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In Brief

Data Snapshot

Transition Finance Divisions Loom Large at COP27

The question of how to finance the energy transition is emerging as one of the most divisive topics at the UN's COP27 conference in Egypt — and some of the world's biggest financial institutions are getting caught in the crossfire.

Poorer countries are clamoring for much greater financial support from the world's more affluent nations. And there are also growing divisions among richer countries about how the rules for "net-zero" investment should be drawn up.

Producer nations and oil and gas companies are arguing that an overly ambitious transition away from fossil fuels is already causing price spikes and energy shortages.

And banks, insurance firms and investment funds are trying to make good on their own energy transition plans.

Doing so will require balancing investment in and lending for energy transition opportunities around the world with further funding for the oil and gas that continues to drive the global economy for the time being.

"Cut Emissions, Not Corners"

The Glasgow Financial Alliance for Net Zero (GFANZ) — formed at last year's COP26 gathering in Glasgow — is the world's largest grouping of financial institutions that have pledged to curb their greenhouse gas emissions.

It has some 550 members with more than $150 trillion under management and is led by UN Special Envoy for Climate and Finance Mark Carney.

GFANZ recently eased its rules on fossil fuel investment, prompting UN watchdogs to accuse it of being too soft when it comes to evaluating the energy transition plans of its members — and in particular their continuing support for fossil fuels.

A high-level expert report on net-zero commitments by non-state actors commissioned by the UN Secretary General and published on Tuesday said it was unacceptable for investors and lenders to continue to fund fossil fuels.

"Non-state actors cannot claim to be net-zero while continuing to build or invest in new fossil fuel supply ... this is about cutting emissions, not corners," the report said.

"Right now, the planet cannot afford delays, excuses, or more greenwashing," it added.

Oil companies and hydrocarbon-producing countries argue, however, that prohibiting investment in oil and gas is precisely the kind of action that has led to the current global energy crisis.

And in the US, there is a growing backlash — especially in hydrocarbon-producing states — against financial institutions that pledge to curb investment in or financing of traditional fossil fuels.

One GFANZ advisor told Energy Intelligence that governments need to take a firmer stance on investments in fossil fuels before private companies can take more decisive steps themselves.

"They are caught in a trap," James Vacarro, executive director of the Climate Safe Lending Network and an advisor to GFANZ told Energy Intelligence at COP 27.

"JPMorgan will say, well if we don't do it, Citi will do it. And Citi will say, if we don't do it, well Bank of America will do it," Vacarro added.

Members of GFANZ and like-minded groups that are trying to encourage the financial services sector to support the energy transition also find themselves caught up in the recent tensions between hydrocarbon producers and consumers.

Producers maintain that although the world needs to invest in renewable energy it must also invest in oil and gas, because an additional 5 million barrels per day of new capacity is needed each year just to offset the natural decline at existing oil fields.

"Understand Our Plight"

Less affluent countries — both those that produce energy and those that depend on imports — argue that policies adopted by financial institutions will have a huge impact on their ability to navigate the energy transition.

GFANZ estimates that emerging economies will need about $1 trillion a year of investment in clean energy by 2030 for the world to attain net-zero emissions by 2050.

The issue of compensation for "loss and damage" caused by climate change has been included in the official agenda for the UN climate change conference this year.

Developing countries like Pakistan — which suffered major flooding this year — have been arguing that they should be compensated for damage caused by extreme weather triggered by climate change because this is a shared responsibility.

"It is the responsibility of the Global North to understand our plight," Pakistani Prime Minister Shehbaz Sharif told the conference.

"How on earth can you expect from us that we undertake this gigantic task on our own?" he asked, noting that in addition to the costs of flood relief, Pakistan — like other developing countries — is also facing soaring costs for basic foods.

Sharif complained that current financing arrangements cannot "sustain any real recovery needs of those on the frontlines of climate catastrophe."

On Wednesday the US is expected to present a plan at COP27 to expand an agreement designed to help South Africa transition from coal to low-carbon energy to other middle-income countries such as Malaysia and Indonesia.

Also at COP27 on Tuesday:

*The Global Offshore Wind Alliance was launched to promote a six-fold increase in offshore wind generation capacity, from 57 GW today to at least 380 GW in 2030.

*The New Africa Carbon Markets Initiative was launched, targeting 300 million carbon credits annually by 2030, and 1.5 billion credits annually by 2050. Its sponsors claim this could generate revenues of $6 billion by 2030 and more than $120 billion by 2050.

*Egypt and the United Arab Emirates signed a memorandum of understanding for a 10 GW offshore wind project.

*Saudi Arabia's Acwa Power, Egypt's Hassan Allam Holdings and Oman signed a $1.5 billion project for a 1.1 GW wind farm in the Gulf of Suez, with start-up scheduled for 2026.

Rafiq Latta, Nicosia and Lauren Craft, Sharm el-Sheikh, Egypt

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Lukoil's Sicily Refinery in Russia Sanctions Limbo

The 320,000 barrel per day Isab refinery in Italy is facing an uncertain fate as its Russian owner Lukoil struggles to find a buyer ahead of an EU ban on imports of Russian crude oil that takes effect on Dec. 5.

European refineries have enjoyed lucrative margins over the past year, but Lukoil wants to sell the plant because it has become a financial "headache," according to a source close to the company.

The Russian company acquired an initial 49% stake in Isab in 2008 and gradually increased its ownership to 100% over the next several years.

Finding a buyer for Isab has been anything but easy for Lukoil, with negotiations on a possible sale to US investment group Crossbridge Energy Partners reportedly breaking down recently. "The refinery will definitely be sold," another source familiar with the situation says. "It's just a question of how long it will take."

Lukoil itself has not been specifically targeted by EU sanctions, although broad restrictions on trade and finance with Russia have made it much more difficult for the company to get access to capital.

