

# What OPEC+'s Production Deal Means for Global Oil Markets



*OPEC+'s hotly anticipated output meeting on Thursday underwhelmed the market, with oil prices closing up after the decision.*

The alliance agreed to production hikes of 648,000 barrels a day for July and August, about 50% bigger than those seen in recent months. But there were doubts about the group's ability to fully deliver the increases, given they will be spread across its members, many of whom have struggled to raise output.

Oil's just capped its sixth straight monthly gain – the longest such run in a decade – and the rally now looks set to continue as the supply deficit widens.

Here's what leading analysts had to say about the OPEC+ decision and what it would mean for oil prices.

## **Rapidan Energy Group**

OPEC+'s decision is beneficial to the US as it increases global supplies while keeping some spare capacity that can be deployed if sanctions on Russia sway markets, Bob McNally, president of Washington-based consultant Rapidan Energy Group and former White House official said in a Bloomberg TV interview.

Increased quotas will result in a 350,000 barrels jump in actual daily output, he said, adding that the decision was "an elegant threading of the needle" that satisfies OPEC, Russia and the Biden administration.

## **JPMorgan Chase Bank**

The latest deal to increase production quotas in July and August isn't sufficient to make a difference in global oil balances, according to JPMorgan analyst Natasha Kaneva in an emailed note. The higher output won't offset heightened demand at seasonal peaks alongside China's reopening, with risks to the bank's supply estimates skewed to the downside, it said.

The bank maintains its Brent price forecast of \$114 a barrel for the second quarter and sees prices averaging \$104 a barrel this year.

## **Goldman Sachs Group Inc.**

The latest OPEC+ decision translates to an increase of 200,000 barrels a day in summer output levels with Russia still keeping its quota share and many countries falling behind target, analysts Damien Courvalin and Callum Bruce said in a note. The deal doesn't represent higher output levels for later this year, with production simply brought forward from

September.

The bank continues to see downside risks to its OPEC+ supply expectations for the second half of this year, given the European ban on Russian oil imports and the lack of progress on negotiations with Iran. Goldman reiterated its Brent forecast of \$125 a barrel in the second half.

## **ING Groep NV**

The supply increases look big on paper, but it's very unlikely that the group will actually manage to hit these production targets, Warren Patterson, ING's Singapore-based head of commodities strategy, said in an interview. Russian output is likely to edge lower in the months ahead as sanctions bite, while there is limited spare output capacity among the OPEC+ coalition. The bank maintained its forecast for Brent to average \$122 a barrel in the second half.

## **Citigroup Inc.**

The decision by OPEC+ could, in practice, mean 132,000 barrels a day each month of actual additional output from Saudi Arabia, the United Arab Emirates, Kuwait, and Iraq, Citi analysts Eric Lee and Francesco Martoccia said in a note. Prices have been marching higher in the past week as markets assessed the European Union move to block Russian oil imports, Chinese lockdowns were lifted and the US summer driving season got underway, it said.

## **FGE**

It's unreasonable to expect OPEC to unleash millions of barrels to take care of the self-sanctioning of Russian oil by many buyers, especially in Europe, FGE Chairman Fereidun Fesharaki said in a Bloomberg TV interview. If OPEC had added 1.5 million barrels a day, there wouldn't have been any extra capacity when demand increases in one to two months from now,

he said.

Unless Iranian supplies – which could immediately push prices down by \$10 to \$15 a barrel – come back due to a nuclear deal, the major shut-in of Russian oil would keep prices above \$100 a barrel.

*– With assistance by David Ingles, Rishaad Salamat, Verity Ratcliffe, Manus Cranny, and Yousef Gamal El-Din*

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# Europe's oil embargo is not enough



By Sergei Guriev/ Paris

Vladimir Putin needs petrodollars, and he needs them now. Many expected Russia's president to issue a formal declaration of war on Ukraine, a move that would permit the full mobilisation

of Russia's reserve forces. But while Putin may want to send more soldiers to Ukraine, he cannot afford to do so. Will the European Union's newly announced oil embargo force him to wind down the invasion?

Already, the Kremlin has toned down its propaganda. There is no more talk of taking Kyiv. Putin's only goal now, apparently, is to occupy the eastern Donbas region. But even there, Putin is not guaranteed victory, as that is where Ukraine has launched its so-called Joint Forces Operation, which includes its best-trained military units – increasingly armed with advanced Western military equipment.

