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Disunity on Gas Price Cap May Sink EU Energy Reforms

Disagreement about whether Europe should aggressively cap natural gas prices is threatening to derail EU energy reforms on which there is broader agreement, as supporters of a price cap dig in their heels ahead of talks later this month.

The European Commission had been due to present some kind of mechanism for managing gas prices to EU ambassadors on Friday, sources told Energy Intelligence.

Instead, EU President Ursula von der Leyen sent them a letter saying that a "detailed outline of a proposal for a market correction mechanism" would be available in time for the next meeting of EU energy ministers on Nov. 24.

Supporters of a price cap pointed out that an "outline" would fall short of the detailed plans that energy ministers had asked the European Commission to present.

Czech Industry and Trade Minister Jozef Sikela, who has led energy reform efforts as part of the Czech Republic's six-month presidency of the EU, has expressed disappointment with the lack of progress.

At least 15 of the 27 EU member states have expressed support for some kind of price cap for natural gas. Those countries don't necessarily all agree on the appropriate mechanism, but they do share a view that without a price cap Russian President Vladimir Putin will be able to use high energy prices to stoke social unrest in Europe.

However, opponents worry that a cap on prices would curb the flow of expensive LNG that has filled EU gas storage caverns in recent months, before the winter cold sets in.

Difficult Negotiations Ahead

Whether or not EU members can find enough common ground for action on gas prices will depend on negotiations over the next two weeks, which will not be easy.

Von der Leyen acknowledged the disagreement in her letter, writing that discussions this week "confirmed Member States' varying assessment of expected impacts and risks of a market correction mechanism." Diplomats who will participate in the negotiations were more blunt. "The points of view are still far from each other," warned one diplomatic source whose country favors some kind of price cap.

One source said European countries were being lulled into complacency by the "mirage" of lower prices, with wholesale gas and power prices in the region currently at their lowest levels of the year in many countries.

Late last month, supporters of a price cap were hoping to get all 27 member states to back a single approach to managing natural gas prices, even though such a measure could theoretically be passed with a qualified majority of 17 countries representing 65% of the EU population.

But unanimous agreement on a price cap now looks increasingly unlikely, and that also poses a potential threat to broadly popular measures such as efforts to rein in demand, joint purchases of LNG, sharing of gas during shortages and development of a new price benchmark for LNG.

Asked if there was a real threat of price cap supporters blocking such initiatives, one EU diplomat told Energy Intelligence: "That's exactly what they are saying."

Another diplomatic source pointed to Hungary's recent move to block €18 billion in aid to Ukraine because of a dispute about the European Commission preventing the transfer of EU funds to Hungary, citing this as evidence that "it is getting increasingly difficult to find a compromise" on contentious issues.

Noah Brenner, London

North America Leads Oil and Gas Methane Action

Several more countries have joined the Global Methane Pledge — a joint US-EU initiative launched last year — bringing the total on board to 130.

Countries and organizations attending the UN's COP27 conference in Egypt also announced specific plans to reduce methane emissions from the oil and gas sector.

- US President Joe Biden announced a new regulatory proposal aimed at reducing methane emissions from the US oil and gas sector, with specific rules for some equipment. The goal is a reduction in methane emissions of up to 87% versus 2005 levels by 2030. However, ambiguity about US monitoring and controls on methane emissions have raised questions about the feasibility of a new methane fee aimed at deterring oil and gas companies from emitting the short-lived but powerful greenhouse gas.

- Canada's government proposed a new framework aimed at a 75% reduction in methane emissions from the oil sector by 2030, compared with 2005 levels.

- Egypt agreed to reduce methane emissions from its oil and gas sector as part of a broader agreement with the US, Germany and the European Bank for Reconstruction and Development to reduce emissions.

- Mexican state oil producer Pemex will work with the US Environmental Protection Agency to reduce its oil and gas sector emissions, according to a US statement. Earlier this week, Mexico announced a new commitment to increase targeted reductions in its emissions from 22% to 30%.

- The UN Environment Programme announced its Methane Alert and Response System — a methane monitoring satellite that will alert governments and industry to sources of emissions. The focus will be on the oil and gas sector initially, but will later be extended to cover coal, waste, livestock and rice.

- The US, EU, Japan, Canada, Norway, Singapore and the UK announced an initiative to reduce methane and carbon emissions from fossil energy value chains. The announcement was light on specific policy changes, but signatories said they would focus on eliminating routine venting and flaring, conducting regular leak detection, and repairing energy infrastructure. It comes as companies have been signing up for monitoring programs to obtain certification that their products are "responsibly sourced." Reaction to this announcement was muted, with environmental groups frustrated about the lack of specifics. Kim O'Dowd, a campaigner with the London-based Environmental Investigation Agency criticised the declaration for lacking "concrete and binding objectives, mandatory reporting, monitoring and verification, national actions plans and targeted financial support to ensure implementation."

Emily Meredith, Washington and Ronan Kavanagh, London

Opec-Plus May Discuss Baseline Adjustments

Opec-plus may discuss adjustments to members' oil production baselines in early December as many of them struggle to meet their agreed quotas, delegates told Energy Intelligence on Friday.

For many months now, Opec-plus members including Russia, Nigeria and Angola have been falling short of their production targets, with the result that the group as a whole has been producing less oil than agreed.