Isab is Italy's largest refinery, accounting for around one-fifth of the country's total refining capacity, and Lukoil's lack of progress in finding a buyer has forced the Italian government to take a close interest in the plant. The plant mostly processes seaborne Russian Urals crude and there are growing concerns in Rome and Sicily that it could fall idle when the EU embargo kicks in.

Industry Minister Adolfo Urso said on Tuesday that "all steps" would be taken to ensure that Isab continues to operate, adding that Italy's export credit agency SACE is prepared to provide financial support to the refinery.

Speaking after a meeting with Sicilian President Nello Musumeci, Urso said detailed discussions about the refinery would be held next week with the participation of management, labor unions and government officials.

Italy's "golden powers" regulations give the government the right to intervene in a company's affairs if the country's national interest is at stake.

Urso told Italian radio on the weekend that the golden powers apply to Isab, although he stopped short of saying that the government would take over temporary control of the plant — as has happened with Rosneft's refining assets in Germany.

Lukoil — Russia's largest private oil company — owns two other refineries in Europe: Bulgaria's Neftochim refinery and Romania's Petrotel plant. Both continue to operate and also rely on Urals crude supplied by Lukoil's trading arm Litasco.

Lukoil also owns a 45% interest in the Zeeland refinery in the Netherlands, with French major TotalEnergies owning the remaining 55%.

Paul Sampson, London

Exxon Mobil Flags Discovery Offshore Angola

Exxon Mobil has flagged the first discovery in almost 20 years on Angola's deepwater Block 15.

The US major did not provide an estimate of the scale of the discovery but said the Bavuca South-1 well encountered 30 meters (about 100 feet) of high-quality hydrocarbon-bearing sandstone.

The well was drilled as part of a redevelopment project on Block 15, which is expected to deliver about 40,000 barrels per day of oil production. The news confirms that while Exxon has been scaling back in West Africa, it is still engaging selectively in the region.

Exxon played a big role in Angola during the boom years up to 2008, making 17 discoveries on Block 15 before 2004. But in 2006 it relinquished part of the block and since then it has kept a relatively low profile in Angola, keeping the market guessing as to whether it would maintain a presence there or make an exit.

Angola is a mature oil producer, with the government doing its best to slow declining output.

Energy Intelligence estimates that it produced a little over 1 million barrels per day in October, down from almost 1.9 million b/d in 2008. Output from Block 15 — which produces Mondo and Saxi-Batuqe crude — sank to 56,000 b/d last year from around 530,000 b/d in 2010.

Exxon's relatively low profile in Angola contrasts with TotalEnergies and Eni, which stepped up exploration and investment after President Joao Lourenco enacted legislation in 2018 to encourage near-field exploration and short-cycle development.

Eni took over as operator of the relinquished part of Block 15 and has since made several discoveries on Block 15/06, where it has two hubs and plans to build a third. Output from block 15/06 rose from 41,000 b/d in 2015 to 103,000 b/d last year.

Exxon is also undertaking frontier exploration in Angola. It has acquired seismic data in the Namibe Basin along the maritime border with Namibia and is expected to drill a wildcat well there.

Elsewhere in West Africa, Exxon is trying to exit areas of high political risk like Nigeria's Niger Delta. In February it agreed to sell its shallow water-Qua Iboe complex to Nigeria's Seplat, although that deal appears to be stuck in limbo.

It has also tried to sell assets in Equatorial Guinea, and in Chad, where it agreed late last year to sell its 40% stake in the Doba oil project to UK-listed Savannah Energy.

Exxon holds a 36% stake in Angola Block 15, alongside BP and Eni (42% through their Azule Energy joint venture), Equinor (12%) and Sonangol (10%).

Christina Katsouris, London

Adnoc Reaches Out to Potential LNG Partners

Abu Dhabi National Oil Co. (Adnoc) has reached out to potential partners for an equity position in its planned new LNG export terminal to be built in the emirate of Fujairah.

The new facility, which will make the United Arab Emirates the Mideast Gulf's second-largest exporter of the super-cooled fuel, is set to come online by around 2026. "It is an extremely aggressive timeline," said one source at an international oil company (IOC) interested in joining the project, adding that Adnoc had reached out to potentially interested parties.

Adnoc declined to comment.

The project is moving ahead at a time when world energy markets are in upheaval and global demand for the super-chilled fuel is on the rise.