Russia, meanwhile, has lost much of its modern military equipment, and Western sanctions have left it unable to replenish its stocks. With few options, Russia is now unpacking Soviet-era tanks.

The only way Putin can make up for the lack of equipment is to send more soldiers. But drafting new conscripts is an unpopular idea, so Putin has resorted to paying people to fight for Russia – and no pittance, either. Recruits are now reportedly receiving \$3,000-\$5,000 per month. But, the recent decision to scrap the age limit for army recruits suggests that even the prospect of earning pay that is an order of magnitude higher than the average wage in the median Russian region is not attracting enough fighters.

Recently published budget data from Russia's finance ministry suggests that Putin can hardly afford to cover the war's mounting costs. The data confirm, first, that the war has been expensive, with military spending having increased by almost 130% last month, to 630bn roubles (\$10.2bn), or 6% of annual GDP on a prorated basis.

The data also show that Russia ran a fiscal deficit of more than 260bn roubles in April, or 2.5% of GDP when prorated to annual figures. While global oil prices are very high, Russia has been selling its oil at a huge discount – accepting \$70 per barrel for Urals crude in recent weeks, 30% below the market price – while overall output is set to decline by 10% this year. Meanwhile, non-hydrocarbon revenues have plummeted,

leaving oil and gas taxes accounting for more than 60% of fiscal revenues, compared to less than 40% a year ago.

Putin's dependence on petrodollars means that, by announcing an embargo on about 90% of Russian oil imports within the next 6-8 months, the European Union is hitting Russia where it hurts. Putin is now all but certain to face a major fiscal crisis within a year, making it difficult to sustain his war in Ukraine, let alone invade another country.

The problem is that the embargo will help Putin in the short term. The mere announcement of it has already caused oil prices to spike. That is why Europe should complement its oil embargo with additional, immediate measures. Two options stand out.

The first – which Ricardo Hausmann proposed immediately after the invasion, and which others have shown can be implemented quickly – is a high tariff on Russian oil imports. This approach makes perfect economic sense. Every euro spent on Russian oil helps Putin finance his violent campaign in Ukraine. This is a “blood externality,” and should be priced accordingly. Part of the amount paid by buyers of Russian hydrocarbons should be transferred to Ukraine as reparations or stored in special escrow accounts until reparations are formally awarded.

But at a time when European households are facing soaring energy costs, there is little political appetite for an oil tax. With this in mind, Italian Prime Minister Mario Draghi has proposed an alternative solution: a price cap. Under this proposal – which the European Council has instructed the Commission to assess – Western countries would pay a lower price for Russian oil and gas, and impose secondary sanctions on third parties that pay Russia more.

A price cap could be implemented immediately – say, at \$70 per barrel – and lowered by about \$10 each month the war continues. Yes, Putin could refuse to sell oil at this price. But, given that he is already desperate enough to sell to China and India at steep discounts, and today's energy prices far exceed production costs, this seems unlikely.

Instead, Russia would probably continue supplying oil and gas to Western buyers at the capped price, while buyers like China and India, under threat of sanctions, would have no reason to pay more. This would provide consumers relief from high energy prices and cause Russia's revenues to decline sharply.

Some might argue that price caps distort incentives – in this case, the incentive to adopt renewables. But this argument applies only to a competitive market. In today's oil and gas market, prices far exceed marginal costs, and the global oil cartel Opec+ (which includes Russia) has only recently agreed to increase production in July and August. Russian gas supplier Gazprom was likely manipulating prices in Europe even before the war. Such monopolistic behaviour warrants a price cap.

Another frequent argument against a price cap is that it may spur a black market. This is a real risk. Already, European energy companies have begun combining Russian petroleum products with others – a “Latvian blend” – so that they can take advantage of lower prices, while claiming not to support Putin's war machine. But these firms are not currently violating any laws. If a price cap were implemented, they would be. Given public outrage at the war, the West's commitment to secondary sanctions, and the rise of citizen-led investigations relying on open-source intelligence, it would be very difficult, if not impossible, to get away with such rule-breaking.

The EU's oil embargo will hurt Putin, but not soon enough. Europe must immediately impose a price cap on Russian oil and gas. – Project Syndicate

• *Sergei Guriev, a former chief economist of the European Bank for Reconstruction and Development, is Professor of Economics at Sciences Po.*

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# Spain and Portugal to slash energy bills by 40% by breaking ranks with EU



It means while the rest of the EU, which is much more tied to traditional fuels, has a pay cap of around €90 (£76.56) per megawatt-hour, Spain and Portugal would cap their price at €50 (£42.50). Currently, the Russian invasion of Ukraine is driving the price of fossil fuels to record levels.