Adjusting baselines could potentially free up more Opec-plus production by aligning individual quotas more closely with members' true capacity to produce.

At its last meeting Opec-plus decided to cut its targeted output by 2 million barrels per day from November, but officials said at the time that further changes could be made if needed. The decision to lower production angered the US.

The shortfall in the group's output reflects various constraints experienced by several members, including problems with infrastructure, insufficient upstream investment and sanctions.

"Talks are going on about the possibility of adjusting baselines," said one Opec-plus delegate. Another delegate confirmed that the issue might be discussed when the group's ministers meet in Vienna on Dec. 4.

Sensitive Issue

Delegates said it is too early to predict what might happen in Vienna in terms of any potential changes to the alliance's production policy or baseline adjustments.

Baselines and quotas are a sensitive issue among members, which are keen to preserve their share of the oil market — even if it is only on paper.

Nigerian National Petroleum Corp. chief Mele Kyari recently told Energy Intelligence that his country was planning to boost its crude oil output to 1.8 million b/d by the end of this year from current levels of around 1.45 million b/d.

However, industry experts are skeptical that the country will be able to achieve this goal. Nigeria has consistently missed its Opec-plus target this year.

Given the potential for discord within the group, a discussion about revising baselines has been put on the backburner for months.

Energy Intelligence previously reported that during the last Opec-plus ministerial meeting, Oman's energy minister was the only person to raise the matter, which ultimately was not discussed.

Nevertheless, a discussion is expected sooner or later, assuming the group wants to address the persistent shortfall in its targeted output.

Energy Intelligence estimates that crude oil output for the 19 Opec-plus members with a quota fell by about 60,000 b/d to 38.6 million b/d in October — 3.5 million b/d short of the group's official target of 42.1 million b/d for that month.

Similarly, the 2 million b/d cut agreed for November is largely notional because it includes reductions in targeted levels for countries such as Russia and Nigeria that were already failing to meet their quotas.

The actual reduction in Opec-plus output in November is expected to be around 1 million b/d.

Saudi Energy Minister Prince Abdulaziz bin Salman said at the COP27 climate conference on Friday that Opec-plus will remain cautious with regard to oil production, according to media reports.

Amena Bakr, Dubai

Refiner Indian Oil Pauses Russian Crude Purchases

India's largest refiner, state-controlled Indian Oil, has paused its buying of Russian crude oil until there is greater clarity about market conditions after Dec. 5 when an EU import ban and a G7 price cap are both set to take effect.

"Nobody in the industry knows what will happen to loadings after Dec. 5," a senior company executive told Energy Intelligence. "As of now, we have not booked any cargo beyond Dec 5," said the executive, who spoke on condition of anonymity.

India's imports of Russian crude have surged this year from negligible levels in the past — exceeding 900,000 barrels per day last month — as it took advantage of deeply discounted prices since Moscow's invasion of Ukraine in February.

The executive said Indian Oil was not too worried about a disruption in supplies of Russian crude because imports from Russia made up only a "miniscule" percentage of its total imports, which the company mostly sources from the Middle East.

Indeed, there have been months when Indian Oil did not buy a single cargo from Russia, he said, adding that the company is confident it will be able to source supplies from Latin America and Africa to cover any gaps from a pause in imports from Russia.

Asked if there have been any directions from India's federal government — Indian Oil's majority shareholder — about buying Russian crude after Dec. 5, the executive said: "We do not require any government guidelines for this."

Logistical Constraints

Indian refiners have been buying crude from Russia on a delivered basis — meaning that the buyer is not responsible for freight and insurance. However, that arrangement is likely to come under pressure because of logistical constraints.

The Carnegie Endowment for International Peace estimates that Russia would need 200 tankers to maintain the volume of its oil exports. But at the end of 2021 state-owned Sovcomflot had just 51 tankers.

Tankers sent to India from Russia's European ports face a much longer voyage than trips to Russia's traditional customers in Europe, including a two-month journey back home to pick up their next cargo.

But it would be challenging for Indian buyers to go back to free-on-board purchases because of the difficulties involved in lining up tankers and insurance after Dec. 5.

The G7 price cap has been combined with a ban on the provision of shipping and insurance services for exports of Russian oil, but waivers will be granted if the oil is sold at or below the price cap.

India has refrained from criticizing Russia over its war in Ukraine, maintaining good relations with Moscow and happily purchasing discounted Russian crude. But Russia has made clear that it will not sell oil to countries that comply with the G7 price cap, and that puts India in a difficult position.

That explains why Indian Oil is inclined to wait and see how things play out — including the balance of power in Washington after the US midterm elections — before committing to further purchases of Russian oil.

Rakesh Sharma, New Delhi

Advocates See Future Global Trade in Hydrogen

Hydrogen got plenty of attention during the first week of the UN's COP27 climate conference in Egypt, with many predicting there will eventually be a substantial international trade in the carbon-free gas. .

Stakeholders ranging from environmental activists to energy industry leaders see hydrogen as a potentially lucrative business opportunity and an important part of efforts to decarbonize the global economy.

Often described as the "Swiss army knife of energy," hydrogen is seen as a way to green up sectors where it is difficult to eliminate carbon emissions. These include heavy transportation, where hydrogen can replace diesel fuel, and industrial processes like steel, where it can replace coal.

