

Oil giants face backlash for handing record profits to investors



Bloomberg / New York

Big Oil's record profits are a huge hit on Wall Street but increasingly provocative in the corridors of power from Washington to London as politicians lash out against executives for funnelling windfall profits to investors.

The controversy this week was not so much about the gargantuan dollar amounts earned but what the world's largest energy companies chose to do with them. Exxon Mobil Corp, Chevron Corp, Shell Plc and TotalEnergies SE are handing almost \$100bn to shareholders annually in the form of buybacks and dividends while reinvesting just \$80bn in their core businesses this year, according to data compiled by Bloomberg.

"Can't believe I have to say this, but giving profits to shareholders is not the same as bringing prices down for American families," President Joe Biden tweeted on Friday in response to Exxon's dividend increase.

Biden assailed Exxon again Friday evening at a Democratic fundraiser in Philadelphia, saying the company's earnings were "the most it's made in its 152-year history, while the rest of America is struggling."

"Those excess profits are going back to their shareholders and their executives instead of going to lower prices at the pump and giving relief to the American people, who deserve it and need it," he added.

"I'm going to keep harping on it," Biden vowed. "They talk about me picking on them – they ain't seen nothing yet. I mean it. It outrages me. Representative Ro Khanna, a California Democrat, called energy profits "obscene," and introduced legislation to prohibit fuel exports, a move he said would lower prices at the pump. Senate Majority Leader Chuck Schumer called the earnings "unconscionable."

Russia's post-invasion halt to natural gas shipments to much of Europe and sanctions on the country's oil exports triggered a global scramble for energy supplies, bidding up prices in the process.

With gasoline prices and household utility bills squeezing consumers and pushing up inflation, politicians are demanding major oil companies reinvest more profits in drilling and refining to ease the strain.

For their part, oil executives, under pressure on emissions and years of poor returns, are in no mood to back down.

"There are hard times, as we saw just two years ago where we had enormous losses," Chevron chief executive officer Mike Wirth said on Bloomberg TV. "You move into another part of the cycle and you have strong earnings. Good times don't last just like the difficult times don't last. We have to invest through those cycles."

Wirth rejected the idea that current profits are a windfall and warned politicians against enacting any "short-sighted" policies that would restrain investment.

Earlier this year, the UK passed a windfall-profits tax on domestic oil and gas producers including BP Plc and Shell to claw back some of their extraordinary earnings, and there may

be more measures on the way. Prime Minister Rishi Sunak says all options are on the table as he attempts to fill a £35bn (\$40.7bn) budget shortfall.

The European Union also gave a green light earlier this year for countries to implement windfall levies. An analysis from Boston Consulting Group found that the measure could raise as much as 150bn euros (\$149bn) in the next year. "There's just a big gap in country finances and this is a way to fill that," said Anders Porsborg-Smith, a managing director at BCG. "And it's rarely unpopular to tax supernormal profits."

California Governor Gavin Newsom, also a Democrat, said it's time to "crack down on oil's price gouging tactics and put their profits back into our pockets," adding "gas prices shouldn't be this high." But analysts say California's strict clean-fuel standards are a major reason why the state pays more for gasoline than any other in the US.

Windfall taxes may be popular but whether they're effective is another matter. Shell hasn't had to pay any windfall tax in the UK so far, despite making record-setting profits this year, due to increased investment in the North Sea. More importantly, the industry says such taxes risks chilling investment by the oil majors at a time when they're most needed.

Exxon and Chevron are increasing oil and gas output fast in the Permian Basin, and both reported strong refining throughput in the third quarter, but there's a limit to how much they can do to ease prices in the short-term. Major projects take years of planning and development. Bad policy is a factor behind today's energy crisis, according to Exxon CEO Darren Woods.

"Unfortunately, the markets that we're in today are a function of many of the policies, and some of the narrative that's floated around in the past," he said. "Our focus is really making sure people understand what the potential consequences of some of these policies are."

QatarEnergy Trading to offtake, market 70% of LNG produced by Golden Pass project in US



Doha

Affiliates of QatarEnergy and ExxonMobil have agreed to independently offtake and market their respective proportionate equity shares of LNG produced by the Golden Pass LNG Export Project located in Sabine Pass, Texas, the US.

Pursuant to the agreement, QatarEnergy Trading, a wholly owned subsidiary of QatarEnergy, will offtake, transport, and trade 70% of the LNG produced by Golden Pass LNG.

The construction of Golden Pass, which has a total production capacity in excess of 18mn tonnes of LNG per year, is well underway with first LNG production expected by the end of 2024.

Commenting on this development, HE the Minister of State for

Energy Affairs, Saad bin Sherida al-Kaabi, also the President and CEO of QatarEnergy said, “The energy market is highly dynamic and undergoing a period of transformation, and LNG will continue to play a key role in meeting global energy demand and ensuring security of supply. This agreement is an important addition to our efforts to meet demand for cleaner energy and to support the economic and environmental requirements for a practical, equitable and realistic energy transition.”

Al-Kaabi added: “QatarEnergy is the global leader in LNG, the cleanest of all fossil fuels, and it is only natural for us to increase focus on LNG trading and portfolio optimisation to deliver innovative LNG solutions that meet the needs of our customers across the globe. I am proud of what QatarEnergy Trading has achieved in the very short time since its inception and with this new addition to its portfolio, I am confident that QatarEnergy Trading will accelerate its efforts to deliver on our aspiration of becoming a world leader in LNG trading in the near future.”