Speaking to the Express, Rana Adib, executive director of REN21, a global community of renewable energy stakeholders, highlighted ways in which European countries can end their reliance on fossil fuels, particularly those imported from Russia.

She said: “What governments need to do is massively build up renewable power generation capacities, invest in energy saving and energy efficiency to bring down the cost of the energy



bills as quickly as possible. When we're looking at the example of Portugal and Spain, it's very interesting.

"They have negotiated with the European Commission that they will basically leave the European energy market mechanism for 12 months because the interconnection does not allow them to receive a lot of renewable electricity from the north. By building on this, and building on their own renewable electricity capacity, the Spanish government expects that they will be able to reduce the cost of the bills by 30-40 percent.

"The governments that are front runners here really understand the opportunities around renewable energy and renewable electricity."

After signing the agreement with the European Commission, Spanish Energy Minister Teresa Ribera said: "It is important to have a tool that reduces our exposure to the turbulence and volatility of the electricity market and the price of gas at this moment."

Ms Adib noted that under the European mechanism, "the reality is that for a unit of energy you buy, you will pay the highest market price."

Given that renewable energy generation is a lot cheaper than fossil fuels, she noted that the Iberian countries "now have the possibility to define their market mechanism where basically for fossil fuel they will pay one price, and for renewable-based electricity, they will pay another price.

"It's more reflective of the generation of cost. As a result they expect the price to reduce by 30-40 percent, and they are doing this by integrating into the energy markets and into their electricity prices, their cost of generation."

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# Pakistan aims to sign a long-term liquefied natural gas purchase deal in a bid to secure future supply and ease crippling blackouts.



The South Asian nation intends to float a tender to purchase one LNG cargo per month for 10 to 15 years, said Shahid Khaqan Abbasi who is overseeing the energy sector for Prime Minister Shehbaz Sharif.

The government is still deciding the timeline for when to

issue the tender, which they will use to gauge the market response and pricing, Abbasi said in an interview.

Sharif's government will also speak with LNG suppliers in the Middle East, including Qatar, the UAE, Saudi Arabia and Oman, for a long-term contract, according to Abbasi.

Pakistan last week said it's not ruling out a potential gas supply agreement with Russia.

Pakistan depends on overseas LNG for power generation, and was hit particularly hard by the surge in spot prices and supply disruptions. The cash-strapped government resorted to planned blackouts to conserve its dwindling supply of fuel.

Asian LNG spot prices are trading at a seasonal high after Russia's invasion of Ukraine exacerbated an already tight market.

Pakistan was forced to purchase several expensive LNG shipments from the spot market to keep the lights on last month.

Long-term deals are much cheaper than current spot rates, and may provide some relief for Pakistan's government.

Abbasi, who is a former prime minister and energy minister, signed several long-term LNG supply deals with Qatar, Eni SpA and Gunvor Group in 2016 and 2017.

However, Eni and Gunvor have canceled several scheduled cargoes to Pakistan in the last year, exacerbating the nation's energy shortage and fueling political instability.

The suppliers backed out by paying a 30 percent penalty on the cost of the shipment, which is envisaged in the contracts if they cannot deliver.

The government will keep the 30 percent clause in future deals, said Abbasi, who explained that it is standard in

contracts.

Pakistan is also open to signing a 30-year contract to make sure it has enough fuel to power its economy well into the future, said Abbasi.

Today, the industry's longest deals rarely top 20 years.

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## **Iraq Faces Further Power Cuts As Iran Gas Debt Missed**



Iraq has failed to pay \$1.6 billion owed to neighbouring Iran for gas imports, a debt needed to guarantee further supplies critical to prevent worsening power cuts, Baghdad's authorities said Wednesday.

Payment of the debt was a key requirement to ensure energy

supplies for Iraq's power plants during the intense heat of the upcoming summer months, when electricity demands surge as people seek to keep cool.

"Iran had demanded the payment by Iraq of its financial obligations for the payment of the gas," Iraq's electricity ministry said in a statement.

However, due to "the delay in the adoption of the budget", as well as parliamentary blockages stalling a bill aimed to guarantee debt payments in the electricity sector, this led to "delays".