"Green hydrogen" — made from the electrolysis of water with renewable power — has particularly strong environmental credentials and could take off in the future if it can be produced economically at scale.

Global Market

With Egypt hosting the conference this year, the spotlight fell on the potential of the Middle East and North Africa region for hydrogen production.

Nations such as the United Arab Emirates, with their abundant sunlight, could eventually export green hydrogen on a scale similar to that of today's global oil trade, said James Vacarro, an adviser to the Glasgow Financial Alliance for Net Zero. "They might be able to have a global fuel-dominant strategy and just change the fuel," he told Energy Intelligence in an interview.

Saudi Arabia's Acwa Power, which is transitioning from fossil fuels to renewables, believes a global hydrogen market will develop on a "mass scale," said executive vice president and global head of hydrogen Andrea Lovato.

Acwa plans to build commercial-scale green hydrogen plants in Saudi Arabia and Oman. Lovato believes the green hydrogen market will take off just like solar power, which has seen cost reductions of 85% over the last decade. "The same will happen in clean hydrogen, but even faster, because all the world is looking at hydrogen," he told Energy Intelligence.

Opportunity for Oil Firms

Lovato advises oil and gas companies to shift their attention to ambitious areas like green hydrogen, avoiding interim energy transition steps such as reducing the carbon footprint of oil or gas. He pointed to TotalEnergies as an example of an oil and gas major making strong progress in the green energy space.

In other regions of the world, many view blue hydrogen — made from natural gas in combination with carbon capture and storage — as a more viable option. Petronas CEO Tengku Muhammad Taufik told a COP27 hydrogen conference that "eventually green hydrogen will make it" as a cost-effective solution, but in the near term his company will focus on blue hydrogen.

Invesment Incentives

US Department of Energy official Kathryn Huff suggested that long payback periods for hydrogen projects may deter some investors. "It requires real patience to dedicate billions of dollars and then wait a few years before you even see a profit. The patient capital required for all this infrastructure is the critical component I don't see materializing just yet," she told the conference.

But government incentives like the clean hydrogen tax credits passed as part of the US Inflation Reduction Act could "bring capital to the table and guarantee return on investment," she added. Such incentives were likely to prove more effective than mandates or bans, Huff added. "If you have carrots, patient capital might come to the table."

Lauren Craft, Sharm el-Sheikh, Egypt

Crude Futures Rise But Relief Could Be Fleeting

Oil futures rose on Friday against the backdrop of a weaker dollar and rising hopes for more dovish fiscal policy.

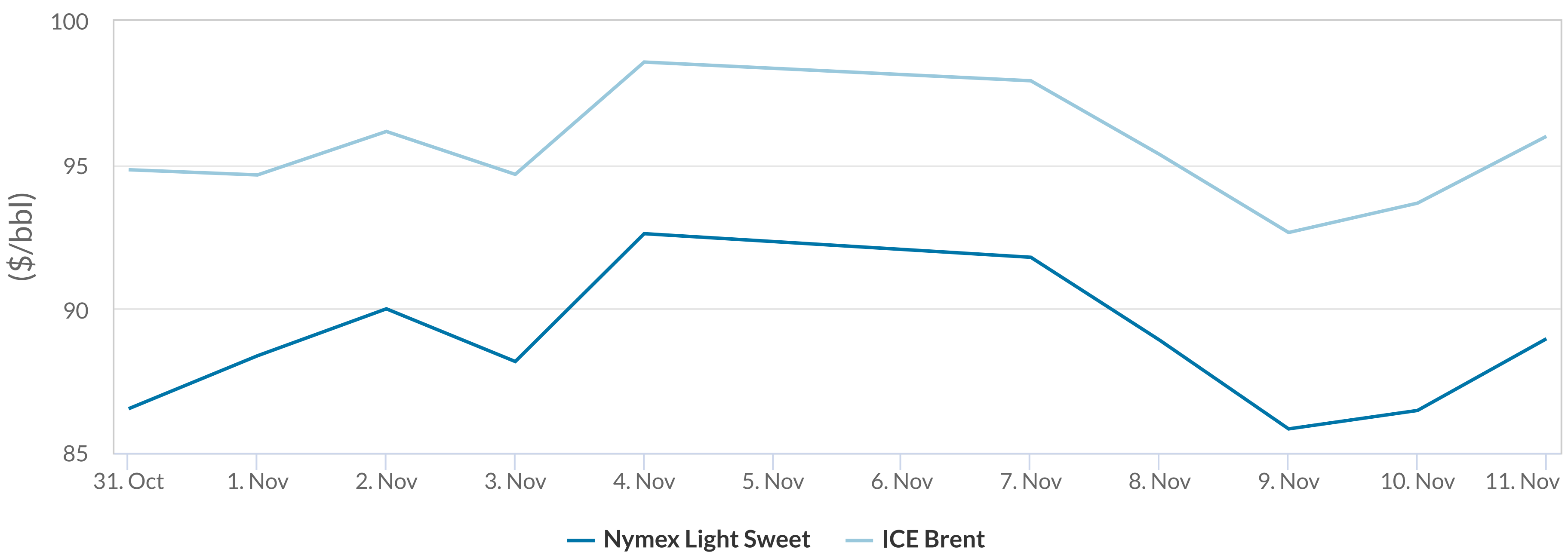
In London, Brent crude for January delivery settled $2.32 higher at $95.99 per barrel. In New York, December West Texas Intermediate (WTI) on Nymex rose $2.49 to close at $88.96/bbl, while the January contract ended the session up $2.50 at $88.16/bbl.