As a result of this arrangement, Ocean LNG Limited, a joint venture established in 2016 between affiliates of QatarEnergy and ExxonMobil for offtaking and marketing the entire production of Golden Pass LNG, has ceased operations, and will be wound down.

Turkey-Libya preliminary deal prompts Greece, Egypt to push back



TRIPOLI, Oct 3 (Reuters) – Libya’s Tripoli government signed a preliminary deal on energy exploration on Monday, prompting Greece and Egypt to say they would oppose any activity in disputed areas of the eastern Mediterranean.

Libya’s eastern-based parliament, which backs an alternative administration, also rejected the deal.

Speaking at a ceremony in Tripoli, Turkish Foreign Minister Mevlut Cavusoglu and Libyan Foreign Minister Najla Mangoush said the deal was one of several in a memorandum of understanding on economic issues aimed at benefiting both countries.

It was not immediately clear whether any concrete projects to emerge would include exploration in the “exclusive economic zone” which Turkey and a previous Tripoli government agreed in 2019, angering other eastern Mediterranean states. That zone envisaged the two countries sharing a maritime

border but was attacked by Greece and Cyprus and criticised by Egypt and Israel.

“It does not matter what they think,” said Cavusoglu when asked if other countries might object to the new memorandum of understanding.

“Third countries do not have the right to interfere,” he added.

Greece’s foreign ministry said on Monday that Greece had sovereign rights in the area which it intended to defend “with all legal means, in full respect of the international law of the sea.”

It cited a 2020 pact between Athens and Egypt, designating their own exclusive economic zone in the eastern Mediterranean, which Greek diplomats have said effectively nullified the 2019 accord between Turkey and Libya.

“Any mention or action enforcing the said ‘memorandum’ will be de facto illegitimate and depending on its weight, there will be a reaction at a bilateral level and in the European Union and NATO,” the Greek foreign ministry said in a statement.

An Egyptian foreign ministry’s statement said on Monday that Foreign Minister Sameh Shoukry received a phone call from his Greek counterpart, Nikos Dendias, where they discussed the developments in Libya.

They both stressed that “the outgoing ‘government of unity’ in Tripoli does not have the authority to conclude any international agreements or memoranda of understanding,” the Egyptian foreign ministry’s statement added.

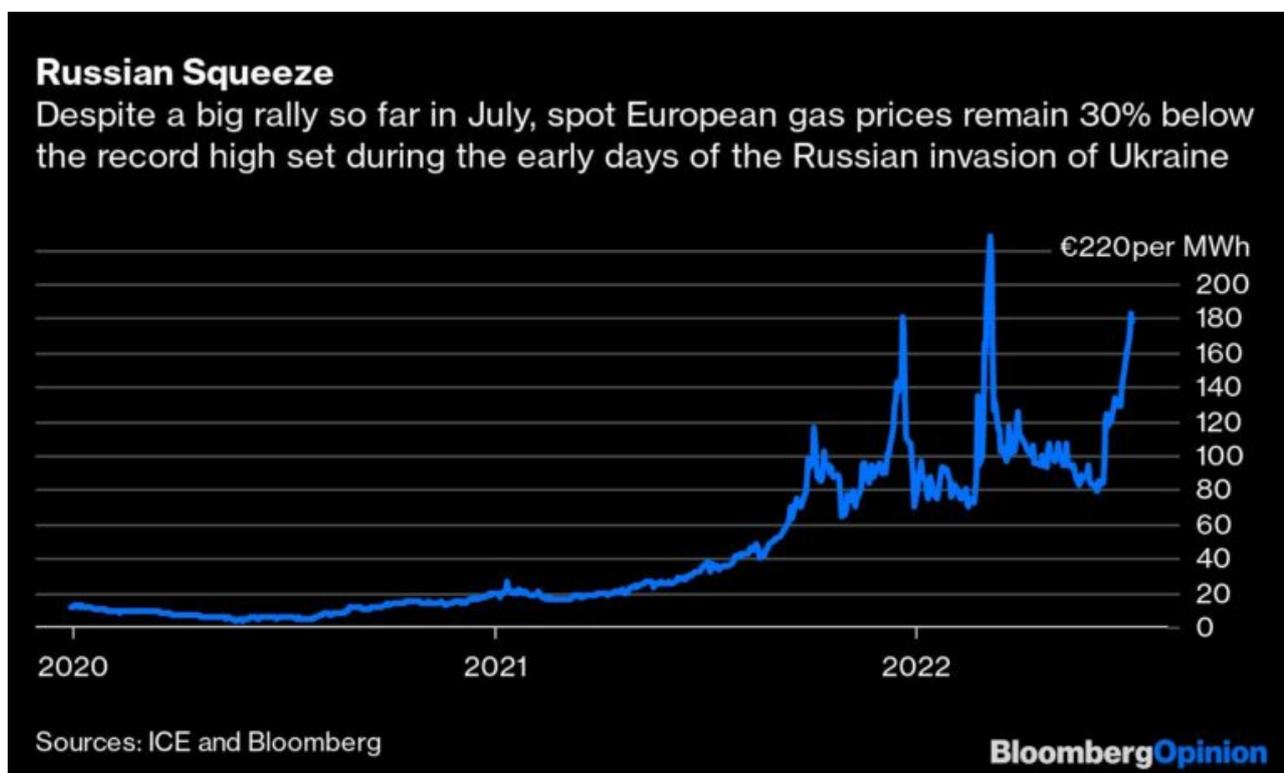
Dendias posted on Twitter about his phone call with Shoukry, saying both sides challenged the “legitimacy of the Libyan Government of National Unity to sign the said MoU,” and that he will visit Cairo for consultations on Sunday.

