

Germany's Empty Pipeline Logic



Although the Nord Stream 2 gas pipeline is only 100 miles from completion, the transformation of world energy markets since construction began implies that the project no longer makes economic sense. So why is German Chancellor Angela Merkel determined to see it through to the end?

HAMBURG – Nord Stream 2, the almost-finished pipeline running directly from Russia to Germany, is not really about securing cheap natural gas. It is about personal gain and these two countries' national interest.

The pipeline across the Baltic has pitted the United States and the European Union against Germany, and a swelling chorus of domestic critics against Chancellor Angela Merkel. If it were just a matter of gas molecules, the project might never have seen the light of day. So, why did it?

Go back to 2005, when Gerhard Schröder and Russian President Vladimir Putin sealed the deal just before Schröder stepped down as chancellor. Shortly after handing power over to Merkel, the Russian energy giant Gazprom, essentially a Kremlin affiliate, named Schröder chairman of Nord Stream AG's shareholders committee. In 2016, Schröder rose to the top of Nord Stream 2, with Gazprom the only shareholder.

Ever since, Schröder has been Putin's tireless point man. Schröder never tires of repeating that he did it for the good of Germany, because it locked in energy security at decent prices.

In fact, Germany and Western Europe do not need Nord Stream 2. The oil price has more than halved since its 2008 peak. And with ever more new gas fields coming onstream, especially in the Mediterranean, not to mention North America, the price of gas has dropped by almost four-fifths over this period. Nor is the gas glut likely to be temporary, given ever more renewables surging into the market.

There are already 13 pipelines running from Russia to Europe, delivering some 250 billion cubic meters (m^3) of gas. Nord Stream 2 will raise dependence on Russia, but much more is at stake, because the pipeline circumvents Ukraine and Poland. For Putin, Ukraine, a former Soviet republic, rightfully belongs to the *rodina*, the Motherland, and he has already grabbed two pieces: Crimea and the Donbas. Likewise, he believes that Poland, a former satrapy, should be part of Russia's sphere of influence.

Nord Stream 2 enables Putin to weaken both countries by depriving them of transit fees and breaking Ukraine's grip on the tap. In 2020, Ukraine earned \$3 billion in fees from transporting some 50 billion m^3 of gas. Nord Stream 2 could pump about the same amount of gas – a neat coincidence. Schröder's Gazprom gambit would enable Putin to apply the

screws to Ukraine (and Poland), at a time when the government in Kyiv is desperately trying to resist Russian pressure on Ukraine's already-weak economy.

Schröder was not really thinking of Germany or Europe when he got his friend Putin to top up his modest chancellor's pension of €93,000 (\$113,000) per year. The real puzzle is Merkel. When former US President Donald Trump told her, "You've got to stop buying gas from Putin," she did not budge. An unnamed German official vowed: "We will do anything it takes to complete this pipeline."

Presumably, energy supplies are not uppermost in Merkel's mind. This is not about the "low politics" of gas and cash, but the "high politics" of states seeking power and position. Regardless of how often Germans and Russians have been at each other's throats, the enduring reflex goes back to Bismarck, who famously told the country in the middle: "Never cut the link to St. Petersburg." In other words, keep the peace with the giant on Germany's eastern flank.

Though now sheltered by NATO, the Federal Republic has been honoring Bismarck by practicing propitiation, or at least benevolent neutrality. With her fine sense for power, Merkel is not swooning over Russian gas, but sticking to a classic rule of German diplomacy.

Even during the Cold War, West Germany defied three American presidents – Nixon, Carter, and Reagan – by bartering steel pipes for Soviet energy. But what might have made economic sense during the global oil shocks of the 1970s now reflects only Bismarck's admonition: Don't rile the Russians.

Today, however, Merkel is acting on a new stage, and not only because of oversupply and dwindling demand as the industrial world shifts to solar, wind, and higher efficiency. Suddenly, Merkel is "home alone." It is not just the US, Britain, and nervous East Europeans who want to reduce Nord Stream 2 to

scrap. Even the French are turning against the deal.

Reliant on nuclear power, France doesn't need Russian gas. It worries more about Germany's "special relationship" and Russia's lengthening shadow over Europe. Just this month, Russian foreign minister Sergey Lavrov threatened to rupture relations with the EU if it imposed new sanctions.

In addition, Merkel faces unprecedented headwinds on her own turf. Even prominent fellow Christian Democrats and the pacifist-minded Greens have turned against Putin. So have parts of the liberal media, which usually zeroes in on imperial America.