Market players and watchers said Friday's focus was squarely on currency values. US inflation has cooled some, with the most recent reading of 7.7% in October representing its lowest annual rate since January.

“The odds are that the worst of US inflation is behind us," said Stephen Brennock of brokerage PVM Oil. "The long-awaited cooldown in inflation will likely encourage the US central bank to slow its interest rate [increases]." That would put some pressure on the dollar, a dynamic that analysts say is typically bullish for crude as it makes the commodity less expensive for holders of other currencies.

ICE BRENT VS. NYMEX WTI FUTURES

Front Month Contracts



Meanwhile, China is relaxing some of its Covid-19 containment policies, including shortening the quarantine and lockdown periods that have hampered oil demand growth in the world’s second-largest economy.

“Today it's the improvement in economic sentiment on the back of that inflation data alongside a modest relaxation of Chinese quarantine measures that are lifting [oil] prices,” said Craig Earlam of Oanda, adding that this could set up a more sustained rally.

“Brent remains in the middle of its $90-$100/bbl range for now, but more bullish developments like this, or a further relaxation of Chinese restrictions on Saturday, may test the upper end of that," he said.

However, concerns remain about the health of oil demand going forward. Regardless of the prospects for cooling inflation, easing pandemic policies and more subdued interest rate hikes, macroeconomic headwinds remain robust.

“The oil market will be dealing with constrained demand in China for the foreseeable future,” Brennock said. “While job growth remains solid [in the US], the biggest problem facing the economy — high inflation — remains a major challenge ... The [Federal Reserve] has already raised interest rates six straight times this year and policymakers will likely do so again, albeit at a less aggressive clip. Tightening monetary policy coupled with heightened inflation pressures means that a US recession is virtually a slam dunk.”

Frans Koster, New York

IN BRIEF

Indonesia Eyes Geothermal Hydrogen

Chevron, Pertamina and Keppel Infrastructure have agreed to jointly explore the potential production of green hydrogen and ammonia in Indonesia using electricity generated by the region's abundant geothermal resources.

The joint study will assess the feasibility of developing a plant that could initially produce at least 40,000 tons/year of hydrogen using electrolysis powered by 250-400 megawatts of geothermal energy. The hydrogen production facility, located on the island of Sumatra, could potentially scale up to 80,000-160,000 tons/year, "depending on the availability of geothermal energy as well as market demand," the companies said.

Geothermal power can provide the kind of stable, baseload supply of renewable electricity needed to power zero-emissions electrolysis. Sourcing reliable renewable power is one of the biggest and most expensive challenges for aspiring green hydrogen producers.

Indonesia — which lies along the Pacific Ocean's so-called Ring of Fire — is rich in geothermal potential and currently accounts for around 40% of global geothermal resources.

Keppel CEO Cindy Lim said the proposed project would be a "first of its kind use of geothermal" to develop clean hydrogen and ammonia projects.

Luke Johnson, Houston

Singapore Stocks Rise

Singapore onshore oil product inventories rose by 4.6% from a week ago to 42.26 million bbl on Nov. 9, according to data from government agency IE Singapore.

SINGAPORE ONSHORE PRODUCT STOCKS

('000 bbls)	Nov 9	Nov 2	Vol.Chg.	%Chg.
Light Distillates	13,518	14,650	-1,132	-7.7%
Middle Distillates	7,274	6,809	465	6.8
Fuel Oil	21,471	18,949	2,522	13.3
Total	**42,263**	**40,408**	**1,855**	**4.6%**

Source: IE Singapore

Freddie Yap, Singapore

DATA SNAPSHOT

Oil and Gas Prices, Nov. 11, 2022

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

CRUDE OIL FUTURES

($/bbl)	Chg.	1st Mth.	2nd Mth.
ICE Brent	+2.32	95.99	94.41
Nymex Light Sweet	+2.49	88.96	88.16
DME Oman	+2.56	91.11	89.91
ICE Murban	+2.71	94.96	93.38