Turkey has been a significant supporter of the Tripoli-based Government of National Unity (GNU) under Abdulhamid al-Dbeibah, whose legitimacy is rejected by the Libyan parliament.

Parliament Speaker Aguila Saleh, seen as an ally of Egypt, said the memorandum of understanding was illegal because it was signed by a government that had no mandate.

The political stalemate over control of government has thwarted efforts to hold national elections in Libya and threatens to plunge the country back into conflict.

Europe gas crisis is bigger than its mega rescue plan



Craig Stirling and Elena Mazneva
(Bloomberg) – The economic damage from the shutdown of Russian

gas flows is piling up fast in Europe and risks eventually eclipsing the impact of the global financial crisis.

With a continent-wide recession now seemingly inevitable, a harsh winter is coming for chemical producers, steel plants and car manufacturers starved of essential raw materials who've joined households in sounding the alarm over rocketing energy bills. The suspected sabotage of Germany's main pipeline for gas from Russia underlined that Europe will have to survive without any significant Russian flows.

Building on a model of the European energy market and economy, the Bloomberg Economics base case is now a 1% drop in gross domestic product, with the downturn starting in the fourth quarter. If the coming months turn especially icy and the 27 members of the European Union fail to efficiently share scarce fuel supplies, the contraction could be as much as 5%.

That's about as deep as the recession of 2009. And even if that fate is avoided, the euro-area economy is still on track to spend 2023 suffering its third biggest contraction since World War II – with Germany among those suffering the most.

“Europe is very clearly heading into what could be a fairly deep recession,” said Maurice Obstfeld, a former chief economist at the IMF who's now a senior fellow at the Peterson Institute for International Economics in Washington.

The bleak outlook already means that, seven months on from the outbreak of war in Ukraine, governments are shoveling hundreds of billions of euros to families at the same time as they bail out companies and talk of curbs on energy-usage. And those rescue efforts may still fall short.

Adding to the pressure on companies and consumers, the European Central Bank is also squeezing the economy as its new laser-like focus on surging inflation drives the fastest hiking of interest rates in its history. ECB President Christine Lagarde said Monday that she expects policy makers to lift borrowing costs at the next several meetings. Traders

are already pricing in a jumbo 75 basis-point hike at the next monetary policy meeting on Oct. 27.

“The outlook is darkening,” Lagarde told EU lawmakers in Brussels. “We expect activity to slow substantially in the coming quarters.”

Some energy-industry watchers warn of a lasting crisis that potentially proves bigger than the oil-supply crunches of the 1970s. Indeed, the final impact of the shortages could be even worse than economic models can capture, Jamie Rush, Bloomberg’s chief European economist, said.

In an energy crunch, the industrial supply chain can break down in dramatic and unpredictable ways. Individual businesses have a breaking point above which high energy costs simply mean they stop operating. Whole sectors can face shortages of energy-intensive inputs such as fertilizer or steel. In the power system, once a blackout starts, it can quickly get out of control, cascading across the grid.

“Our analysis is a sensible starting point for thinking about the channels through which the European energy markets affects the economy,” Rush said. “But it cannot tell us the impact of system failures.”

As a witness to the pain, consider the experience of Evonik Industries AG, one of the world’s largest specialty chemical manufacturers, based in western Germany’s industrial Ruhr valley. In a statement to Bloomberg, the company warned of the potential long-term harm from persistently high costs.

“The basic condition for the prosperity of the German economy, and in particular of the industry, is the permanent availability of energy, also from fossil sources, at reasonable prices,” the company said.

It’s not alone. Volkswagen AG, Europe’s biggest carmaker, is exploring ways to help its broad supplier network in Europe

counter a shortage in natural gas, including making more parts locally and shifting manufacturing capacity. Domo Chemicals Holding NV, which jointly operates Germany's second-biggest chemical plant, is cutting production in Europe, while Italian truckmaker Iveco Group NV has said it's holding talks with suppliers about their struggles with energy prices.

Data released just last week showed private-sector activity in the euro zone contracted for a third month in September, with an index of purchasing managers compiled by S&P Global slumping to its lowest level since 2013. Meanwhile the crisis has also driven consumer confidence to a record low.

The problem began to take root last year when energy prices started to soar as demand recovered from the Covid-19 pandemic, and Russian President Vladimir Putin began to quietly restrict gas supplies to Europe.

His invasion of Ukraine in February plunged the economy into further chaos amid ballooning inflation, a deepening cost-of-living crisis, and cuts to industrial production. By early September, the limited gas that had still been running through the Nord Stream 1 pipeline from Russia to western Europe had stopped indefinitely.