Why? Two words: Alexei Navalny. Facing his most dangerous rival yet, Putin has overplayed his hand. The Kremlin's attempted murder of Navalny, and now the longish prison sentence meted out to him, has rattled Germany's political class. In democracies, moral revulsion beats Merkel-style realpolitik.

Merkel has maneuvered Germany into isolation. But the smart bet is that Nord Stream 2 will be completed. With only 100 miles left to go, it defies the imagination to believe that a €10 billion project would be buried beneath the Baltic sands. In the end, the Germans will not affront the Russians, and US President Joe Biden will go easier on Germany than Trump did. The wheeling and dealing has already begun. Germany is dangling some juicy carrots before Biden, promising to raise subsidies for the construction of German liquefied natural gas terminals that will take in American LNG. Germany also vows to work hard on new rules that would ensure the continued transit of gas through Ukraine. Poland will get funds for LNG terminals. There is talk that Germany would shut off Nord Stream 2 if Russia violated international law and human rights. Please, President Biden, just lift the sanctions.

A deal will be struck. But who will "negotiate" with the energy market? The court of supply and demand may issue this

definitive verdict: no need for another pipeline. If so, Nord Stream 2 may just rot away underneath the Baltic – a monument to greed and folly.

Texas' Gas-Export Clampdown Shocks Market as Blackouts Ebb

Texas is restricting the flow of natural gas across state lines in an extraordinary move that some are calling a violation of the U.S. Constitution's commerce clause.

Texas Governor Greg Abbott on Wednesday told a media briefing that he was banning gas from leaving the state through Feb. 21 to ensure in-state power generators had ample supplies. Less than 24 hours later, Texas's top energy regulator told gas producers to offer supplies for sale in-state before shipping it elsewhere, citing the governor's mandate.

Under the Constitution's so-called commerce clause, state governments are prohibited from interfering in interstate trade. Abbott said a disaster declaration he issued on Feb. 12 gave him latitude to impose such restrictions.

Abbott said he was forced to act as millions of Texans remain without power. By late Thursday morning, the number of blacked-out customers was down to about 500,000 from more than 4 million two days earlier, according to PowerOutage.us. Meanwhile, gas prices at a key trading hub in Oklahoma slumped 99% in a sign that the worst of the gas squeeze may be over. Still, the timeline to a full restoration of power is unclear.

"Operators should take notice that under this mandate, all 'sourced natural gas' be made available for sale to local power generation opportunities before leaving the state of Texas, effective through February 21, 2021," the railroad commission said in its directive to drillers.

'Maximum Withdrawal'

Abbott's announcement caught some gas traders flatfooted and sowed confusion in a market already dealing with huge upheaval. One West Coast-based trader said he lost \$1 million within minutes. Without being able to read the order, others hurriedly sought answers: Can gas still be exported to Mexico? Is LNG affected?

"This is an authority that is a state authority," Deputy National Security Advisor Liz Sherwood-Randall said during a media briefing on Thursday. "And we're in discussion with our Mexican partners as well as with the state officials around the decision that the state officials are taking."

Benchmark U.S. gas futures fell 3.7% to \$3.101 per million British thermal units at 1:07 p.m. on the New York Mercantile Exchange after rising as much as 2.5% in overnight trading.

Supply for next-day delivery at the Oneok Gas Transportation hub in Oklahoma traded at \$4 per million British thermal units on Thursday, according to traders. That's down from \$1,250 on the previous day and in line with prices seen just over a week ago. The Oneok hub is a key transit point for gas headed for major population centers such as Chicago.

"This is an abuse of the Texas Disaster Act," said Jared Woodfill, a prominent Republican attorney who repeatedly challenged Abbott over coronavirus restrictions in 2020. "It's amazing that there are no limits in Abbott's mind to what his authority is under the Texas Disaster Act. He'll take as much power as the courts and the Legislature will let him have."

The crumbling of the state's gas supplies as Arctic

temperatures took hold at the start of the week has been one of the driving factors behind the cascade of outages.

The calamity unfolding across Texas is somewhat reminiscent of the California power crisis of 2000-2001 when energy suppliers withheld and redirected electricity and gas out of state even as it faced shortfalls, prompting lawsuits. And yet again, even as Californians endured rolling blackouts amid an extreme heat wave last year, energy suppliers were exporting power to neighboring states. The state's grid operator later blamed market-design flaws.

Dan Woodfin, an executive at Ercot, said in an interview that a lack of gas supply is one of the reasons why it's having trouble getting power plants back online.