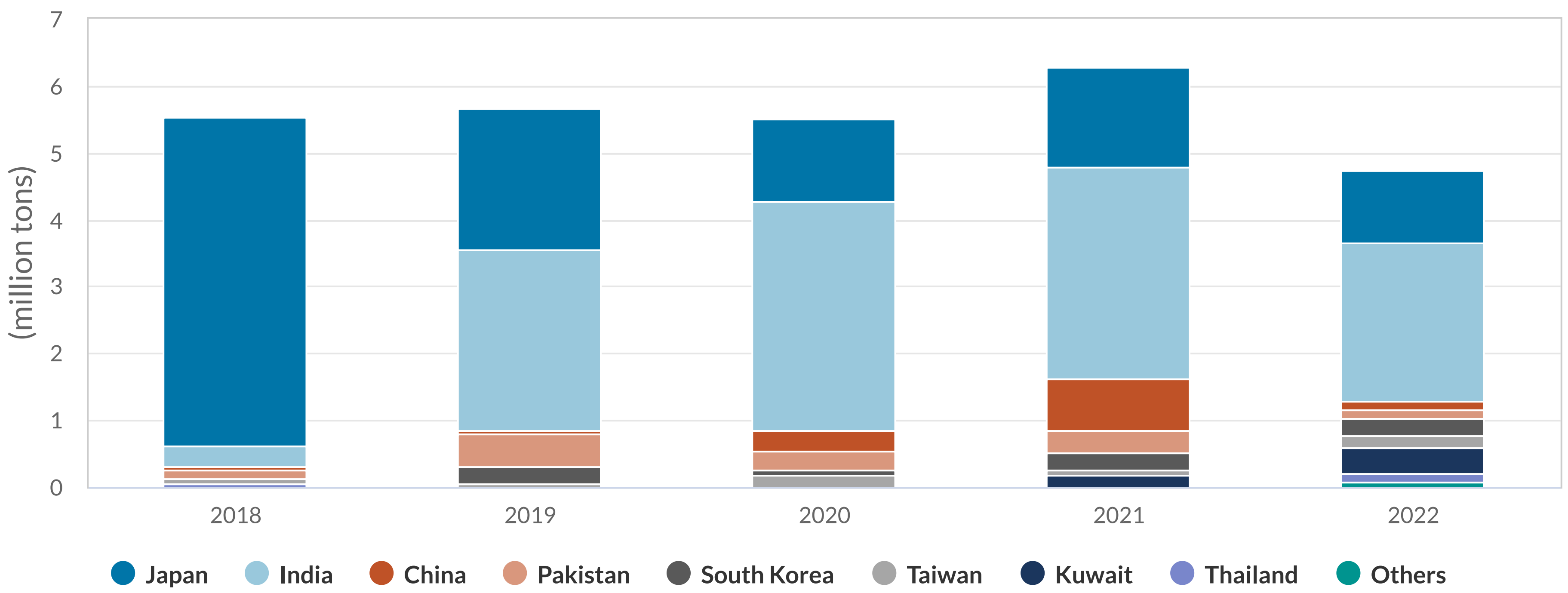
European Interest

Interest in gas supplies from Abu Dhabi has come from countries including Germany and Austria in recent months as European states and companies adjust to the fallout from Russia's Ukraine invasion on energy markets.

The Fujairah scheme also benefits from an advantageous position on the Gulf of Oman, outside the Iran-dominated Strait of Hormuz, and has potential to be among the world's lowest-carbon LNG export facilities — a future hedge against the energy transition. "The project is a good idea and the timing is good; and they [Adnoc] have gas to monetize," the source said.

Adnoc has existing liquefaction capacity of 5.8 million tons per year located on Das Island about 160 kilometers off the coast of Abu Dhabi. The facility is operated by Adnoc LNG, established in 1973 as Adgas and 70% owned by Adnoc, with Mitsui & Co. holding 15%, BP 10% and TotalEnergies 5%.

UAE LNG EXPORTS



Source: Kpler

Final Investment Decision

The Abu Dhabi state giant is understood to be talking to new and existing partners about coming on board the Fujairah development.

"They want to move quickly on the final investment decision. So they need to pick a partner," the source said, adding that this was expected to happen before key project decisions such as EPC awards have been made.

Adnoc in July launched the bidding process for the main engineering, procurement and construction (EPC) work on the $2 billion-plus LNG facility. The contract is due to be awarded in 2023 after the completion of front-end engineering and design (Feed) work, which is being carried out by McDermott International.

The 9.6 million ton/yr Fujairah expansion would lift Adnoc's overall LNG capacity to around 15.4 million tons/yr, and place the UAE ahead of neighboring Oman, which has around 11 million tons/yr of liquefaction capacity, to take the No. 2 LNG producer spot in the region.

It will still remain well below Qatar's liquefaction capacity of about 77 million tons/yr, which is in the process of being expanded to 126 million tons/yr in two phases by 2027.

Mideast Gulf LNG Landscape

Source: Energy Intelligence, Wikipedia

Oliver Klaus, Dubai

Santos Updates Strategy, Sets Long-Term Guidance

Australian oil, gas and LNG producer Santos says it plans to become an "energy transition company" by maintaining and growing its gas and liquids production while using carbon capture and storage (CCS) to expand its sales of clean fuels.

Santos has set equity production guidance of 100 million-140 million barrels of oil equivalent per year for 2025-45, with large projects such as Pikka, Barossa, Dorado and Papua LNG expected to contribute to output in the coming years.

In the shorter term, the company is projecting gas and liquids production of 91 million-98 million boe in 2023 — down from 103 million-106 million boe this year.

The dip in 2023 is largely due to the depletion of the Bayu-Undan gas field in the Timor Sea and the Reindeer gas field offshore West Australia, as well as the planned sale of part of its stake in PNG LNG to Papua New Guinea's Kumul Petroleum.

Sell-Downs

Santos said its longer-term production guidance assumes further sell-downs of its equity stakes in some assets.

"If you take all the current equity positions and all the opportunities Santos has today, you end up above that [100 million-140 million boe] range," CEO Kevin Gallagher said during an investor briefing.

“Undoubtedly, over that period [2025-45] there will be a level of portfolio optimization that will occur, that will help us stay within that [range]," Gallagher added.

Gallagher suggested that the company's Narrabri gas project could be a sell-down candidate. Santos has held 100% of the equity in Narrabri since its sole partner Energy Australia sold back its 20% stake earlier this year.

However, Gallagher emphasized that there is "no specific sell-down target or sell-down activity" at this time.

Decarbonization

CCS will play a major role in the development of the company's clean fuel offerings — including carbon-neutral LNG, hydrogen and ammonia — and will also become a new source of revenue generation.

Santos is targeting 160 million tons of CO_2 storage capacity (net to the company's interest) by the end of the decade.

It is currently working on three CCS hubs with an estimated combined gross storage capacity of more than 32 million tons per year. These make use of depleted gas fields such as Bayu Undan and Reindeer.

Gallagher said these projects are attracting growing interest from potential investors, customers, shipping companies, banks and infrastructure players.

"We have got majors talking to us about how they can get into some of our carbon capture and storage opportunities, into our hubs, because we have got some pretty significant opportunities," he said.

Santos is also talking to companies that want to send CO_2 captured from their industrial processes back to Australia.

"There is a real opportunity for this in Korea," Gallagher said.