The pipeline suffered a sharp drop in pressure this week and a German security official said the evidence points to deliberate sabotage rather than a technical issue. Gas leaks from three pipelines appeared almost simultaneously in the Baltic Sea, prompting Denmark to say it was stepping up security around its own energy assets.

To put that in context, a year earlier such gas supplies, including LNG, covered around 40% of Europe's total demand. So while gas and power prices have slipped from August records, they are still more than six times higher than normal in some areas. At that price, thousands of companies simply aren't viable in the long term without government support.

For Bloomberg Economics, the baseline scenario – estimated using a suite of models that combine energy supply, prices, and growth – is now one where Russian flows hold at around 10% of those seen in 2021. That’s already pretty dire, according to economists Maeva Cousin and Rush.

“Even after government support, the real income squeeze is big enough to trigger a recession,” they said.

Their “bad luck” scenario features even less gas, a winter as cold as 2010, and low production from renewable energy.

“If consumer behavior proves sticky and unity between EU countries begins to break down, gas prices could spike above 400 euros, inflation could approach 8% next year and the economy might contract by almost 5% this winter,” they said.

Politicians already opened the fiscal floodgates to avert an economic catastrophe during the pandemic and kept up support as the energy crisis took hold. Now they have to choose whether to further strain public finances with more aid or answer to voters for allowing the crisis to spiral out of control.

“Governments are under enormous pressure to intervene,” said Dario Perkins, an economist at TS Lombard in London. “Price caps, liquidity support and big fiscal transfers seem inevitable. The authorities must support households and businesses or suffer a recession similar to the one they dodged during the pandemic.”

- The European Commission proposed measures to help reduce the impact on consumers, including raising 140 billion euros from energy companies’ earnings, mandatory curbs on peak power demand, and boosting energy-sector liquidity
- Germany injected 8 billion euros into utility Uniper SE in a government rescue whose cost will likely run into the tens of billions of euros

- France will budget 16 billion euros to limit power and gas price increases to 15% for households and small companies next year
- Italy's cabinet approved a 14 billion-euro aid plan to help companies squeezed by rising costs in Mario Draghi's final act before the Sept. 25 election
- The Netherlands unveiled a 17.2 billion-euro support package for households, including a hike in the minimum wage and higher taxes on corporate profits

Totting up all the red ink, the Bruegel think-tank estimates that as of the middle of September, EU governments had earmarked 314 billion euros to cushion the crunch's impact on consumers and businesses.

That will take its toll on the region's public finances, and Simone Tagliapietra, a researcher at Bruegel, described the bill as "clearly not sustainable from a fiscal perspective."

The lingering fear of the energy industry is that the pain of coming months may only be the start. Christyan Malek, JPMorgan Chase & Co's global head of energy strategy, told Bloomberg TV this month that once Beijing eases Covid restrictions Chinese demand for LNG will increase, leading to more competition and more price pressures for Europe.

"This is not just a three-month problem," said Anouk Honore, senior research fellow at Oxford Institute for Energy Studies. "This is potentially a two-year problem."

(Updates with details of Nord Stream incident in second and 17th paragraphs. An earlier version of this story corrected a reference to Volkswagen disruption.)

Saudi Aramco says global energy transition goals are 'unrealistic'



AFP / Riyadh

Oil giant Saudi Aramco's chief on Tuesday blasted "unrealistic" energy transition plans, calling for a "new global energy consensus", including ramped-up investments in fossil fuels to address painful shortages.

Speaking at a conference in Switzerland, Amin Nasser, head of the world's biggest crude producer, lamented a "deep misunderstanding" of what caused the current energy crunch and said a "fear factor" was holding back "critical" long-term oil and gas projects.

"When you shame oil and gas investors, dismantle oil- and coal-fired power plants, fail to diversify energy supplies (especially gas), oppose LNG receiving terminals, and reject nuclear power, your transition plan had better be right," he said.

"Instead, as this crisis has shown, the plan was just a chain

of sandcastles that waves of reality have washed away.

“And billions around the world now face the energy access and cost of living consequences that are likely to be severe and prolonged.”

The primarily state-owned Saudi Aramco last month unveiled record profits of \$48.4bn in the second quarter of 2022, after Russia’s invasion of Ukraine and a post-pandemic surge in demand sent crude prices soaring.

Yet even as it benefits from the current energy crisis, Riyadh has long complained that focusing on climate change at the expense of energy security would further fuel inflation and other economic woes.

With consumers and businesses in Europe facing soaring bills as winter approaches, the causes of the crisis run deeper than the Ukraine war, Nasser said Tuesday, asserting that the warning signs were “flashing red for almost a decade”. They include declining oil and gas investments dating back to 2014 and flawed models for how quickly the world could transition to renewable sources, he said.

The “energy transition plan has been undermined by unrealistic scenarios and flawed assumptions because they have been mistakenly perceived as facts”, Nasser said.

His proposed “new global energy consensus” would involve recognising long-term needs for oil and gas, enhancing energy efficiency and embracing “new, lower-carbon energy” to complement conventional sources. Nasser nonetheless said there should be no change in global climate goals.

Riyadh has come under intense outside pressure in recent months to ramp up oil production, including during a visit by US President Joe Biden in July.

So far it has largely rebuffed those appeals, co-ordinating with the Opec+ alliance it jointly leads with Russia.