INTERNATIONAL SPOT CRUDES

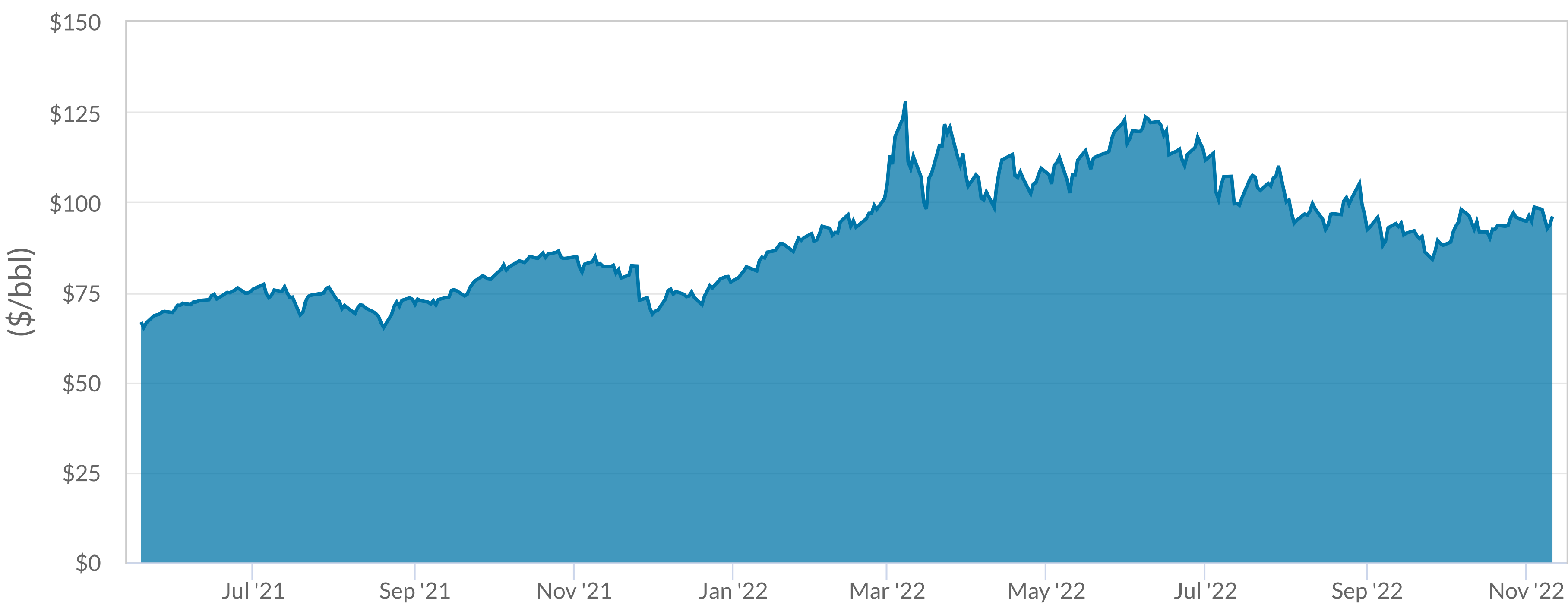
($/bbl)	Chg.	Price	Prior Close
Brent (Dated)	+2.13	96.37	94.24
Dubai	+3.90	91.05	87.15
Forties	+1.64	97.05	95.41
Bonny Light	+1.97	98.18	96.21
Urals	+1.97	77.80	75.83
Opec Basket*			91.32

*Opec price assessed.

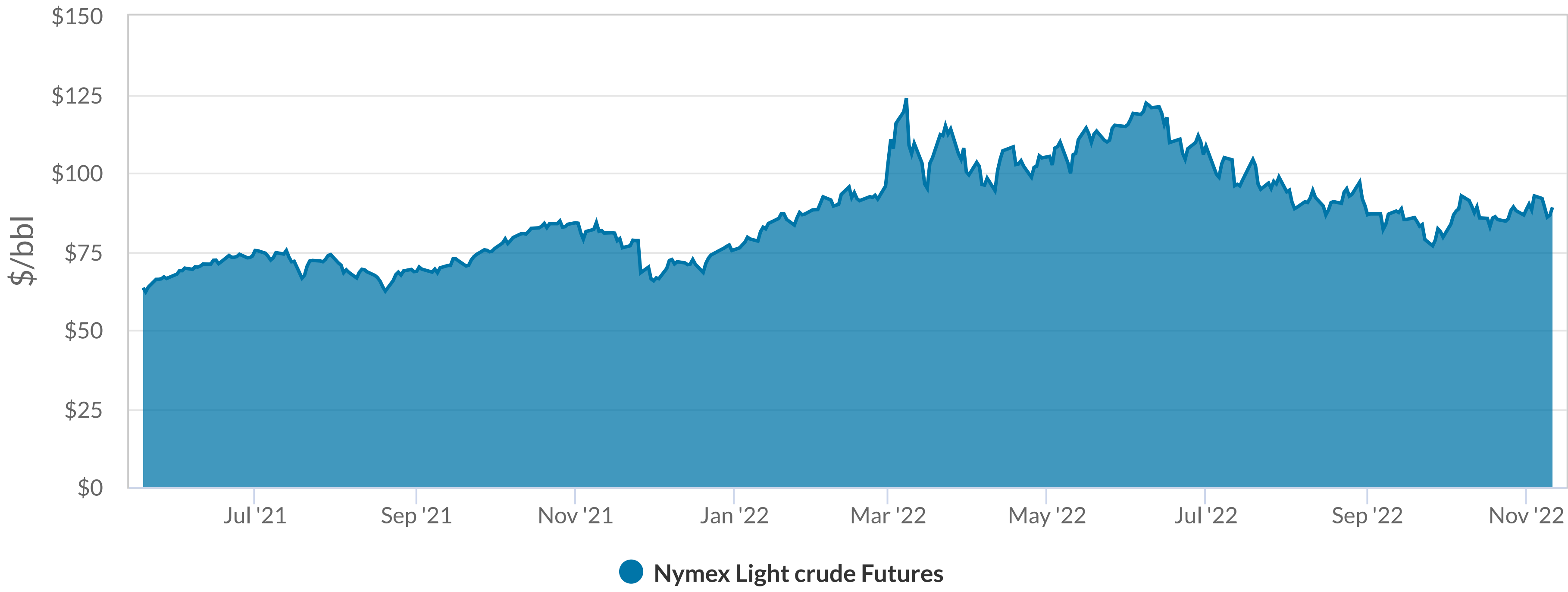
NORTH AMERICAN SPOT CRUDES

($/bbl)	Chg.	Price	Prior Close
WTI (Cushing)	+2.62	89.14	86.52
WTS (Midland)			85.07
LLS			89.82
Mars			83.07
Bakken			91.32