Marc Roussot, Singapore

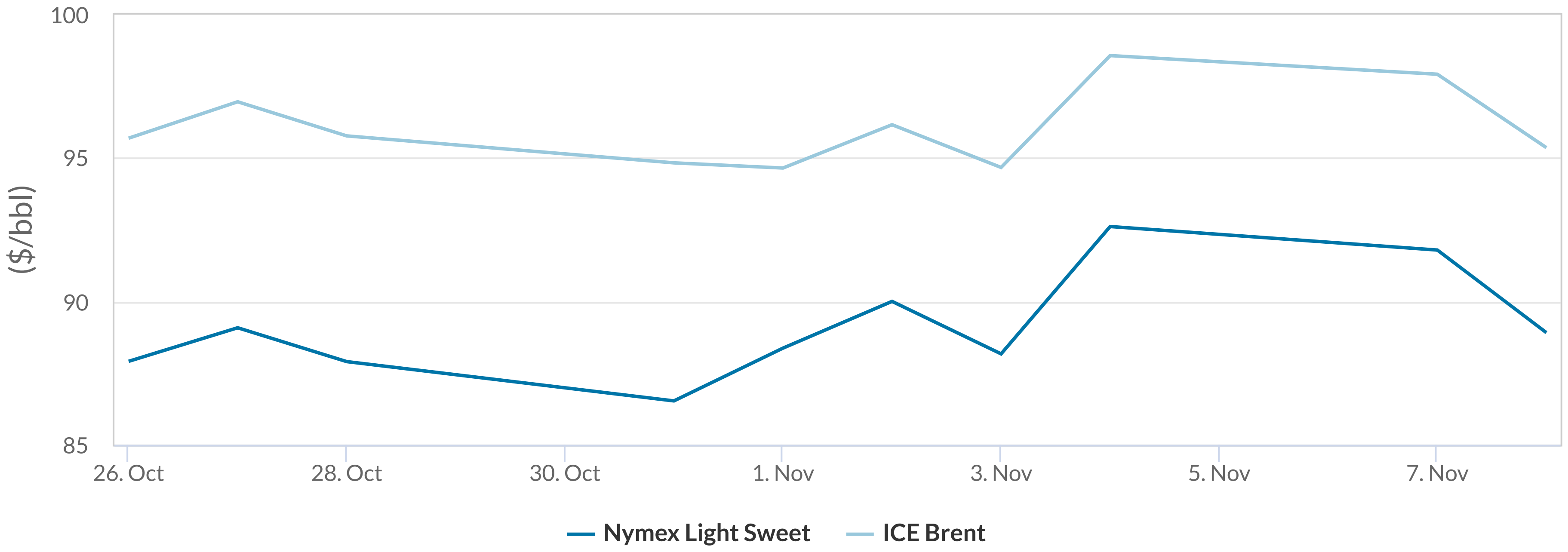
Oil Futures Slump Again as Demand Worries Build

Oil futures sank on Tuesday, with US benchmark West Texas Intermediate (WTI) dropping below the $90 per barrel mark as concerns over the global economy and the health of oil demand remained in focus.

In London, Brent crude for January delivery dropped by $2.56 to settle at $95.36/bbl. In New York, December WTI on Nymex closed down $2.88 at $88.91/bbl, while the January contract lost $2.73 to end the session at $88/bbl.

ICE BRENT VS. NYMEX WTI FUTURES

Front Month Contracts



Traders noted that Covid-19 cases continue to rise in China, which is the locus for most incremental oil demand and is also maintaining strict policies on combating the pandemic. Lockdowns and quarantines in China would be bearish for oil consumption, market players say.

Meanwhile, the US Energy Information Administration's monthly *Short-Term Energy Outlook*, published Tuesday, warned of slowing economic growth, which some traders said intensified fears of recession.

“When you get the [EIA] talking about demand fears and recession, you get some selling,” said Phil Flynn of Chicago’s Price Futures Group. “The potential for slowing [gross domestic product] growth is weighing on oil.”

Trading Turnaround

Some oil market players maintain that a significant rally is almost inevitable despite recent losses, however.

The thinking seems to be that China will need to adjust its pandemic policies, while the implementation of the EU’s ban on Russian crude and the G7’s price cap in the next month will further roil oil and product flows.

“The growing conviction the China will lift Covid barriers rather sooner than later and the upcoming Western boycott and ban on Russian oil exports have created a fertile ground for a substantial and protracted rally,” said Tamas Varga of brokerage PVM Oil. “The bullish seeds might have been sown but the harvest is not imminent. The market wants to be bullish, but it is waiting for tangible signs of demand improvements and supply disruptions.”

Some relief might come on the fiscal policy front, as the US Federal Reserve is set to meet later this week.

“We have seen many central banks shift to a slightly less hawkish stance in their latest policy settings,” said Fawad Razaqzada of StoneX. “The hope is that the [US Federal Reserve] will follow suit, starting with a 50-basis point increase in interest rates in December rather than the 75 basis points that it has hiked in the past four meetings.”

That would help keep a lid on the dollar, making crude, which is priced in greenbacks, more affordable to holders of other currencies and bolstering demand.

Frans Koster, New York

IN BRIEF

Sonatrach, Eni Start Up Algeria Oil Field

Algeria's Sonatrach and Italy's Eni have started producing 10,000 barrels of oil equivalent per day at the HDLE/HDLS oil field in the eastern Berkine Basin as the two companies seek to increase the supply of oil and gas to Europe.

Development of the field was fast-tracked to just seven months since it was discovered in March and output is expected to increase to 17,000 boe/d after more drilling next year, according to Sonatrach.

Eni said the recent start up of the HDLE/HDLS and Berkine South fields should help the company reach 120,000 boe/d of equity production in Algeria in 2023

The HDLE/HDLS field falls under Eni's Zemlet el-Arbi production sharing contract, located 300 kilometers southeast of the giant Hassi Messaoud oil field, which is operated by Sonatrach. Eni holds 49% of the permit and Sonatrach 51%.