Earlier this month the bloc agreed to cut production for the first time in more than a year as it seeks to lift prices that have tumbled due to recession fears.

Long-term, Saudi Arabia plans to increase daily oil production capacity by more than 1mn barrels to exceed 13mn by 2027.

Crown Prince Mohamed bin Salman has also tried to make environmentally friendly policies a centrepiece of his reform agenda.

Last year, Saudi Arabia pledged ahead of the COP26 climate change summit to achieve net zero carbon emissions by 2060.

Saudi Aramco, for its part, has pledged to achieve “operational net-zero” carbon emissions by 2050. That applies to emissions that are produced directly by Aramco’s industrial sites, but not the CO2 produced when clients burn Saudi oil in their cars, power plants and furnaces.

Qatari Minister: No ‘Quick Fix’ to EU Gas Crisis



There is not much Qatar can do to alleviate Europe’s gas crisis in the short term due to contractual commitments, Qatari Energy Minister Saad al-Kaabi tells Energy Intelligence

– but further out, in five to seven years, new Qatari LNG exports to Europe should be significant. In an exclusive interview, al-Kaabi said production from the Golden Pass LNG project in the US, where QatarEnergy partners with Exxon Mobil, is due on stream in 2024 and is “already earmarked for Europe.” Up to half of new output from Qatar’s 48 million ton per year North Field mega-expansion could also go West of Suez when it starts up from 2026. Al-Kaabi also serves as head of state-owned QatarEnergy, which is in active discussions with customers for the new supplies. Significantly, targeted contract durations are shorter than the 20-year deals seen in Qatar’s original LNG expansion, reflecting European reluctance to lock into gas supplies long-term. “I think 10-15-year deals are probably what are most acceptable to both sides. But for us, the long-term deal, it’s not just about duration, it’s about price,” he said. Even with such supplies, al-Kaabi expressed skepticism about Europe’s ability to completely wean itself off Russian gas. Europe will find it “very difficult” to completely forgo Russian pipeline gas for more than two winters. Despite storage, fuel switching and active efforts to expand LNG imports, “a quick fix” to the EU’s dependency on Russian gas does not exist.

Qatar’s North Field expansion is attracting enormous interest from foreign investors, with TotalEnergies tipped to become the first of the Phase-2 partners to be selected later this month. But investors in existing Qatari projects face a rocky ride when contracts on current joint ventures expire, as Exxon and Total discovered when their prized Qatargas-1 contract was not renewed last year. Al-Kaabi revealed that QatarEnergy came close to going it alone on the North Field expansion, too. Qatar, which is generating around 1 million barrels of oil equivalent per day of net output for Exxon, Total and Shell alone, is critical for the majors. However, “if there is no value, there is no partnership, very plain and simple,” al-Kaabi said. Even if joint ventures are maintained after expiry, terms will be tougher. For Exxon, which has stakes in

nine of Qatar's 14 trains, these contract renewals are especially strategic. Qatar knows the value of its LNG will likely drive a hard bargain. "An investment in Qatar is really an important downside-risk revenue maker" for partners, al-Kaabi said.

LNG is only part of a multifront, international investment drive now under way at QatarEnergy. Downstream, petrochemicals is a priority, with al-Kaabi touting QatarEnergy's planned US project with Chevron Phillips Chemical as "the largest polyethylene plant." It recently awarded construction contracts for a 1.2 million ton/yr blue ammonia project, also tipped to be the biggest of its kind. But its global upstream drive is most significant. There were doubters when the strategy launched, but QatarEnergy has been vindicated over the past year by major exploration success in Namibia. QatarEnergy, by virtue of sizable stakes in both Total and Shell discoveries, is poised to be the largest reserves holder in a significant new oil province – Total's Venus discovery is described as the largest deepwater find ever. There have also been offshore gas discoveries in Cyprus and South Africa. And in Brazil, output at QatarEnergy's offshore Sepia field is set to more than double to 400,000 barrels per day in the next couple of years.

Despite confidence in long-term gas demand, QatarEnergy is taking steps to ensure its place in the energy transition. It is investing heavily in greenhouse gas emission mitigation technology at projects. Over \$250 million is being spent on such measures at the LNG expansion alone – principally carbon capture and storage (CCS) and solar power. Some 11 million tons/yr of CCS is planned by 2035. "From an overall value chain, Qatari LNG will be the least carbon footprint LNG you can get," al-Kaabi said. "We think that our buyers, and our investors that have joined us in [North Field East expansion], see this as the Rolls-Royce of projects." Transition pressures are feeding into the urgency for developing projects. "I am a

believer that you need to monetize what you can because the market conditions change, and there is a competitive advantage to go ahead of others,” al-Kaabi stated.

Russia's Oil Resilience Faces Bigger Test as EU Ban Looms



Russia defied expectations of a collapse in oil production following its invasion of Ukraine. But Moscow will have to redouble its efforts to find new buyers if it's to keep output from shrinking in the coming months.

After plunging in the immediate aftermath of its offensive in February, Russian production has rebounded over the past three months as domestic refining boomed and Asian customers stepped in to take shipments shunned by Western buyers. Yet a looming

European Union ban on most Russian crude, as well as a gathering economic slowdown, will strike a blow to the country's producers.