Fossil Fuels

One railroad commissioner took an emergency meeting on Wednesday as an opportunity to slam windmills and solar arrays that have become a bigger and bigger part of Texas's energy mix.

"The take away from this storm shouldn't be the future of fossil fuels but rather the danger of subsidizing and mandating unreliable, intermittent resources," Commissioner Wayne Christian said.

The state's gas stockpiles are undergoing "maximum withdrawal," Christi Craddick, the commission's chairman, said at a Wednesday media briefing with the governor and other state officials. She added that some gas plants in South and West Texas are resuming operation amid a thaw.

Top State

Texas produces more gas than any other state, with output at about 23 billion cubic feet a day before the deep freeze, BloombergNEF data show. That's about a quarter of total production from the Lower 48 states. Its two liquefied natural

gas export terminals consumed about 4 billion cubic feet a day of gas before the polar blast.

Abbott asked the Freeport LNG export terminal earlier in the week to dial back its operations. Freeport said it was shutting down two LNG production units in response. Gas flows to all U.S. LNG export terminals fell to a 2-year low on Tuesday.

Texas also exports gas by pipeline to Mexico. Gas is flowing again via the Nueva Era conduit between the two nations after the extreme cold interrupted its operation earlier in the week, according to one of the pipeline's owners.

Abbott also said Wednesday he and other state governors had expressed concern on a conference call with President Joe Biden about the severe spikes in natural gas prices amid the crisis. Spot prices in neighboring Oklahoma rocketed to over \$1,000 per million British thermal units Wednesday, increasing more than 100-fold from a week earlier.

La présidence de Biden offre de « nouvelles opportunités » pour débloquer le gaz de la Méditerranée de l'Est



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17 & 18
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Athènes, Grèce : Le monde post-Covid aura toujours besoin de gaz naturel de la Méditerranée de l'Est et le nouveau président de l'Amérique pourrait avoir les bonnes références pour surmonter les obstacles diplomatiques, c'est ce qu'un vétéran de la scène énergétique régionale a déclaré mercredi lors d'une conférence à Athènes.

Roudi BAROUDI, PDG d'Energy and Environment Holding, un cabinet de conseil indépendant basé au Qatar, a déclaré, le premier jour des Dialogues d'Athènes sur l'énergie, que Biden avait plusieurs qualités qui pourraient lui permettre de briser l'impasse.

Baroudi a déclaré dans les remarques transmises par un lien vidéo que « dans le passé, Biden a démontré une compréhension considérable des problèmes affectant la Méditerranée de l'Est ainsi qu'une perspective qui met en faveur des solutions

juridiques et diplomatiques ».

En outre, il a déclaré à un public comprenant des personnalités clés de l'énergie, des finances et du gouvernement que le nouveau président « a déjà exprimé sa détermination à réaffirmer certaines des prérogatives clés de Washington sur la scène internationale. Il s'agit notamment de son rôle stabilisateur traditionnel en Méditerranée, ainsi que sa défense du NAT0, qui se trouve inclure à la fois la Grèce et la Turquie, après quatre ans où Donald Trump a sapé l'alliance à chaque occasion ».

Les récentes découvertes du pétrole et du gaz offshore ont ramené les tensions gréco-turques mijotant depuis longtemps au premier plan, Ankara devenant beaucoup plus affirmée quant à ses revendications maritimes, en particulier lorsque celles-ci se chevauchent avec celles de la Grèce et de Chypre.

BAROUDI, qui pendant des années a défendu la coopération dans le domaine de l'énergie comme un moyen d'apaiser les tensions entre plusieurs pays de la Méditerranée de l'est, a récemment écrit un livre sur la façon de régler les revendications concurrentes dans la région. Plus précisément, les « différends maritimes en Méditerranée de l'Est: la voie à suivre examine les outils et modèles définis dans la Convention des Nations Unies sur le Droit de la Mer (UNCLOS).

Il a déclaré à l'auditoire que l'UNCLOS « fournit tous les outils et bases procédurales pour la résolution pacifique » des revendications rivales.

BAROUDI ajouta : « La résurrection par Biden d'une politique étrangère américaine plus conventionnelle signifie de nouvelles opportunités pour la Grèce, la Turquie et d'autres pays de la région pour tracer un avenir plus coopératif et plus productif ». « Les prix dans cette tentative comprennent non seulement une réduction des tensions et une facilitation de milliards de dollars de ventes et d'économies d'énergie,

mais aussi un élément crucial de la transition de la région vers un avenir à plus faibles émissions de carbone ».