Tom Pepper, London

Russia's Sberbank Sues Glencore

Russia's Sberbank has filed a lawsuit in Russia against international commodities trader Glencore, seeking roughly $118 million in compensation which it says it is owed for oil that was supplied but not paid for.

According to information from the Moscow Arbitration Court, Sberbank is seeking to recover that sum from Glencore Energy UK Ltd in relation to two supply agreements signed in 2020.

Sberbank confirmed the lawsuit, saying it was forced to sue Glencore after failing to resolve the issue out of court. No further details were provided.

Market players said that Sberbank had probably financed the oil deliveries in question and that Glencore's alleged non-payment may be because of Western sanctions imposed in response to Russia's invasion of Ukraine.

Staff Reports

DATA SNAPSHOT

Oil and Gas Prices, Nov. 8, 2022

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

CRUDE OIL FUTURES

($/bbl)	Chg.	1st Mth.	2nd Mth.
ICE Brent	-2.56	95.36	93.98
Nymex Light Sweet	-2.88	88.91	88.00
DME Oman	-3.22	90.59	89.13
ICE Murban	-2.32	94.13	92.37

INTERNATIONAL SPOT CRUDES

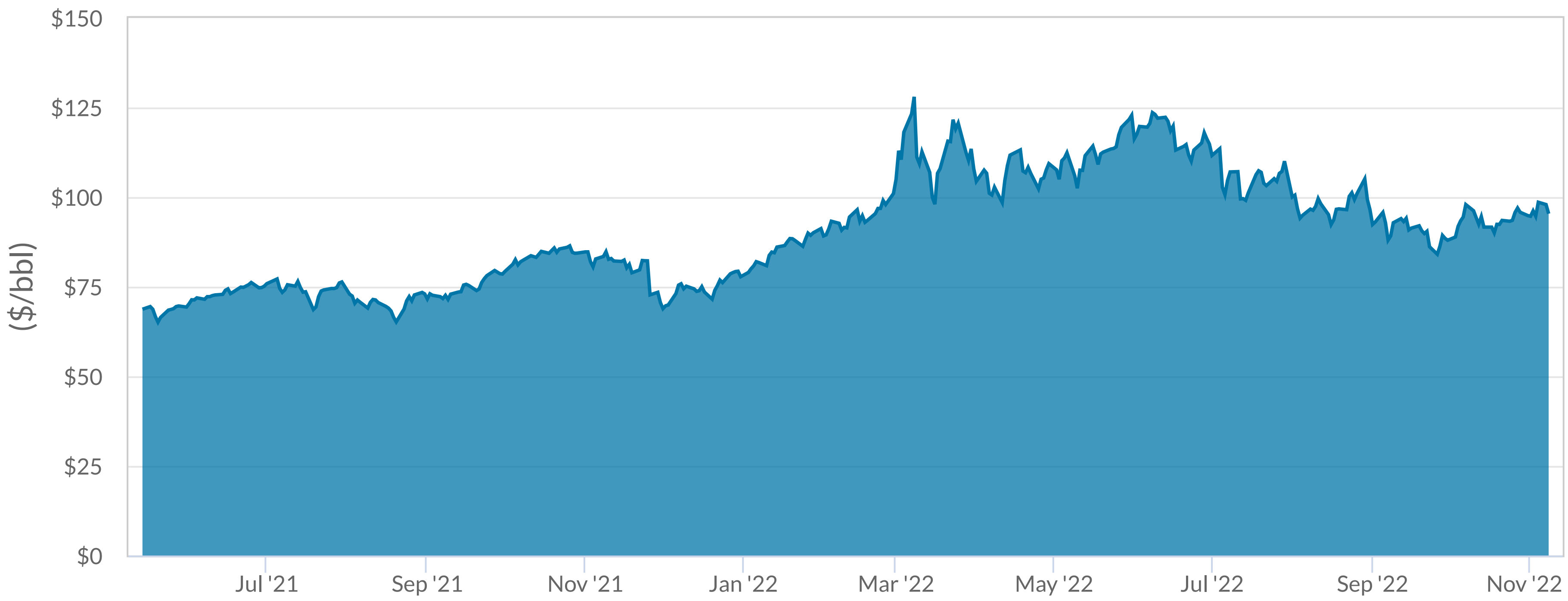
($/bbl)	Chg.	Price	Prior Close
Brent (Dated)	-3.01	96.85	99.86
Dubai	-0.60	92.30	92.90
Forties	-2.62	99.84	102.46
Bonny Light	-2.41	100.75	103.16
Urals	-2.41	80.37	82.78
Opec Basket*			97.32

*Opec price assessed.