"Russian oil companies have been enjoying the beauties of the summer season – soaring domestic demand and the absence of EU sanctions have allowed them to ramp up production," said Viktor Katona, head of sour-crude analysis at data firm Kpler. "As we look into the immediate future, that is bound to change."

Russian output of crude and condensate – a lighter type of oil – reached a wartime high of around 10.8 million barrels a day in July. Volumes may fall to about 10.5 million a day when the EU ban kicks in in December, Katona said. Analysts at Rystad Energy AS see some 10.1 million a day by year-end, while the International Energy Agency expects a slump of about 2 million a day by the start of 2023.

Russia's Energy Ministry didn't respond to requests for comment on its outlook for future production as the EU restrictions approach.

The embargo, which will apply to imports of seaborne crude and most piped supplies from Dec. 5, is set to remove some 1.3 million barrels a day from the European market, IEA estimates show. A ban on oil-product imports follows on Feb. 5, likely cutting a further 1 million barrels a day, the IEA said last week.

Many traditional buyers are already refusing to take Russian barrels, prompting Moscow to sell to customers in Asia, often at a substantial discount. Russia has this year raised its seaborne crude flows to the region by almost 800,000 barrels a day, according to vessel-tracking data compiled by Bloomberg.

But the country can't count on Asia to mop up all the spare barrels once the EU ban comes into effect as the region is already saturated with Russian crude, according to analysts at

Kpler, Rystad and Moscow-based BCS Global Markets.

“In the short term, Asia is already taking almost all that it can,” said Ron Smith, an analyst at BCS.

A loss of Russian production equal to all its current seaborne exports to Europe is a worst-case scenario and unlikely to materialize, said Sergei Vakulenko, an independent expert with more than 25 years’ experience in the Russian oil industry. He expects that traders globally will be eager to find buyers for the extra Russian volumes, given a dearth of spare production capacity elsewhere.

Vakulenko sees Russian output remaining roughly flat until year-end, a view shared by Kirill Bakhtin, a senior oil and gas analyst at Sinara Bank.

“We expect more or less stable production of Russian liquid hydrocarbons in the amount of 10.8 million barrels per day until February 2023,” thanks to successful efforts to redirect oil from Europe to Asia, Bakhtin said.

In the first couple of weeks this month, Russia’s daily crude oil and condensate output averaged about 10.47 million barrels a day, according to a Kommersant newspaper report Monday. The 3% drop from July is likely driven by seasonality and not by long-term factors such as sanctions, with much of the lower supply coming from a group of smaller producers, including gas giant Gazprom PJSC, according to the Energy Ministry’s CDU-TEK data seen by Bloomberg.

Refinery Demand

Russia’s seaborne exports have recently slid from their spring peaks, but oil producers have been bolstered by growth in domestic refining amid higher seasonal fuel demand at home and abroad.

Yet toward the end of the year, any attempt to process more

crude domestically and increase output of lighter products – which may find a market in Europe before the February ban is enforced – would also mean production of heavier fuels that are harder to sell in the colder months.

In spring, Russian producers were able to find buyers for their fuel oil in the Middle East after the US imposed its own ban. But demand in that region may ebb as the weather cools, limiting Russia's ability to export the heavy product, said Mikhail Turukalov, chief executive officer of Moscow-based Commodities Markets Analytics LLC.

In the colder months, Russia also lacks the logistical capability needed for a major hike in fuel-oil exports, Turukalov said.

“This winter, oil-processing in Russia will hardly be able to grow enough to compensate for the expected oil-export declines,” he said.

– With assistance by James Herron, and Julian Lee

Coal giants are making mega profits as climate crisis grips the world



The globe is in the grips of a climate crisis as temperatures soar and rivers run dry, and yet it's never been a better time to make money by digging up coal.

The energy-market shockwaves from Russia's invasion of Ukraine mean the world is only getting more dependent on the most-polluting fuel. And as demand expands and prices surge to all-time highs, that means blockbuster profits for the biggest coal producers.

Commodities giant Glencore Plc reported core earnings from its coal unit surged almost 900% to \$8.9 billion in the first half – more than Starbucks Corp. or Nike Inc. made in an entire year. No. 1 producer Coal India Ltd.'s profit nearly tripled, also to a record, while the Chinese companies that produce more than half the world's coal saw first-half earnings more than double to a combined \$80 billion.

The massive profits are yielding big pay days for investors. But they will make it even harder for the world to kick the habit of burning coal for fuel, as producers work to squeeze out extra tons and boost investment in new mines. If more coal is mined and burned, that would make the likelihood of keeping global warming to less than 1.5 degrees Celsius even

more remote.

It's a remarkable turnaround for an industry that spent years mired in an existential crisis as the world tries to shift to cleaner fuels to slow global warming. Banks have been pledging to end financing, companies divested mines and power plants, and last November world leaders came close to a deal to eventually end its use.

Ironically, those efforts have helped fuel coal producers' success, as a lack of investment has constrained supply. And demand is higher than ever as Europe tries to wean itself off Russian imports by importing more seaborne coal and liquefied natural gas, leaving less fuel for other nations to fight over. Prices at Australia's Newcastle port, the Asian benchmark, surged to a record in July.

The impact on profits for the coal miners has been stunning and investors are now cashing in. Glencore's bumper earnings allowed the company to increase returns to shareholders by another \$4.5 billion this year, with the promise of more to come.