Avec plus de 40 ans d'expérience dans le secteur de l'énergie, BAROUDI a contribué à façonner les choix politiques et d'investissement pour les entreprises, les gouvernements, les investisseurs et les organisations supranationales comme l'ONU et l'Union européenne. Il a expliqué aux journalistes après son discours que cela a également un "rôle clé dans le maintien des tensions ».

**Oυιλία Κ. Roudi Baroudi,
Athens Energy Forum 2021**



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Η προεδρία Μπάιντεν προσφέρει «νέες ευκαιρίες» να ξεκλειδώσει το φυσικό αέριο στην Ανατολική Μεσόγειο.

Αθήνα, Ελλάδα : «Ο κόσμος στην μετά Covid εποχή θα εξακολουθεί να χρειάζεται φυσικό αέριο από την Ανατολική Μεσόγειο και ο νέος πρόεδρος των ΗΠΑ ίσως να έχει τα κατάλληλα διαπιστευτήρια ώστε να προσπεράσει τα διπλωματικά εμπόδια» ένας βετεράνος της περιφερειακής ενεργειακής σκηνής δήλωσε σε συνέδριο στην Αθήνα την Τετάρτη.

Ο Ρούντι Μπαρούντι, Διευθύνων Σύμβουλος της Energy and Environment Holding, μια ανεξάρτητη συμβουλευτική εταιρείας με έδρα το Κατάρ δήλωσε την πρώτη μέρα του συνεδρίου Athens Energy Dialogues, ότι ο Μπάιντεν έχει πολλές ικανότητες που θα μπορούσαν να του επιτρέψουν να λύσει τον γόρδιο δεσμό.

«Ο Μπάιντεν στο παρελθόν έχει επιδείξει αξιοπρόσεκτη κατανόηση

σε θέματα που αφορούν την Ανατολική Μεσόγειο , καθώς επίσης σε μια προοπτική που δίνει έμφαση σε νομικές και διπλωματικές λύσεις» τόνισε ο κ. Μπαρούντι στην διαδικτυακή τοποθέτησή του.

Επιπλέον, υπογράμμισε, σε ένα κοινό που αποτελούνταν από εκπροσώπους της κυβέρνησης, του ενεργειακού και του επιχειρηματικού τομέα, ο νέος πρόεδρος έχει ήδη διατυπώσει την αποφασιστικότητα να επαναβεβαιώσει ορισμένα από τα βασικά προνόμια της Ουάσιγντον στη διεθνή σκηνή. Σε αυτά περιλαμβάνεται ο παραδοσιακός σταθεροποιητικός της ρόλος στη Μεσόγειο καθώς επίσης και η υπεράσπιση του ΝΑΤΟ , μέλη του οποίου η Ελλάδα και η Τουρκία και ενώ τα τελευταία τέσσερα χρόνια η διακυβέρνηση του Ντόλαντ Τραμπ υπονόμευσε τη συμμαχία με κάθε ευκαιρία.

Πρόσφατες ανακαλύψεις off shore πετρελαίου και φυσικού αερίου έφεραν τις ανοιχτές επι δεκαετίες ελληνοτουρκικές εντάσεις πάλι στο προσκήνιο, με την Αγκυρα να γίνεται περισσότερο αποφασιστική στους ισχυρισμούς της επι των θαλασσίων ζωνών ιδιαίτερα σε αυτές που έχει αντιπαράθεση με την Ελλάδα και την Κύπρο.

Ο κ. Μπαρούντι ο οποίος επι χρόνια έχει πρωταγωνιστήσει στη συνεργασία επί των θεμάτων ενέργειας, , έγραψε πρόσφατα ένα βιβλίο για τους συμβιβασμούς που απαιτούνται μεταξύ των ανταγωνιστικών ισχυρισμών στην περιοχή ως ένας τρόπος να οδηγήσει στην αποκλιμάκωση της έντασης μεταξύ των χωρών της Ανατολικής Μεσογείου. Συγκεκριμένα στο βιβλίο του με τίτλο «Διαφορές επι των θαλάσσιων θεμάτων στην Ανατολική Μεσόγειο: Ο τρόπος να πάμε μπροστά» εξετάζει τα εργαλεία και οι ευκαιρίες που απορρέουν από τη Σύμβαση για το Δίκαιο της θάλασσας των Ηνωμένων Εθνών (UNCLoS)

Η σύμβαση, είπε στο ακροατήριο, παρέχει όλα τα εργαλεία και τις διαδικαστικές βάσεις για την ειρηνική επίλυση των αντιμαχόμενων ισχυρισμών.