Supplies have already been reduced by five million cubic metres of gas per day, limiting the operation of the power stations and "reducing the hours of electricity supply", the ministry added.

Despite its immense oil and gas reserves, Iraq remains dependent on imports to meet its energy needs.

Iran currently provides a third of Iraq's gas and electricity needs, but supplies are regularly cut or reduced, aggravating daily load shedding.

The electricity ministry stressed the "efforts of parliament and the government" to allow the ministry to "find compromise solutions with Iran in order to pay the arrears and guarantee the supply of gas".

The debt, which was due to have been paid by the start of June, dates back to 2020.

It was stalled amid sanctions against Iran by the United States, which mean that Baghdad cannot pay directly for energy imports in cash.

Instead, it must be used in a complicated process to buy goods from the agriculture or pharmaceutical sectors.

Last year, when temperatures in Iraq soared to 52 degrees Celsius (125 Fahrenheit) in the shade, swathes of the country suffered blackouts, sparking several sporadic protests and prompting the electricity minister to resign.

Iraq is already sweltering, with temperatures climbing to 48 degrees Celsius (118 Fahrenheit) on Thursday, according to the meteorological service.

Ranked as one of the world's five most vulnerable nations to climate change effects, Iraq has seen a series of sandstorms sweep the country in recent months, sending thousands of people to hospital with respiratory problems.

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## **Opec+ seen sticking to oil rise plan despite EU sanctions**



Reuters Dubai/London

Opec+ is set to stick this week to its monthly modest oil output increases despite seeing tighter global markets, five Opec+ sources said on Wednesday as the group fast approaches its maximum production capacity.

Oil prices rallied above \$124 per barrel this week following new EU sanctions against Russia over its invasion of Ukraine and China's recovery from the latest Covid-19 lockdown.

The world's most industrialised countries, known as G7, called again this week on Opec to help ease a global energy crunch that worsened as a result of Western sanctions imposed on Russia.

Opec, which meets on Thursday together with allies such as Russia as part of a group called Opec+, has repeatedly rebuffed calls for faster production increases. Opec+ is widely expected to raise July output targets by 432,000 bpd. The group's record output-cutting deal, clinched in 2020 at the height of global lockdowns, expires this September by which time the group will have limited spare capacity to increase production further.

Its lead member Saudi Arabia is producing 10.5mn bpd and has rarely tested sustained production levels above 11mn bpd.

Together with fellow Gulf Opec member, the United Arab Emirates, Opec is estimated to have less than 2mn bpd of spare capacity.

"There is not much spare oil in the market to replace potential lost barrels from Russia," said Bjarne Schieldrop, chief commodities analyst at SEB bank.

He said the EU ban will likely result in Russia selling less oil but at a higher price and probably earning just as much if not more.

Western sanctions imposed on Russia may result in production and export cuts from the world's second largest oil exporter of as much as 2mn-3mn bpd, according to various estimates.

However, Russian production has been holding strong so far as Moscow said it is managing to re-route volumes from Europe to

Asian buyers, hungry for Russian oil, which sells at a steep discount.

The Wall Street Journal reported on Tuesday, citing Opec delegates, that some Opec members were considering the idea of suspending Russia from the deal to allow other producers to pump significantly more crude as sought by the United States and European nations.

The report came as US diplomats work on organising President Joe Biden first visit to Riyadh after two years of strained relations.

Two Opec+ sources told Reuters an Opec+ technical meeting on Wednesday did not discuss the idea of suspending Russia from the deal.

Six other Opec+ delegates said the idea was not being discussed by the group.

Russian Foreign Minister Sergei Lavrov, on a visit to Saudi Arabia, said on Wednesday that Opec+ co-operation was relevant for Russia.

Opec+ expects an oil market surplus of 1.4mn barrels per day (bpd) in 2022, 500,000 bpd less than previously forecast, two Opec+ sources told Reuters on Wednesday.

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**Gazprom cuts more customers in Europe, but rewards shareholders with dividend**





Russian gas giant's exports have fallen 28% this year, and decline would have been higher were it not for European push to replenish gas storage

Gazprom has announced it has halted gas supplies for two more customers in Europe, effective from 1 June, after both declined to accept changes in payment terms imposed by the Russian company's foreign trading subsidiary.

Gazprom identified Denmark's Orsted Salg & Service and UK-based Shell Energy Europe as the affected customers.