Gautam Adani, Asia's richest person, capitalized on a rush in India to secure import cargoes amid a squeeze on local supply. Revenue generated by his Adani Enterprises Ltd. jumped more than 200% in the three months to June 30, propelled by higher coal prices.

US producers are also reaping bumper profits, and the biggest miners Arch Resources Inc. and Peabody Energy Corp. say demand is so strong at European power plants that some customers are buying the high-quality fuel typically used to make steel to generate electricity instead.

The wild profits threaten to become a political lightning rod as a handful of coal companies cash in while consumers pay the price. Electricity costs in Europe are at record highs and people in developing nations are suffering daily blackouts

because their utilities can't afford to import fuel. Earlier this month, United Nations Secretary-General Antonio Guterres lashed out at energy companies, saying their profits were immoral and calling for windfall taxes.

Coal's advocates say the fuel remains the best way to provide cheap and reliable baseload power, especially in developing countries. Despite the huge renewable rollout, burning coal remains the world's favorite way to make power, accounting for 35% of all electricity.

While western producers cash in on the record prices – with companies such as Glencore committed to running mines to closure over the next 30 years – top coal consumers India and China still have growth on the agenda.

The Chinese government has tasked its industry with boosting production capacity by 300 million tons this year, and the nation's top state-owned producer said it would boost development investment by more than half on the back of record profits.

Coal India is also likely to pour a large chunk of its earnings back into developing new mines, under government pressure to do more to keep pace with demand from power plants and heavy industry.

China and India worked together at a UN conference in Glasgow last year to water down language in a global climate statement to call for a “phase down” of coal use instead of a “phase out.”

At the time, few would have predicted just how expensive the fuel would become. Just a year ago, the biggest international mining companies – excluding Glencore – were in a full retreat from coal, deciding the paltry returns were not worth the increasing pressure from investors and climate activists.

When Anglo American Plc spun off its coal business and handed

it over to existing shareholders, one short seller, Boatman Capital, said the new business was worth nothing. Instead the stock – known as Thungela Resources Ltd. – skyrocketed, gaining more than 1,000% since its June 2021 listing, with first-half earnings per share up about 20-fold.

Glencore itself snapped up a Colombian mine from former partners Anglo and BHP Group. The nature of the deal, and rising coal prices, meant Glencore essentially got the mine for free by the end of last year. In the first six months of this year, it made \$2 billion in profit from that one mine, more than double its entire coal businesses earnings in the same period last year.

The earnings look set to keep rolling in, as analysts and coal executives say the market will remain tight.

“As we stand today, we don’t see this energy crisis going away for some time,” Glencore Chief Executive Officer Gary Nagle said.

– With assistance by David Stringer, and Will Wade

Absorbing energy transition shock



By Owen Gaffney/ Stockholm

The challenge for politicians is to devise fair policies that protect people from the inevitable shocks

Russia's war on Ukraine has sent shockwaves around the world. Oil prices have skyrocketed and food prices have soared, causing political instability. The last time food prices were this volatile, riots erupted across the Arab world and from Burkina Faso to Bangladesh. This time, the energy and food shock is happening against the backdrop of the Covid-19 pandemic. When will the shocks end?

They won't. So, we can choose either resignation and despair, or a policy agenda to build social and political resilience against future shocks. Those are our options, and we had better start taking them seriously, because the shocks are likely to get worse. On top of geopolitical crises, the climate emergency will bring even greater disruptions, including ferocious floods, mega-droughts, and possibly even a simultaneous crop failure in key grain-producing regions worldwide. It is worth noting that India, the world's second-largest wheat producer, recently banned exports as part of its response to a devastating heatwave this spring.

But here's the thing: reducing vulnerability to shocks, for example, by embarking on energy and food revolutions, will also be disruptive. The energy system is the foundation of industrialised economies, and it needs to be overhauled to phase out fossil fuels within a few decades. Huge industries like coal and oil will have to contract, and then disappear. And agriculture, transportation, and other sectors will need to change radically to become more sustainable and resilient. The challenge for politicians, then, is clear: to devise fair policies that protect people from the inevitable shocks.

One idea with significant potential is a Citizen's Fund, which would follow a straightforward fee-and-dividend equation. Companies that emit greenhouse-gas emissions or extract natural resources would pay fees into the fund, which would then distribute equal payments to all citizens, creating an economic cushion during a period of transformation and beyond. This is not just an idea. In 1976, the Republican governor of Alaska, Jay Hammond, established the Alaska Permanent Fund, which charges companies a fee to extract oil and then disburses the proceeds equally to all the state's citizens. In 2021, each eligible Alaskan received \$1,114 – not as a “welfare payment” but as a dividend from a state commons (in this case, a finite supply of oil). The largest dividend ever paid was during Republican Sarah Palin's governorship in 2008, when every Alaskan enjoyed a windfall of \$3,269.

In 2017, James Baker and George Shultz, two former Republican secretaries of state, proposed a similar plan for the whole United States, estimating that fees on carbon emissions would yield a dividend of \$2,000 per year to every US household. With backing from 3,500 economists, their scheme has broad appeal not just among companies and environmental-advocacy groups but also (and more incredibly) across the political aisle.