Η ενεργοποίηση του Μπαίντεν σε μια πιο συμβατική εξωτερική

πολιτική των ΗΠΑ σημαίνει νέες ευκαιρίες για την Ελλάδα, την Τουρκία και άλλες χώρες της περιοχής να σχεδιάσουν ένα πιο συνεργάσιμο και παραγωγικό μέλλον, πρόσθεσε ο κ. Μπαρούντι.

Τα κέρδη σε αυτή την προσπάθεια περιλαμβάνουν όχι μόνο τη μείωση των εντάσεων και τη διευκόλυνση των πωλήσεων ενέργειας αξίας δισεκατομμυρίων δολαρίων αλλά θα αποτελέσει ένα σημαντικό παράγοντα στη μεταβίβαση της περιοχής σε ένα μέλλον με χαμηλότερες εκπομπές διοξειδίου του άνθρακα.

Με περισσότερα από 40 χρόνια εμπειρίας στη βιομηχανία της ενέργειας, ο κ. Μπαρούντι έχει βοηθήσει στη διαμόρφωση πολιτικών και επενδυτικών επιλογών για εταιρείες, κυβερνήσεις, επενδυτές και διεθνείς οργανισμούς όπως ο ΟΗΕ και η Ευρωπαϊκή Ένωση. Η τελευταία, όπως εξήγησε στους δημοσιογράφους μετά την ομιλία του, παιζει ένα σημαντικό ρόλο στο να κρατά τις εντάσεις χαμηλά.



BIDEN PRESIDENCY OFFERS 'NEW OPPORTUNITIES' TO UNLOCK EAST MED GAS



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ATHENS, Greece: The post-COVID world will still need natural gas from the Eastern Mediterranean, and America's new president may have just the right credentials to overcome diplomatic obstacles, a veteran of the regional energy scene told a conference in Athens on Wednesday.

Roudi Baroudi, CEO of Energy and Environment Holding, an independent consultancy based in Qatar, told the first day of the Athens Energy Dialogues that Biden had several qualities

that might enable him to break up the logjam.

"Biden in the past has demonstrated considerable understanding of issues affecting the Eastern Med, as well as a perspective that emphasizes legal and diplomatic solutions," Baroudi said in remarks delivered by video link. In addition, he told an audience including key energy, finance, and government figures, the new president "has already articulated a determination to reassert some of Washington's key prerogatives on the international stage. These include its traditional stabilizing role in the Mediterranean, as well as its championing of NATO, which happens to include both Greece and Turkey, after four years of Donald Trump undermining the alliance at every opportunity."

Recent discoveries of offshore oil and gas have brought long-simmering Greco-Turkish tensions back to the front burner, with Ankara becoming much more assertive about its maritime claims, especially where these overlap with those of Greece and Cyprus.

Baroudi, who for years has championed cooperation in energy as a way of defusing tensions among several East Med countries, has recently written a book about how to settle competing claims in the region. Specifically, 'Maritime Disputes in the Eastern Mediterranean:

'The Way Forward' examines the tools and templates laid down in the United Nations Convention on the Law of the Sea (UNCLOS).

UNCLOS, he told the audience, "provides all the tools and procedural bases for the peaceful resolution" of rival claims. "Biden's resurrection of a more conventional US foreign policy means new opportunities for Greece, Turkey, and other countries in the region

to chart out a more cooperative and more productive future," Baroudi added. "The prizes in this endeavor include not just a reduction of tensions and the facilitation of billions of dollars worth of energy sales and savings, but also a crucial component of the region's transition

to a lower-carbon future.”



With more than 40 years of experience in the energy industry, Baroudi has helped shape policy and investment choices for companies, governments, investors, and supranational organizations like the UN and the European Union. The latter, he explained to reporters after his talk, also has a “key part in keeping the tensions down”.

Global Oil Markets Are Now Balanced, Russia's Novak Says



(Bloomberg) – Global oil markets have rebalanced following last year's historic collapse in demand, according to Russia's deputy prime minister.

“The last few months we have seen low volatility, which means the market is balanced, and the prices we see today certainly correspond to the situation in the market,” Alexander Novak said on state television channel Rossiya 1 on Sunday. Crude will probably average \$45 to \$60 a barrel this year, according to Novak, who was Russian energy minister before President Vladimir Putin promoted him in November.