ICE BRENT CRUDE FUTURES



NYMEX LIGHT CRUDE FUTURES



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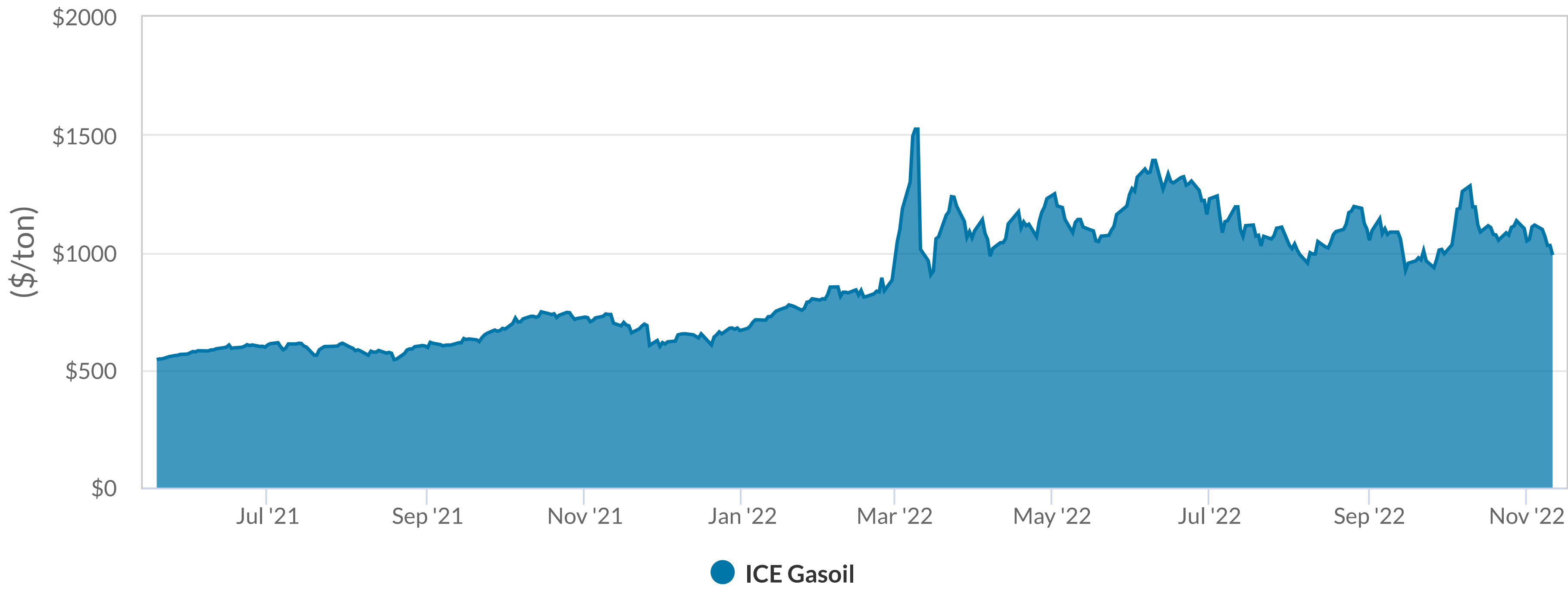
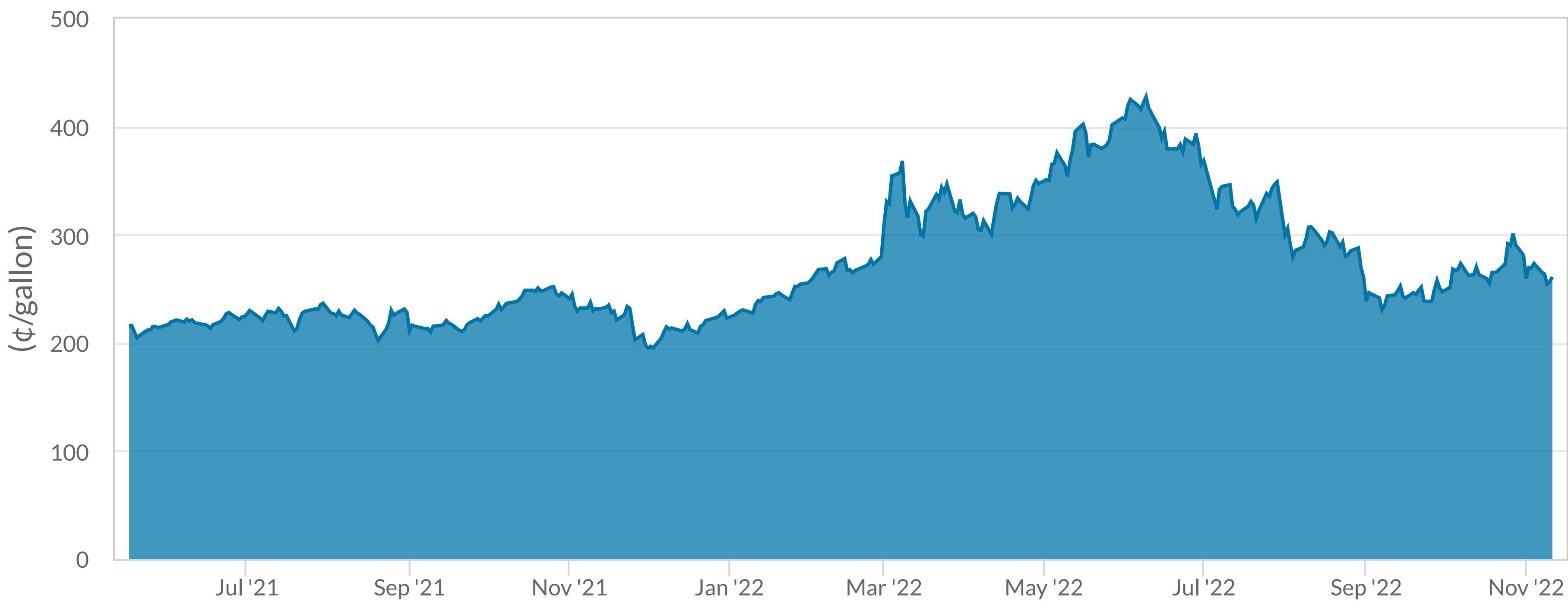
REFINED PRODUCT FUTURES

