
No.6 Oil 1% *			89.27
No.6 Oil 3% *			62.27

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

INTERNATIONAL SPOT REFINED PRODUCTS

Rotterdam ($/ton)	Chg.	Price	Prior Close
Regular Gasoline	-57.80	955.00	1012.80
ULSD Diesel	-43.25	1072.75	1116.00
Singapore ($/bbl)			
Gasoil	+0.12	127.72	127.60
Jet/Kerosene	-0.41	126.75	127.16
VLSFO Fuel Oil ($/ton)	+4.22	671.06	666.84
HSFO Fuel Oil 180 ($/ton)	+11.81	444.99	433.18

NYMEX NATURAL GAS FUTURES



Refinitiv

NATURAL GAS PRICES

($/MMBtu)	Chg.	Price
Henry Hub, Nymex	+0.54	6.94
Henry Hub, Spot	+0.83	4.83
Transco Zone 6 - NY	+2.53	3.36
Chicago Citygate	+1.75	3.27
Rockies (Opal)	+1.98	8.30
Southern Calif. Citygate	+2.06	9.24
AECO Hub (Canada)	+1.37	3.86
Dutch TTF (euro/MWh)	-4.47	54.53
UK NBP Spot (p/th)	-15.00	85.00

US/Canada spot prices from Natural Gas Week

Equity Markets, Nov. 7, 2022

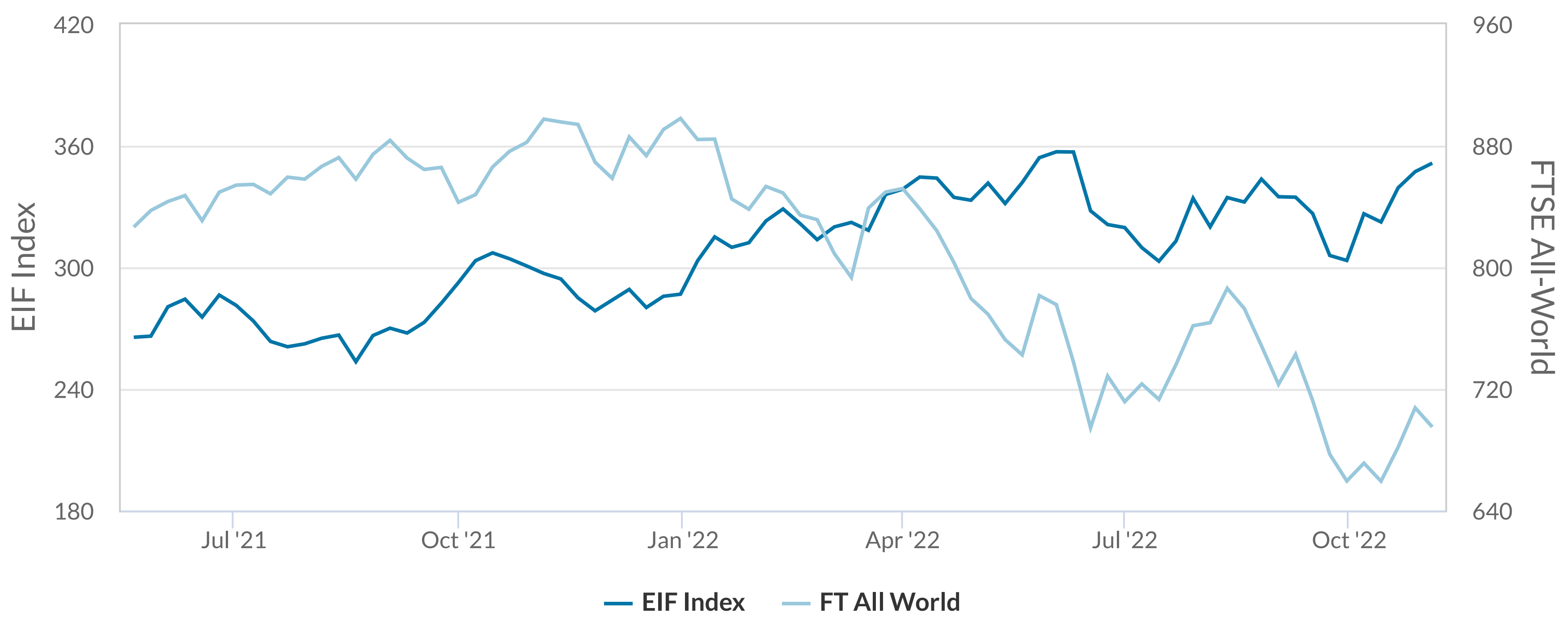
All data are produced by Energy Intelligence in cooperation with Reuters.

EQUITY MARKET INDEXES

	Chg.	Index	YTD %Chg.
EIF Global*	+5.60	351.43	+22.55
S&P 500	+36.25	3,806.80	-20.58
FTSE All-World*	+10.79	695.04	-22.88

*Index for previous day

EIF INDEX



EIF Global Oil and Gas Index of 21 traded equities