Benchmark Brent crude has surged 22% this year to top \$63 a barrel as energy use recovers in the U.S. and China and nations roll out coronavirus vaccines. Prices have also been buoyed by deep supply cuts from the Organization of Petroleum Exporting Countries and its partners, who are trying to clear surplus stockpiles built up during the pandemic.

The oil market “has partially recovered, but not completely yet,” Novak said, adding that global demand was about 8% to 9%

below pre-pandemic levels by the end of last year, compared with a decline of 20% to 25% in April and May.

Most members of the OPEC+ coalition, which has been gradually restoring barrels halted during the crisis, are pausing the process for two months. But Russia secured a 65,000-barrel-a-day increase in its quota for February and March, while Saudi Arabia is implementing a unilateral cut of 1 million barrels a day. OPEC+ ministers will meet in early March to discuss next steps.

Novak also commented on the Nord Stream 2 project, a natural gas pipeline being built under the Baltic Sea from Russia to the German coast. Despite U.S. sanctions targeting the project, it will be completed, Novak said. Work on the line resumed in late 2020 after being halted for a year.

(Updates with further Novak comment in fourth paragraph.)

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US oil demand is emerging after months of Covid paralysis



Bloomberg / New York

US oil demand is finally starting to emerge from the grips of pandemic after months with Asia serving as the lone bright spot in the global market market.

American refiners are processing the most crude since the economy ground to a halt in March in anticipation of a vaccine-driven boost in gasoline demand this summer. The uptick means that the refiners are competing for domestic barrels that for months were sent to more robust markets in Asia. Prices for cargoes of grades like West Texas Intermediate crude have picked up by at least 50 cents a barrel from earlier this month.

The return of US demand, which began when a global vaccination campaign kicked off in December, is the latest development in oil's recovery from the depths of the pandemic. For months oil prices were managed by Opec and its partners with production cuts, without the help of demand outside of Asia.

As domestic oil demand recovers, it could meet with supply shortages. Economic-driven output declines took about 2mn barrels a day of local crude off the market from the peak of 13.1mn, after dozens of drillers slashed budgets and filed for bankruptcy. The US government sees production recovering to

only 11.5mn barrels a day in 2022.

Rosneft Returns to Profit, Signaling 2020 Dividend Payments



Russian oil giant Rosneft PJSC returned to profit in the fourth quarter of 2020 after signing a multibillion dollar deal to sell a share of its Vostok Oil mega-project in the Arctic to trader Trafigura Group.

The results signal that the producer will be able to pay a dividend for 2020 even after historic crude-price declines and production cuts. The company reported a record quarterly net income of 324 billion rubles (\$4.36 billion) in the three

months through December, above analyst estimates. That offset earlier losses, resulting in a full-year profit of 147 billion rubles.

“Despite all the difficulties of 2020, the company has achieved a net income, which will be the basis for the distribution of dividends,” Chief Executive Officer Igor Sechin said in a statement on Friday. Rosneft’s management will recommend the board to make 2020 payouts to shareholders fully in line with the company’s dividend policy, First Vice-President Didier Casimiro said on a call with investors.

Big Oil has mostly reported disappointing fourth-quarter earnings, signaling the industry’s recovery from the pandemic will be long. While most international producers, such as Royal Dutch Shell Plc or Exxon Mobil Corp., remain committed to making or even raising dividend payouts, investors question just how soon the sector will be able to improve its cash flow.

Russian oil companies have been under even more pressure due to output constraints that are part of the country’s deal with the Organization of Petroleum of Exporting Countries. Accounting for 40% of the nation’s total crude production, Rosneft bears the biggest burden.

Based on its full-year results, the producer, which distributes a half of its net income to shareholders, is set to pay some 7 rubles per share in 2020, according to estimates from BCS Global Markets and Sova Capital. That would be Rosneft’s smallest shareholder payout since 2016. The company scrapped its interim dividend for 2020 after losing money in the first half of the year.

Rosneft shares advanced as much as 1.1% to 506.50 rubles, the highest level in more than three weeks.

Arctic Foray

Rosneft expects Vostok Oil, an ambitious Arctic development valued at \$85 billion, to drive future dividend yields and shareholder value, Sechin said.

Rosneft received 7 billion euros from Trafigura for 10% of Vostok Oil in December, according to the financial statement. The deal allowed “for the practical start of the execution of the project,” Sechin said.

The Vostok project envisions production of some 25 million tons of oil per year, or around 500,000 barrels a day, in 2024, and twice as much in 2027. At its peak, the remote development is set to produce as much as 100 million tons per year. That compares with Russia’s total crude oil and condensate production of 513 million tons for 2020.