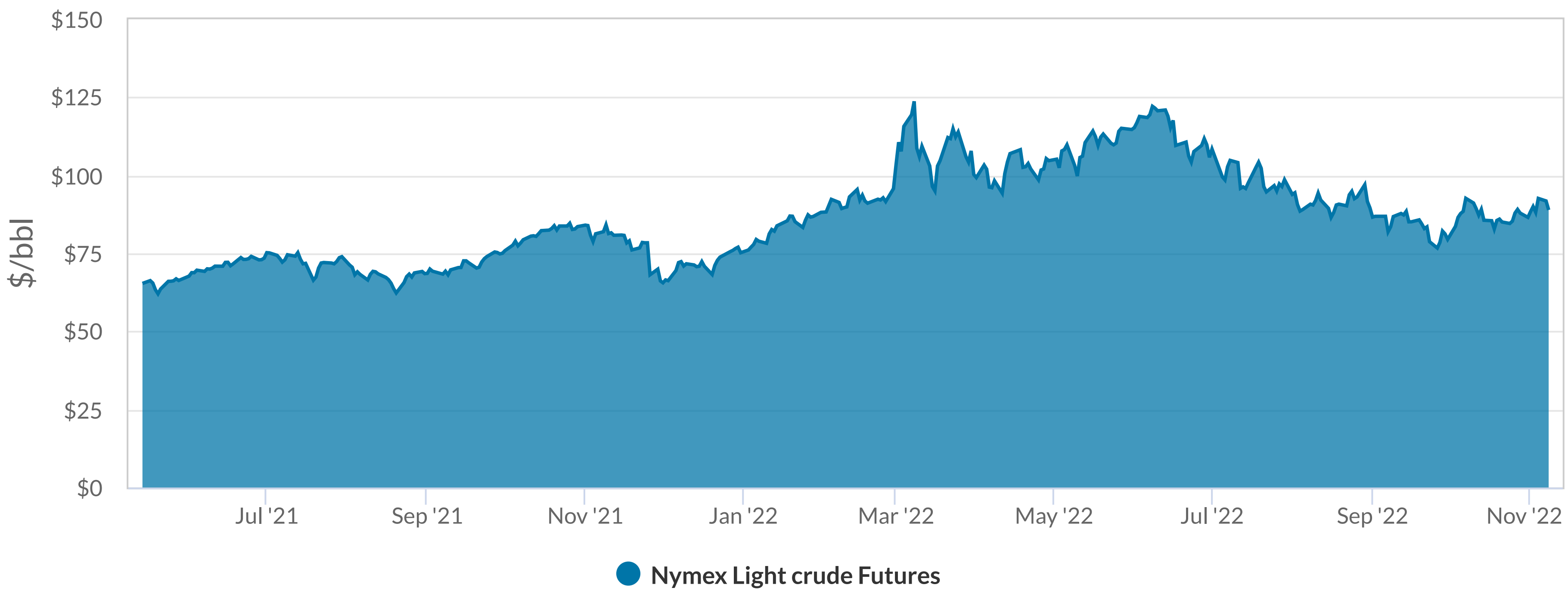
NORTH AMERICAN SPOT CRUDES

($/bbl)	Chg.	Price	Prior Close
WTI (Cushing)	-3.00	88.80	91.80
WTS (Midland)	-3.05	87.75	90.80
LLS	-3.00	92.30	95.30
Mars	-3.00	85.30	88.30
Bakken	-3.00	93.60	96.60