Nymex	Chg.	1st Mth.	2nd Mth.
Gasoline (¢/gal)	+4.33	260.96	255.56
ULSD Diesel (¢/gal)	-1.41	355.53	345.07
ICE			
Gasoil ($/ton)	-40.75	987.75	981.50
Gasoil (¢/gal)	-13.01	315.25	313.26

ICE GASOIL FUTURES



NYMEX GASOLINE FUTURES



US SPOT REFINED PRODUCTS

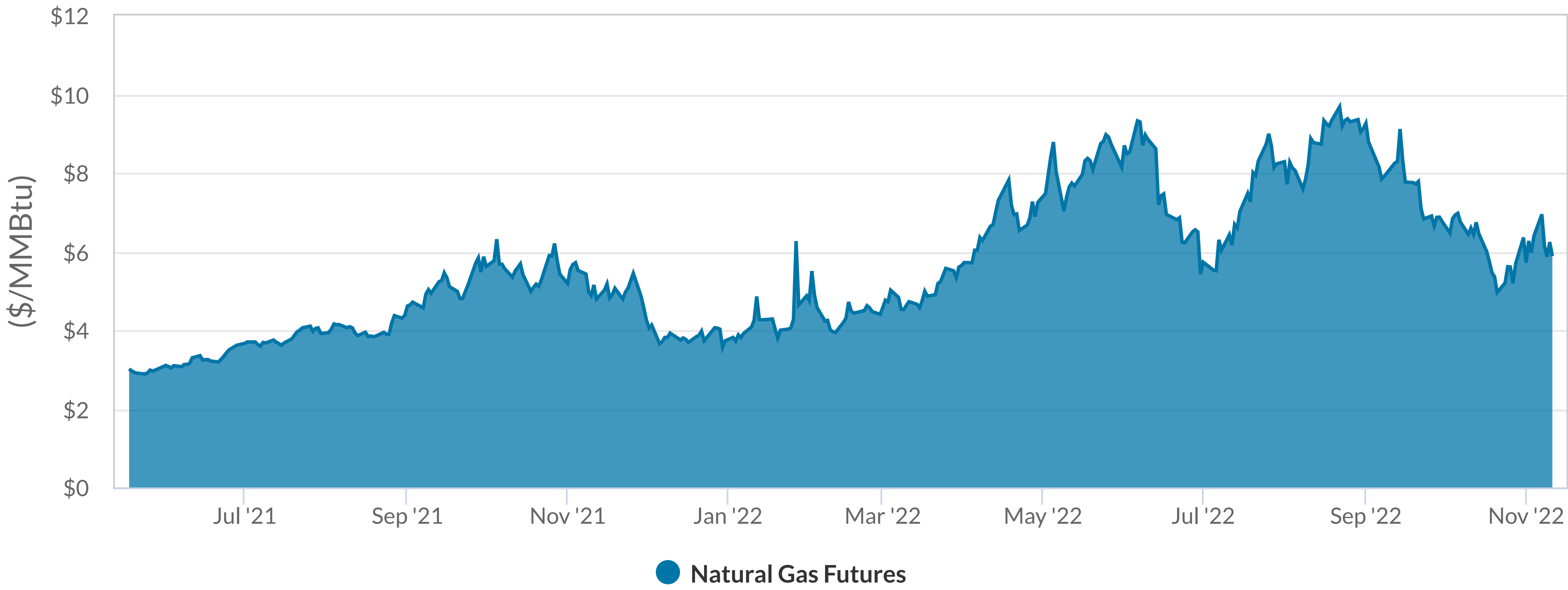
New York (¢/gal)	Chg.	Price	Prior Close
Regular Gasoline			303.98
No.2 Heating Oil			428.56
No.2 ULSD Diesel			477.56
No.6 Oil 0.3% *			93.85
No.6 Oil 1% *			85.52
No.6 Oil 3% *			66.97
Gulf Coast (¢/gal)			
Regular Gasoline			252.23
No.2 ULSD Diesel			337.31
No.6 Oil 0.7% *			81.17
No.6 Oil 1% *			81.17
No.6 Oil 3% *			63.27