The Russian company added that it supplied close to 2 billion cubic metres of gas to Orsted in 2021, equivalent to about two thirds of Denmark's natural gas consumption.

Gazprom added that its contract with Shell Energy Europe called for the delivery of 1.2 Bcm of gas in 2022, mostly to consumers in Germany.

UPDATED: EU agrees to ban 90% of Russian oil imports by end of year

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According to Gazprom, both customers had failed to switch to a new payment system by 31 May, even after they were requested to do so by the Russian government.

At the end of March, Russian President Vladimir Putin ordered Gazprom to amend its contracts with European customers to divert their payments in euros or US dollars for delivered gas to Moscow-based Gazprombank.

These payments would then have to be fully converted into rubles and credited to Gazprom's local accounts in order for payments for gas deliveries to be considered completed.

Orsted chief executive Mads Nipper said: "We stand firm in our refusal to pay in rubles, and we've been preparing for this scenario, so we still expect to be able to supply gas to our customers.

"The situation underpins the need of the European Union becoming independent of Russian gas by accelerating the build-out of renewable energy."

Since there is no gas pipeline running directly from Russia to Denmark, Russia will not be able to cut off the gas supplies to Denmark directly, but the Russian move will necessitate increased gas purchases on the European gas market, Orsted said.

Halting supplies to Shell Energy Europe and Orsted follows similar moves by Gazprom in recent weeks to stop gas supplies to Finland, Poland and Bulgaria.

Executive director of Ukraine's gas transmission authority Operator GTS Ukrainy, Sergey Makogon said on his social network page that he believed it is time for the EU to introduce restriction on the Nord Stream subsea pipeline that carried Gazprom's gas directly to Germany.

Officials in Ukraine and Poland, together with independent industry observers, have led a chorus of accusations against Russia for what they describe as the "weaponsising" of the Russian pipeline gas to exert geopolitical leverage in Europe.

Despite its contractual obligations to send close to 110 million cubic metres of gas via Ukraine to Europe in 2022, Gazprom has been scaling down shipments, with transit gas flows down to 41 MMcmd just this week.

Gas exports down, dividend up

Between January and May, Gazprom's gas exports to Europe and Turkey fell by almost 28% to 61 Bcm, the company said on Wednesday.

Gazprom's total gas production during this period also declined by 5% to just over 211 Bcm.

Ignoring the challenging market outlook, Gazprom announced record high dividends on its stock for 2021, amounting to 1.24 trillion rubles (\$20.7 billion).

The government is set to receive just over a half of that payment as it holds an over 50% shareholding in the company.

Managing partner at Moscow based energy consultancy RusEnergy, Mikhail Krutikhin, suggested that such high payout may be linked to additional expenses that Russian authorities incur in relation to the invasion of Ukraine.

According to Krutikhin, authorities may not see similar high dividend payments from Gazprom for 2022 because its profitability may decline as a result of lower gas exports.

Meanwhile, spot market gas prices declined by almost 6% to about €89 (\$96) per megawatt in Wednesday trading on Wednesday, according to the London-based ICE Exchange.

The shift was attributed to reports of large customers of Gazprom in Europe accepting the new payment arrangement.

[https://www.upstreamonline.com/production/gazprom-cuts-more-customers-in-europe-but-rewards-shareholders-with-dividend/2-1-1228805?utm\\_source=email\\_campaign&utm\\_medium=emai](https://www.upstreamonline.com/production/gazprom-cuts-more-customers-in-europe-but-rewards-shareholders-with-dividend/2-1-1228805?utm_source=email_campaign&utm_medium=emai)

# A wake-up call? Russia-Ukraine conflict could accelerate renewable energy adoption



The Russia-Ukraine conflict may accelerate the march towards decarbonisation despite concerns the war could put the issue on the backburner, the Al-Attiyah Foundation discovers in its latest Energy Industry report titled 'Implications of COP26 on the Fuel Mix.'

The 26th UN Climate Change Conference of Parties (COP26), held in Glasgow in late 2021, was hotly anticipated. The summit was delayed by a year due to the Covid-19 pandemic and expectations for substantive results, such as 'consigning coal

to history' and increasing climate finance to support climate action in the least developed countries, were high.

After frenetic last minute negotiations, diplomats from nearly 200 countries struck a major agreement aimed at intensifying efforts to fight climate change. Pledges which drew the most attention were the phase down of coal and fossil fuel subsidies, end of international financing for fossil fuels, accord on zero emissions vehicles, global methane reductions, and the financial alliance for net zero.