ICE BRENT CRUDE FUTURES



NYMEX LIGHT CRUDE FUTURES

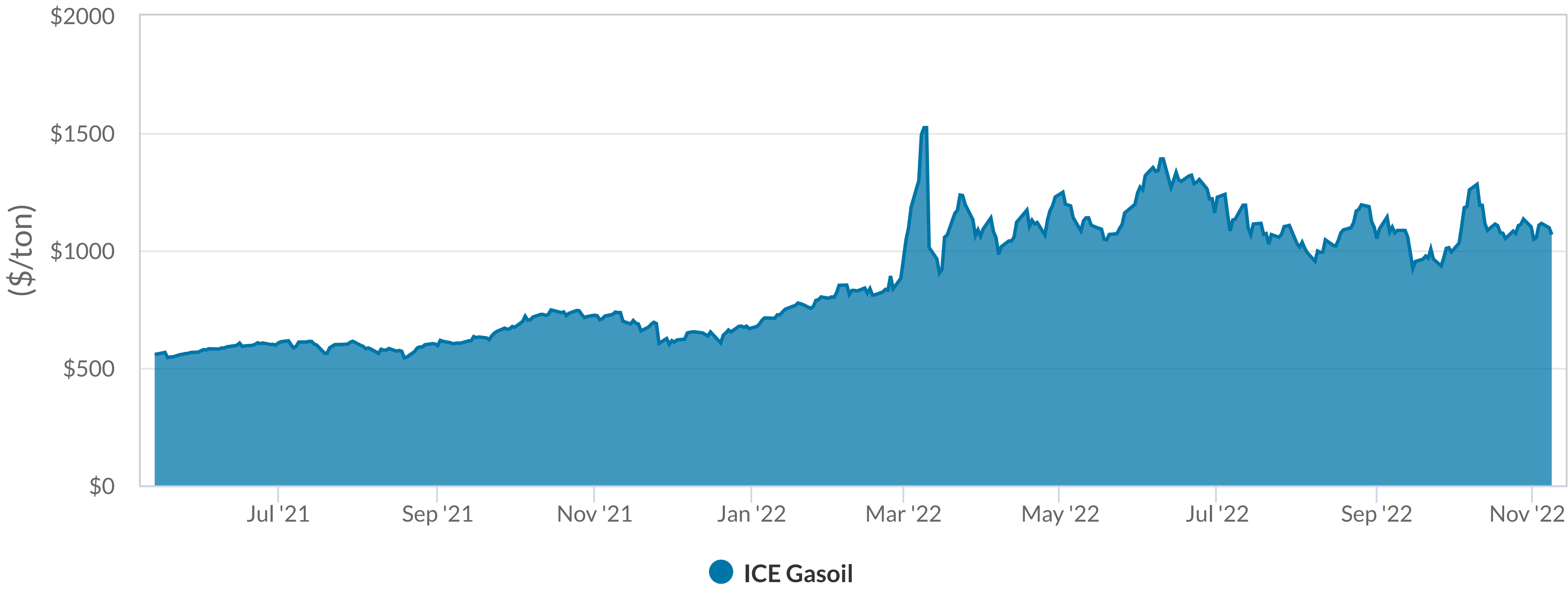


Energy Intelligence

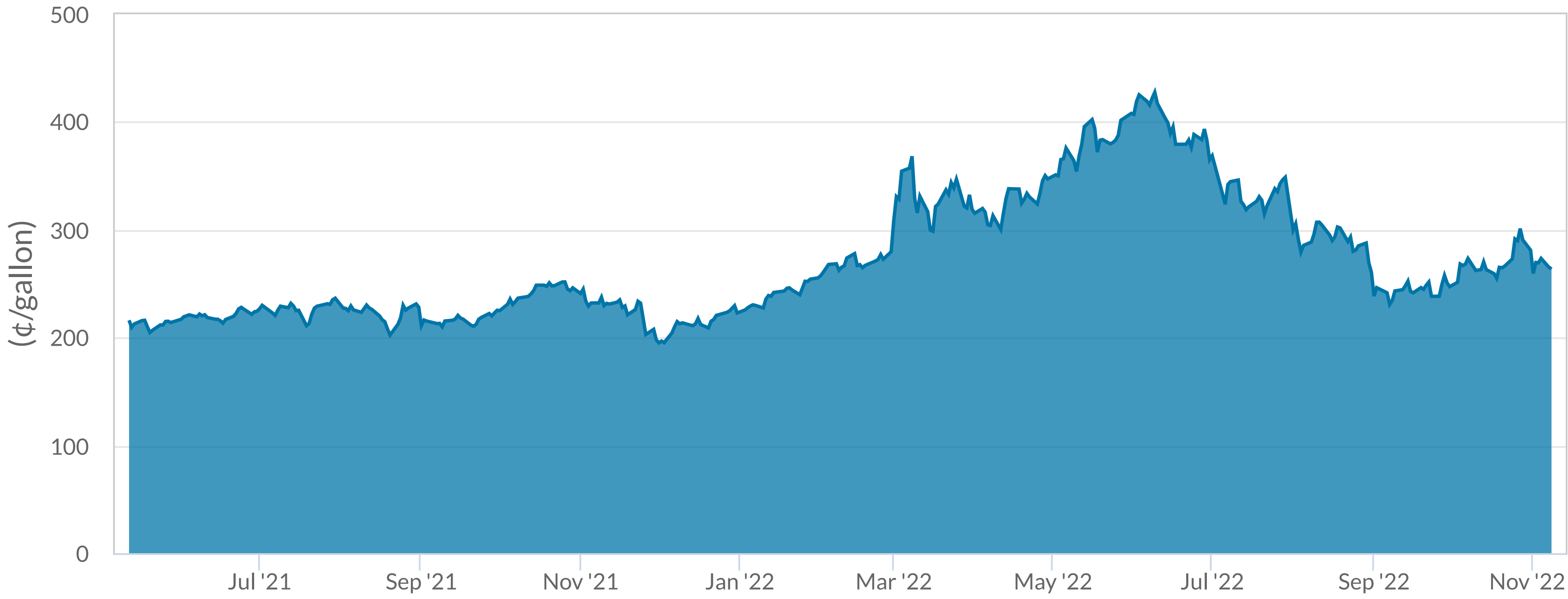
REFINED PRODUCT FUTURES

Nymex	Chg.	1st Mth.	2nd Mth.
Gasoline (¢/gal)	-1.64	263.67	256.45
ULSD Diesel (¢/gal)	-1.04	377.07	359.40
ICE			
Gasoil ($/ton)	-29.25	1067.25	1048.75
Gasoil (¢/gal)	-9.34	340.63	334.72

ICE GASOIL FUTURES



NYMEX GASOLINE FUTURES



US SPOT REFINED PRODUCTS

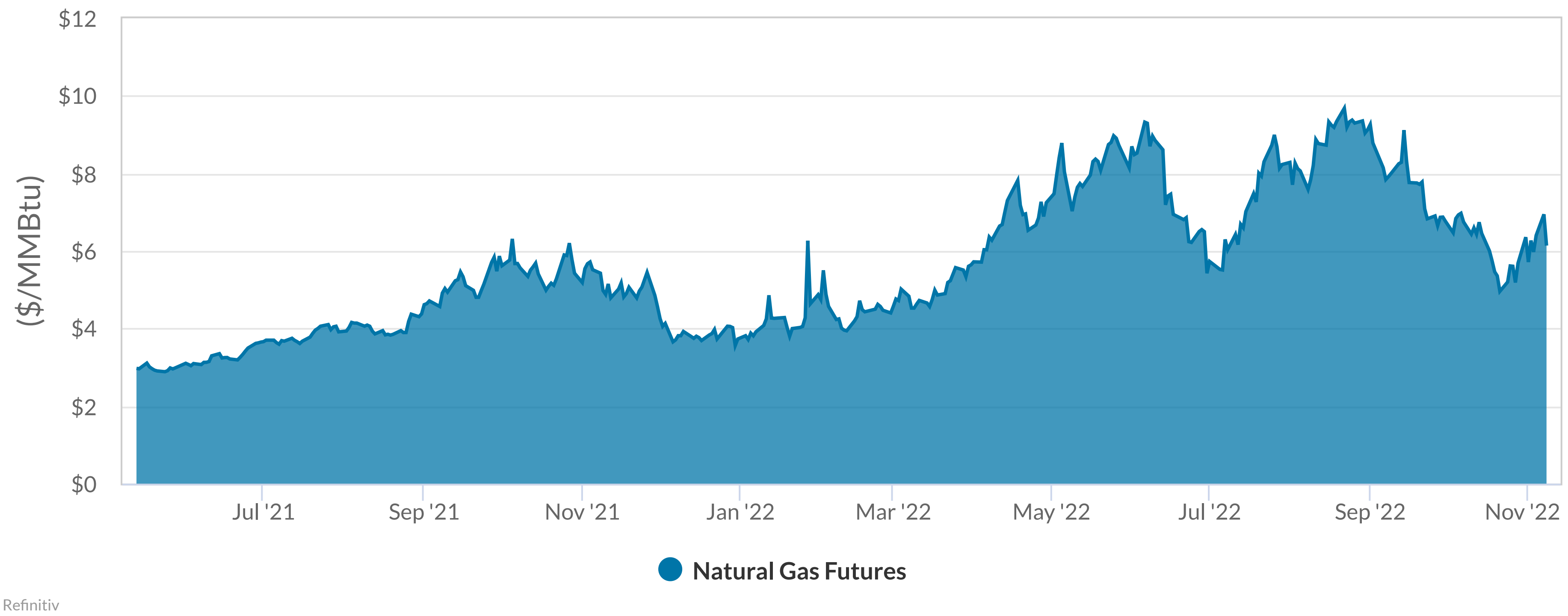
New York (¢/gal)	Chg.	Price	Prior Close
Regular Gasoline	-2.77	313.10	315.87
No.2 Heating Oil	-0.53	446.84	447.37
No.2 ULSD Diesel	-0.53	467.84	468.37
No.6 Oil 0.3% *			97.95
No.6 Oil 1% *			89.45
No.6 Oil 3% *			68.70
Gulf Coast (¢/gal)			
Regular Gasoline	-6.52	263.60	270.12
No.2 ULSD Diesel	-0.53	368.84	369.37
No.6 Oil 0.7% *			86.30
No.6 Oil 1% *			86.30
No.6 Oil 3% *			64.95