The economics is simple. A fee on carbon drives down emissions by driving up the price of polluting. And though companies would pass on these costs to consumers, the wealthiest would be the hardest hit, because they are by far the biggest,

fastest-growing source of emissions. The poorest, meanwhile, would gain the most from the dividend, because \$2,000 means a lot more to a low-income household than it does to a high-income household. In the end, most people would come out ahead.

But given that food- and energy-price shocks tend to hit low-income cohorts the hardest, why make the dividend universal? The reason is that a policy of this scale needs both broad-based and lasting support, and people are far more likely to support a programme or policy if there is at least something in it for them.

Moreover, a Citizen's Fund is not just a way to drive down emissions and provide an economic safety net for the clean-energy transition. It would also foster innovation and creativity, by providing a floor of support for the entrepreneurs and risk-takers we will need to transform our energy and food systems.

A Citizen's Fund could also be expanded to include other global commons, including mining and other extractive industries, plastics, the ocean's resources, and even knowledge, data, and networks. All involve shared commons – owned by all – that are exploited by businesses that should be required to pay for the negative externalities they create.

Of course, a universal basic dividend is not a panacea. It must be part of larger plan to build societies that are more resilient to shocks, including through greater efforts to redistribute wealth by means of progressive taxation and empowerment of workers. To that end, Earth4All, an initiative I co-lead, is developing a suite of novel proposals that we see as the most promising pathways to build cohesive societies that are better able to make long-term decisions for the benefit of the majority.

Our most important finding is perhaps the most obvious, but it is also easy to overlook. Whether we do the bare minimum to address the grand challenges or everything we can to build resilient societies, disruption and shocks are part of our future. Embracing disruption is thus the only option and a

Citizen's Fund becomes an obvious shock absorber. – Project Syndicate

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Gazprom gas cut casts spell on grain deal



Russia dealt a new blow to European countries over their support for Ukraine yesterday, saying it would further cut gas supplies through its single biggest gas link to Germany. The move came as the first ships to export grain from Ukraine's Black Sea ports under a deal agreed last week could set sail within days, bringing a measure of hope to countries reliant on such food supplies even though the situation is still clouded by mistrust and potential danger. Both developments showed how the conflict – now in its sixth month and with no resolution in sight – is having an economic impact way beyond

the battlefields of Ukraine.

On the frontlines, the Ukrainian military reported widespread Russian artillery barrages in the east overnight and said Moscow's troops were preparing for a new assault on Bakhmut, a city in the industrial Donbas region. Russian President Vladimir Putin warned the West earlier this month that sanctions imposed on his country for its invasion of Ukraine risked triggering huge energy price rises for consumers around the world. Yesterday, Russian energy giant Gazprom, saying it was acting under the instructions of an industry watchdog, said flows through the Nord Stream 1 pipeline would fall to 33mn cubic metres per day from yesterday.

That is half of the current flows, which are already only 40% of normal capacity. Prior to the war Europe imported about 40% of its gas and 30% of its oil from Russia. The Kremlin says the gas disruption is the result of maintenance issues and Western sanctions, while the European Union has accused Russia of resorting to energy blackmail. Germany said it saw no technical reason for the latest reduction. Politicians in Europe have repeatedly said Russia could cut off gas this winter, a step that would thrust Germany into recession and lead to soaring prices for consumers already faced with painfully high energy costs. The Kremlin has said Moscow is not interested in a complete stoppage of gas supplies to Europe. Rising energy prices and a global wheat shortage are among the most far-reaching effects of Russia's invasion of Ukraine. They threaten millions in poorer countries, especially in Africa and the Middle East, with hunger. Ukraine said on Monday it hoped a UN-brokered deal to try to ease the food shortages by resuming grain exports from Black Sea ports would start to be implemented this week. Officials from Russia, Turkey, Ukraine and the United Nations agreed on Friday there would be no attacks on merchant ships moving through the Black Sea to Turkey's Bosphorus Strait and on to markets. Moscow brushed aside concerns the deal could be

derailed by a Russian missile strike on Ukraine's port of Odesa on Saturday, saying it targeted only military infrastructure.

Russia's Black Sea fleet has blocked grain exports from Ukraine since Moscow's February 24 invasion. Moscow denies responsibility for the food crisis, blaming Western sanctions for slowing its food and fertiliser exports and Ukraine for mining the approaches to its ports. Under Friday's deal, pilots will guide ships along safe channels. A Ukrainian government official said he hoped the first grain shipment from Ukraine could be made from Chornomorsk this week, with shipments from other ports within two weeks. "We believe that over the next 24 hours, we will be ready to work to resume exports from our ports," deputy infrastructure minister Yuriy Vaskov told a news conference. A United Nations spokesperson, speaking in New York, said the first ships may move within a few days.

A Joint Coordination Center will liaise with the shipping industry and publish detailed procedures for ships in the near future, he said. Russian Foreign Minister Sergei Lavrov, speaking during a tour of African countries, said there were no barriers to the export of grain and nothing in the deal prevented Moscow from attacking military infrastructure in Ukraine. The Kremlin also said the United Nations must ensure curbs on Russian fertiliser and other exports were lifted for the grain deal to work. Before the invasion and subsequent sanctions, Russia and Ukraine accounted for nearly a third of global wheat exports.