

Jeff Nichols, Gil Porter in Hart Energy: ‘Three Big Things to Watch in Oil and Gas Markets’

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Three critical factors to keep on an eye on for global oil and gas markets: how Western sanctions against Russian-supplied energy play out; the Biden administration’s policy to weaken the grip of Russian energy over Europe; and how Russia responds to its adversarial energy trading partners.

Economic battles that spin out of control create the potential for oil to shoot up to \$185/bbl—a level that experts say would trigger a global recession. That is a worst-case scenario, but one that was acknowledged by analysts from both the International Energy Agency (IEA) and J.P. Morgan at a March 23 conference hosted by Rice University’s Baker Institute for Public Policy. ...

“It’s always been a balancing of addressing climate change while meeting our current energy needs and this announcement reflects that balancing act,” [Jeff Nichols](#), partner and co-chair of the Haynes Boone energy practice group, told Hart Energy. “They put a thumb on the scale a little bit on the U.S. E&P side in terms of near-term needs. But in the long term, it still seems focused on long-term efforts to reduce climate change and reduce fossil fuel consumption.”

Russia’s gas sales to Europe have not strayed from contracted volumes in recent years and Europeans have done little to build up inventories, said [Gil Porter](#), partner at Haynes Boone. The result is that Europe’s stockpiles are pretty low right now. Gas Infrastructure Europe estimates that inventories are 22% below the five-year average and 10.7% below the level of a year ago.

Whether the U.S. can actually provide 15 Bcm to the EU market in 2022 is not a sure thing, as the parties alluded to in the announcement with the wording, “strive to ensure.” It would require an uptick in U.S. production that appears unlikely at this point.

“If you look at the LNG plants that are currently under construction, the earliest is not anticipated until 2024,” Porter said. “There’s a number of facilities coming online between 2024 and 2026. So, the real question is, are we looking short-term 2022, 2023? And if so, how are we going to handle the price elements that intersect between Asian demand and Europe demand, which would need a huge amount more than I think could be covered.”

The announcement is a good one for U.S. producers, Nichols said, if it leads to increased permitting for pipelines and LNG facilities. ...

“It’s amazing how often people who are negotiating put a gun to their head and say don’t move or I’ll shoot, and that’s what it sounds like Russia’s story is right now,” Porter said. “But this is diplomacy and politics. Sometimes countries will do things that don’t necessarily make logical sense because they’re staking out turf and they’re willing to suffer for it. It doesn’t make a lot of sense that Russia would cut off Europe when it’s getting badly-needed currency.”