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

INTERNATIONAL SPOT REFINED PRODUCTS

Rotterdam ($/ton)	Chg.	Price	Prior Close
Regular Gasoline	+7.00	962.00	955.00
ULSD Diesel	-34.75	1039.50	1074.25
Singapore ($/bbl)			
Gasoil	-0.27	127.45	127.72
Jet/Kerosene	+0.55	127.30	126.75
VLSFO Fuel Oil ($/ton)	+3.50	674.56	671.06
HSFO Fuel Oil 180 ($/ton)	-2.34	442.65	444.99

NYMEX NATURAL GAS FUTURES



NATURAL GAS PRICES

($/MMBtu)	Chg.	Price
Henry Hub, Nymex	-0.81	6.14
Henry Hub, Spot	-0.90	3.93
Transco Zone 6 - NY	-0.20	3.16
Chicago Citygate	+0.16	3.44
Rockies (Opal)	-0.75	7.56
Southern Calif. Citygate	-1.02	8.22
AECO Hub (Canada)	-0.11	3.75
Dutch TTF (euro/MWh)	+37.47	92.00
UK NBP Spot (p/th)	+12.00	97.00

US/Canada spot prices from Natural Gas Week

Equity Markets, Nov. 8, 2022

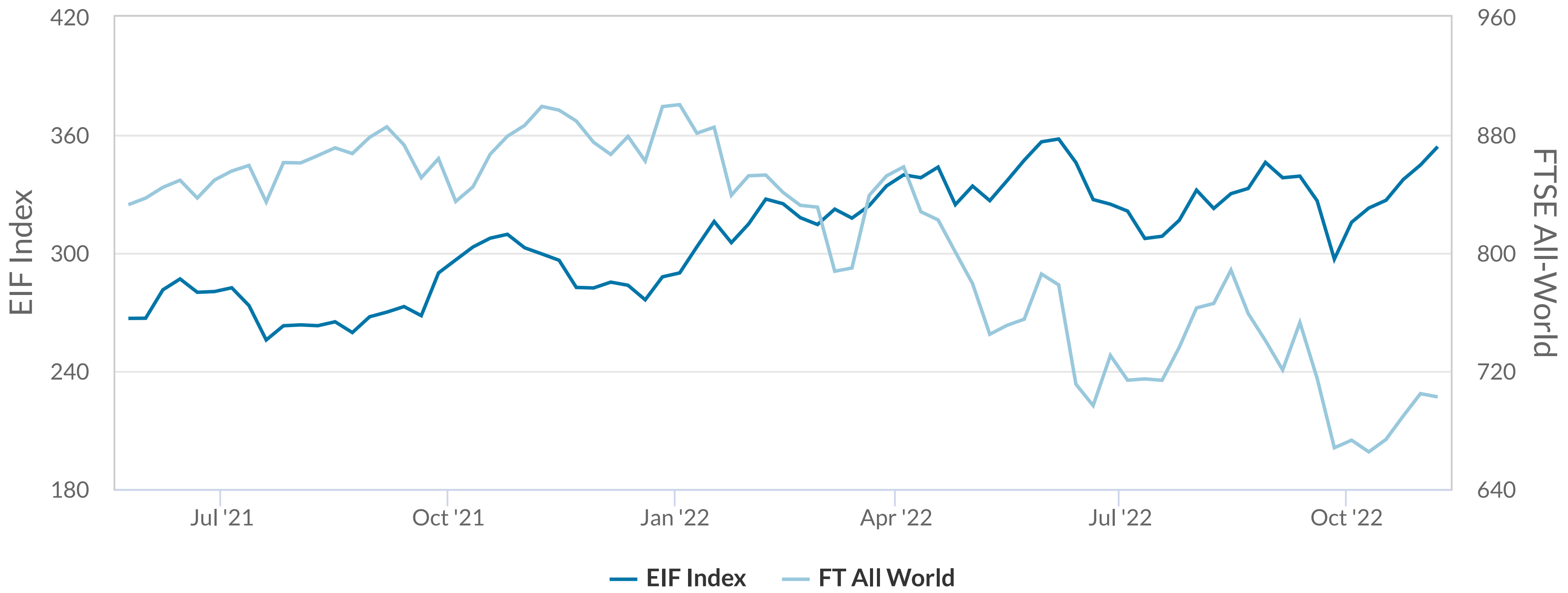
All data are produced by Energy Intelligence in cooperation with Reuters.

EQUITY MARKET INDEXES

	Chg.	Index	YTD %Chg.
EIF Global*	+2.53	353.96	+23.43
S&P 500	+21.31	3,828.11	-20.13
FTSE All-World*	+7.34	702.38	-22.06

*Index for previous day

EIF INDEX



EIF Global Oil and Gas Index of 21 traded equities