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

INTERNATIONAL SPOT REFINED PRODUCTS

Rotterdam ($/ton)	Chg.	Price	Prior Close
Regular Gasoline	+13.80	897.80	884.00
ULSD Diesel	+17.75	1015.00	997.25
Singapore ($/bbl)			
Gasoil	+3.34	125.25	121.91
Jet/Kerosene	+2.64	127.76	125.12
VLSFO Fuel Oil ($/ton)	+30.68	678.31	647.63
HSFO Fuel Oil 180 ($/ton)	+24.01	439.64	415.63

NYMEX NATURAL GAS FUTURES



Refinitiv

NATURAL GAS PRICES

($/MMBtu)	Chg.	Price
Henry Hub, Nymex	-0.36	5.88
Henry Hub, Spot	#N/A	#N/A
Transco Zone 6 - NY	#N/A	#N/A
Chicago Citygate	#N/A	#N/A
Rockies (Opal)	#N/A	#N/A
Southern Calif. Citygate	#N/A	#N/A
AECO Hub (Canada)	#N/A	#N/A
Dutch TTF (euro/MWh)	-19.25	68.75
UK NBP Spot (p/th)	+7.25	100.00

US/Canada spot prices from Natural Gas Week

Equity Markets, Nov. 11, 2022

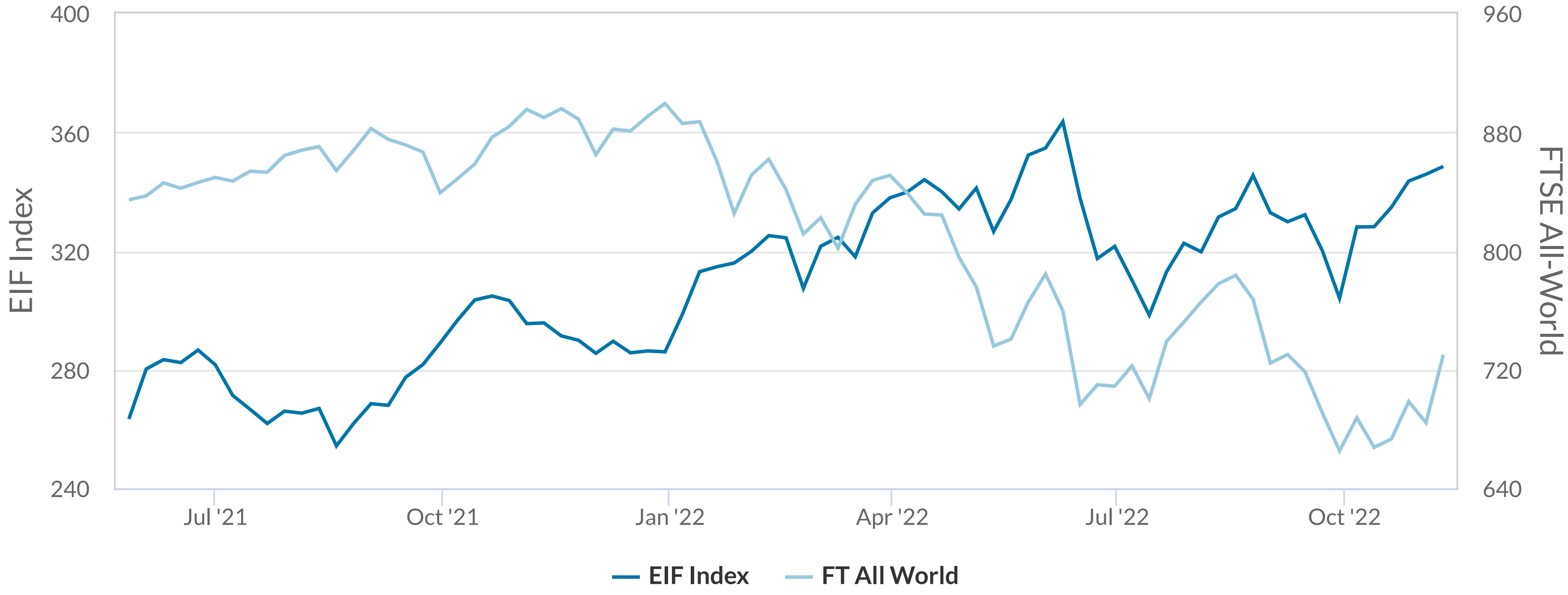
All data are produced by Energy Intelligence in cooperation with Reuters.

EQUITY MARKET INDEXES

	Chg.	Index	YTD %Chg.
EIF Global*	+2.94	348.44	+21.50
S&P 500	+36.56	3,992.93	-16.69
FTSE All-World*	+32.53	729.98	-19.00

*Index for previous day

EIF INDEX



EIF Global Oil and Gas Index of 21 traded equities