However, since Russia launched its "special military operation" in Ukraine on February 24 and the subsequent sanctions by the United States and its allies, fears surrounding energy security and rising oil prices have escalated globally.

Soon after the conflict began, one of Europe's biggest importers of Russian oil, Germany, froze plans for the opening of the Nord Stream 2 gas pipeline and the US and UK announced it was banning Russian oil. In May, further sanctions were announced with the European Union confirming it will phase out imports of Russian oil in six months and refined products by the end of 2022.

The price of crude oil soared from \$89 per barrel on February 25 to \$119 on March 8, and despite some drawdowns in April, the price on May 17 stood at \$115. Gas prices, which are indexed to the global oil price, have also experienced wild growth in the last few months.

The Russia-Ukraine conflict and its ramifications could act as a wakeup call for Europe and all countries that need secure energy resources. Sky high energy costs have led countries to realise that they can no longer simply depend on imported fossil fuels, which may drive a shift away from fossil fuels altogether.

The crisis has reinforced Germany's determination to get off fossil fuels entirely, and to accelerate the Energiewende – the clean energy transition it began some 30 years ago. After little more than 100 days in office, Germany's new government has presented what it calls the "biggest energy policy reform

in decades” to massively increase the buildout of renewable energies. The legislation includes plans to give up coal entirely by 2030, eight years earlier than the target set by the previous government. It now aims for Germany to get 80% of its electricity from renewable energy by then, up from the previous goal of 65%.

Elsewhere, French President Emmanuel Macron, during his election campaign, pledged that France would be “the first major nation to abandon gas, oil, and coal.” Austria, even more dependent on Russian energy than Germany, is pouring money into subsidies for renewable energy. Poland, one of Europe’s heaviest coal consumers, is investing heavily in offshore wind.

Despite encouraging legislation and promises from some of Europe’s biggest economies in the wake of the conflict, concerns remain that countries may put climate change mitigation further down on their list of priorities while they focus on securing sufficient supplies of fossil fuels in the immediate term. This in turn could affect the implementation of pledges from COP26 and the time frame for phasing out the use of fossil fuels under the Paris Agreement on climate change and the goal of limiting global warming to 2°C.

\*This article was supplied by the Abdullah bin Hamad Al-Attiyah International Foundation for Energy and Sustainable Development.

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## **Global LNG markets sail into the unknown ahead of peak**

# winter



Global liquefied natural gas (LNG) buyers and sellers are bracing for more uncertainty over Russian supplies and an unclear demand outlook from Europe and top importer China in the run-up to the peak winter season, industry executives said.

Western sanctions on Russia due to the Ukraine invasion have disrupted Russian gas supply to Europe, sending global gas prices to all-time highs earlier this year and raising energy security concerns.

Moscow calls its action a special military operation.

In addition to unpredictable weather, it remains unclear whether there will be further cuts in Russian supplies to Europe, the executives said.

Also uncertain is whether Europe can build new LNG import infrastructure in time to replace massive Russian volumes, they added.

One more question is when China will lift its Covid restrictions, which have slashed imports in the first five months of this year.

“We have massive uncertainty over what will happen next,”

Steve Hill, executive vice president at Shell, said at the World Gas Conference.

“If we convert the Russian pipeline gas volume into Europe in 2021 into an LNG equivalent, and add on the LNG volumes delivered into Europe in 2021, that’s 200mn tonnes of LNG equivalent. That’s half the size of the current (global) LNG industry.”

Infrastructure constraints that have emerged as gas flows change from west to east, rather than east to west, made it “more complicated than we first thought”, he added.

Peder Bjorland, vice president natural gas marketing and trading at Equinor, said the changing flows have created a “strange market” where some countries in Europe such as Britain are oversupplied, but there is no infrastructure to move the gas to demand centres like Germany.

That has created a wide price gap between the British National Balancing Point and Dutch wholesale gas prices that could incentivise infrastructure investments to reduce bottlenecks, the executives said.

But that infrastructure would take time to build, they added. Germany is building an LNG receiving terminal and has contracted floating storage and regasification units. “It’s a race against time. We believe that the regas facilities will probably be up and running before the end of winter, but not perhaps by the start of winter. So that’s a very delicate balance,” said Michael Stoppard, global gas strategy lead at S&P Global Commodity Insights.