Rosneft is in discussions with other potential partners in Vostok Oil, Casimiro said, adding that international trading houses, global oil majors and crude-importing nations like India are interested. Russia will keep a controlling stake in the development, he said.

Total quits US oil lobby over climate policies



Reuters /London

Total yesterday became the first major energy company to quit the main US oil and gas lobby due to disagreements over its climate policies and support for easing drilling regulations. Total said it would not renew its 2021 membership with the American Petroleum Institute (API) following a review of the lobby's climate positions, describing them as being only "partially aligned" with Total's.

Its withdrawal from the century-old API comes ahead of a sweeping change in policy direction in the United States, with incoming President Joe Biden promising to tackle climate change and bring the country to net-zero emissions by 2050.

The points of difference include API's support for the rollback of US regulation on emissions of methane, a potent greenhouse gas, for oil and gas drillers as well as on how to assign a price to carbon, seen as a critical method to curb emissions.

"As part of our Climate Ambition made public in May 2020, we are committed to ensuring, in a transparent manner, that the industry associations of which we are a member adopt positions and messages that are aligned with those of the Group in the fight against climate change", Total chief executive Patrick

Pouyanné said.

In a statement, the API thanked Total for its membership.

"We believe that the world's energy and environmental challenges are large enough that many different approaches are necessary to solve them, and we benefit from a diversity of views," the API said.

Total's operations in the United States include a number of offshore oil and gas fields in the Gulf of Mexico, a major refining and petrochemical plant in Port Arthur, Texas as well as renewable energy businesses.

Total last year announced plans to cut its carbon emissions, with the aim of reaching net zero emissions from its operations and its energy products sold to customers in Europe by 2050 or sooner.

Europe's top energy companies, including BP and Royal Dutch Shell, have outlined plans to curb emissions and boost renewable energy output following years of growing investor pressure.

Total, BP and Shell have already pulled out of the American Fuel & Petrochemical Manufacturers, a US oil refining group, also due to differences over climate policies.

They also said they would regularly review their alignment over climate with industry associations but until Friday those companies had elected to remain in API, the primary trade group for the oil and gas industry.

BP last year decided to remain in the API even though it was only partially aligned with the lobby.

Andrew Logan, director for oil and gas programmes and clean energy investor group CERES, said the announcement was significant and would put pressure on other European oil majors.

"Given the size and influence of API, this is a much more significant move than previous decisions to pull out of more niche trade groups like AFPM.

I think that we will see other companies follow suit," Logan said.

Freight Boom Fires Buffett Trains, Maersk Ships and Oil Prices



(Bloomberg) – A great global restock is at hand, filling ships, trucks and trains, and also firing oil demand.

During the depths of China's coronavirus crisis at the start of the year, shipping behemoth A.P. Moeller-Maersk A/S reported an unprecedented number of canceled sailings as the Asian country all but shut itself off from the world. Since then, the company's shares have surged to the brink of a record in Copenhagen. In the U.S., BNSF Railway Co., the freight giant owned by Warren Buffett, is riding a boom that's pushed the number of carloads and containers it hauls up year-

on-year in recent weeks.

A shift in consumer behavior, particularly in western countries, has driven oil prices above \$50 a barrel in the past few weeks. People have been diverting expenditure previously earmarked for now-unattainable things – like holidays and meals in restaurants – toward purchasing physical goods. And that's only the start of it: stores, warehouses and industries have undertaken a huge inventory restocking phase. As more boxloads of stuff get moved across the planet, so demand for fuel to power ships, trucks and freight trains has soared.

"This is the perfect storm for global container flows," said Lars Mikael Jensen, head of network at Maersk, which marshals a fleet of almost 700 ships. "The current restocking in the U.S. and Europe raises demand, whilst global measures to contain the pandemic cause severe strain across the supply chain from lack of vessels, containers and trucking capacity."

While beneficial to oil prices and freight haulers, the boom is straining important transport infrastructure. Bottlenecks are worsening at ports around the world, contorting supply chains for everything from car parts to cosmetics. The recent closing of freight deliveries from France into the U.K. serves as a reminder that things could become even more snarled – but also that the full economic and trade impacts of the coronavirus remain far from certain.

Los Angeles is emblematic of the turnaround in activity. Together with Long Beach, L.A. is a corridor for the import of goods from Asia into the U.S. Earlier this year, thousands of empty containers were sitting at the dock in Los Angeles, a symptom of both trade tensions with China, and Covid. Today, imported goods are now flooding in.

"Right now, what we are grappling with is a change in buying habits," said Gene Seroka, executive director of the Port of

Los Angeles. "Where we were once buying mainly services, now you and I have turned back to buying products and those warehouses need to be restocked. Folks have been ordering so much for delivery, we can't process it fast enough."

Exports from China are surging, pushing the country's trade surplus to a record. The nation's companies shipped \$268 billion of goods in November, a 21% increase year-on-year.

In India, the lifting of lockdown restrictions and a full resumption of intra-state vehicle movement led to a boost in road transport fuel consumption in October, with diesel demand growing more than 7% year-on-year, according to Senthil Kumaran, head of South Asia oil at industry consultant FGE.

Shipping rates are going crazy. Moving a 40-foot steel box by sea from Shanghai to the European trade hub of Rotterdam costs about \$6,500 per container, the most for the time of year since at least 2011, according to data from Drewry.

The trends matter for the oil market because trucking accounts for about 16% of global oil consumption and almost half of all diesel demand, according to 2019 data from the International Energy Agency.

The rebound in activity, combined with the onset of Northern Hemisphere winter, has been lifting a previously disastrous market for the fuel for about two months.

Back in September, the so-called crack spread – diesel's premium to crude – plunged as low as \$2 a barrel in Europe.

As well as stuttering demand, a key cause of the diesel-market weakness was a collapse in global aviation. Oil refineries responded to that slump by diverting output of jet fuel into making diesel instead, boosting output when consumption was weak. In addition, because people were often staying off public transport to avoid catching the virus, refineries needed to keep high output levels to service gasoline demand –

further swelling diesel supply at a time when it wasn't needed.

Those dynamics have turned. Last week, the crack spread rallied to \$6.28 a barrel. That's at a time when the underlying price of crude oil has also rallied strongly.

Keep on Trucking

In the U.S., freight by truck is the primary influencer of diesel and viewed as a sign of the health of the wider economy. Interstate miles covered by trucks are up above 9% over last year, while traffic for all vehicles is down more than 10%, federal Department of Transportation statistics show.

A proxy for demand in U.S. is how much of a petroleum product oil refineries supply. And in the week to Dec. 11, they supplied 4 million barrels a day of distillate fuel oil, the category that includes diesel. Back in May, that figure slumped to 2.7 million a day, the lowest in decades, Energy Information Administration data show. Stockpiles remain high but are far less bloated than they were earlier this year.

The pull on diesel can be seen in excess demand for deliveries this year. Data from consultant Freight Waves show that 26% of requests for freight hauling are being turned down this quarter, double the rejection rate from a year ago.

While trucking may be the mainstay of diesel demand, one of the largest U.S. buyers of the fuel – after the Navy – is Buffett's BNSF Railway. It too reports surging activity.

"We have seen a strong recovery in intermodal volumes as an increase in e-commerce sales drives demand for parcel and truckload intermodal shipments on our network," said Tom G. Williams, BNSF group vice president consumer products. "As cities and states began reopening, intermodal demand was further supported by recovering brick-and-mortar retailers."

Current volumes at some of BNSF's intermodal facilities are as much as 20% higher than they were at this time last year, and the company is continuing to work with its customers to meet a "consistent surge" in demand while replenishing inventories that have been low since the onset of the pandemic, he said.

Even Europe

Over in Europe, the continent's biggest owner of trucks reports the same dynamics, filling the company's fleet and boosting usage of diesel.

"There is definitely a new consumer pattern," said Kristian Kaas Mortensen, an executive at Girteka Logistics, a Vilnius, Lithuania-based owner of more than 7,500 trucks. "Because we can't give it face-to-face we are shipping it."

Girteka is so busy that it's giving overflow business to other trucking companies. It anticipates the busiest year-end in its history.

In Germany, miles driven by large trucks have been steadily rising since September and are currently their highest in a month, according to the nation's statistics office. Polish heavy traffic in the week to Dec. 20 is about 20% higher than the equivalent year ago. It was a similar picture in the U.K. prior to the country's most recent set of lockdown rules.

But it's a surge that's global and may well be without precedent, according to Gebr. Weiss, a 500-year-old firm that lays claim to being the world's oldest logistics company.

"Looking back at our history, you could say we've weathered a few challenges: a war, a revolution or two but still, in all my years in logistics I've never had a year like this," said Gebr. Weiss board member Lothar Thoma. "Covid choked up, disrupted transport arteries on a global scale, messed the cycles of goods-in, goods-out, be it air, sea, rail or road."