A severe winter in the northern hemisphere could also spark competition between Europe and Asia for LNG and push prices higher, the executives said.

“As we get into the winter...markets like Asia really start to compete for those cargoes,” Anatol Feygin, executive vice president at Cheniere Energy, said.

However, an executive with a Chinese gas importer said buyers were likely to enter this winter more prepared than last year, as European countries such as Germany and Italy have required minimum stock levels.



Buyers are increasing stockpiles ahead of winter, underpinning Asian spot LNG prices at nearly three times their May 2021 levels, unusually high for low-demand season in the second quarter. “It’s not as pessimistic this year, as everyone is preparing for winter,” said the executive who declined to be named due to company policy.

Woodside Energy Group’s chief executive Meg O’Neill said she expects LNG prices to remain elevated for next year as the market adjusts to supply disruptions.

Market uncertainties and price volatility have already driven buyers in Asia and Europe to seek long-term supplies.

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## EU agrees gradual oil embargo on Russia, gives Hungary exemptions



Reuters / Brussels

European Union leaders have agreed an embargo on Russian oil imports that will kick in around the turn of the year – and for now exempts the pipeline imports that Hungary and two other landlocked Central European states rely on.

The ban, agreed overnight after weeks of wrangling, aims to remove 90% of Russia's crude imports into the 27-nation bloc within eight months or so, officials said.

It is the toughest sanction yet on Russia for its invasion of Ukraine, and one that will affect the EU itself.

Russia provided just over a quarter of EU oil imports in 2020, while Europe is the destination for nearly half of Russia's crude and petroleum product exports.

“The sanctions have one clear goal: To prompt Russia to end this war, to withdraw its troops, and to agree a sensible and fair peace with Ukraine,” German Chancellor Olaf Scholz said. Ukraine said they would deprive the “Russian military machine” of tens of billions of dollars.

French President Emmanuel Macron said nothing could be ruled out regarding further sanctions, although other leaders poured cold water on the idea of banning purchases of Russian gas, which Europe depends on heavily.

EU countries will have six months to stop imports of seaborne Russian crude and eight months for refined products, the European Commission said.

That timeline will start once the sanctions are formally adopted, which EU states aim to do this week.

The deal was reached only after the EU's other leaders agreed to give Hungary a free pass, having failed to win it over in weeks of talks.

Two-thirds of the Russian oil imported by the EU comes by tanker and the rest through the Druzhba pipeline.

Poland and Germany are among the pipeline importers, but have pledged to stop by the end of the year.

Landlocked Hungary, Slovakia and the Czech Republic all get their Russian oil from Druzhba and account for the 10% of imports temporarily exempted from the embargo.

Bulgarian Prime Minister Kiril Petkov said his country had

also secured an exemption until the end of 2024, since its refinery is designed to receive only Russian crude.

Oil prices rose after the EU's agreement, stoking inflation, which hit a record 8.1% year-on-year in euro zone countries this month.

The oil embargo follows an earlier ban on Russian coal and allows the bloc to impose a sixth round of sanctions that includes cutting Russia's biggest bank, Sberbank, off from the SWIFT international transaction system.

Commission chief Ursula von der Leyen said the package would also ban EU firms from insuring or reinsuring ships carrying Russian oil. Several countries already want to start work on a seventh round, but Austrian Chancellor Karl Nehammer said it could not include gas – where Russia supplies a third of EU needs.

“Russian oil is much easier to compensate for...gas is completely different, which is why a gas embargo will not be an issue in the next sanctions package,” Nehammer said.

Russian analysts and traders said the phasing-in of the embargo gave Moscow time to find new customers in Asia.

“Although the measures announced by the European Union look threatening, we don't see a crippling impact on the Russian oil sector – neither imminent, nor in six months,” analysts at Sinara Investment Bank said.

Beyond the sanctions, EU leaders asked the bloc's executive Commission to explore options to tackle soaring energy prices. These include “temporary import price caps”, which should be explored with international partners, their conclusions said. They also endorsed a Commission plan to wean the EU off all Russian fossil fuels within years through a faster rollout of renewable energy, improvements in saving energy, and more investments in energy infrastructure.

And they called for better EU-wide contingency planning in case of further gas supply shocks.

Moscow on Wednesday cut gas supplies to the Netherlands for refusing to comply with a demand to pay in roubles, having already cut off Poland, Bulgaria and Finland.