Oil and Gas News Briefs
Compiled by Larry Persily
April 13, 2017

Gazprom says Japan's long-term gas demand 'is not clear'

(Bloomberg; April 10) - Russia's Gazprom isn't confident in Japan's future as a growing natural gas user, which may dampen prospects of a proposed pipeline between the countries as Premier Shinzo Abe travels to Moscow later this month. "The demand situation in Japan is not clear for the next 15, 20, 25 years," said Alexander Medvedev, deputy head of the Kremlin-backed gas exporter. Japan's nuclear reactor restarts, use of coal and rising energy efficiency are making the outlook for gas uncertain, he said.

Abe, seeking to deepen economic ties with Russia in an effort to resolve a 70-year-old dispute over islands off Hokkaido, is expected to visit Moscow on April 27. Russian gas supplies to Japan, including a possible pipeline, could be discussed during the visit, Russia's Kommersant newspaper reported last month. Russia has turned to Asia as a growth market for its energy exports to balance its reliance on European buyers. It has challenged Saudi Arabia as the biggest crude seller to China and is aiming to become the largest gas supplier to China through pipeline supplies from Siberia.

Meanwhile, the potential gas line link to Japan, which has been under discussion for years, "has a history with its ups and downs," Medvedev said. Gazprom's sales prospects both in China and Japan will depend heavily on the price it's ready to offer, said Gordon Kwan, head of Asia oil and gas research at Nomura Holdings in Hong Kong. "There is a place for Russian gas in Japan, but only if Gazprom can lower the price enough … to compete with Qatar and Australia," he said.

Two more Japanese utilities will share LNG procurement

(The Japan News; April 12) - Tokyo Gas and Kyushu Electric have decided to join hands to share liquefied natural gas supplies to cut procurement costs. Tokyo Gas uses LNG to produce town gas, while Kyushu Electric uses it as a fuel to generate electricity. Exposed to competition, which is expected to intensify due to Japan's liberalization of the retail sales of electricity and gas, the two companies aim to efficiently use LNG to lower electricity and gas rates through the planned cooperation.

The demand for gas increases in winter for heating while electricity consumption rises in summer when air conditioners are widely used. Therefore, the amount of necessary LNG supply varies according to seasons. Tokyo Gas and Kyushu Electric judged that they can procure LNG more efficiently if they provide one another with their surplus

LNG, which will make it possible to cut costs. The two companies also aim to ensure stable LNG procurement in the event of a disaster.

Kyushu Electric has reactivated two reactors at its Sendai nuclear power plant in Kagoshima Prefecture, and may also bring the Nos. 3 and 4 reactors at its Genkai nuclear power plant in Saga Prefecture back online as early as the end of this year. Kyushu Electric will therefore need less of the LNG it had procured for its power plants, apparently giving a push to the LNG partnership with Tokyo Gas. In a similar move, Tokyo Electric and Chubu Electric already have integrated their LNG procurement.

Saudis discuss gas opportunities with international producers

(Reuters; April 11) - Saudi Arabia and international oil companies have discussed natural gas opportunities inside the kingdom and abroad as part of the top crude-exporting country's drive to diversify its investments before the stock listing of national energy giant Saudi Aramco. Saudi officials have explored investment opportunities with firms including BP and Chevron to help develop its gas reserves, the world's sixth largest, at a time of booming energy demand at home, industry sources told Reuters.

Aramco has also looked into investing in gas ventures abroad, including with Italy's Eni, the sources said. The development revives memories of talks between Aramco and global majors at the end of the 1990s and early 2000s, known as the Saudi Gas Initiative. Most of those talks collapsed as the parties disagreed over returns on investment. This time, Aramco is gearing up for a share listing next year, aiming to get a valuation of up to $2 trillion in what could be the world's biggest initial public offering.

The kingdom has a long-term goal of increasing the use of gas for power generation, thus reducing oil burning at home and freeing up more crude for export. This could help increase Aramco's valuation as it generates more revenue from exports than selling oil at lower domestic prices. Aramco controls gas reserves of almost 300 trillion cubic feet, according to BP's annual energy review. Saudi Energy Minister Khalid al-Falih said last year that Aramco was interested in investing in international gas upstream ventures.

Japan prepares for second production test of methane hydrates

(Reuters; April 10) - Japan's trade ministry said April 10 it has begun preparations for a second production test to extract methane gas from methane hydrate deposits offshore Japan's central coast. The test is the first since Japan achieved the world's first extraction of gas in 2013 from offshore deposits of methane hydrate, a frozen gas known as "flammable ice."

Japan has been aiming to launch private-sector commercial production of methane hydrates by between 2023 and 2027, but the goal will be a challenge as many obstacles remain to be solved, officials at the Ministry of Economy, Trade and Industry said. Japan's government has budgeted about $180 million for the offshore production experiments, said Yuki Sadamitsu, Director of the Oil and Gas Division at the trade ministry's Agency for Natural Resources and Energy.

The trade ministry said the production tests will be carried out at two wells for four to five weeks. The first production test in 2013 ended abruptly in less than a week due to problems with sand flowing into the well. In 2008, Japan Oil, Gas and Metals National Corp. successfully demonstrated a nearly six-day period of onshore production of methane gas from hydrate reserves deep in the Canadian permafrost. A Japanese study estimates at least 40 trillion cubic feet of methane hydrates off the country's coast.

Singapore makes progress in establishing LNG trading center

(Nikkei Asian Review; April 7) - More Japanese trading houses and international resource developers are using Singapore as a hub for Asian liquefied natural gas trading, a visible sign that the city-state's efforts are paying off. The building that houses energy operations of Japan's Mitsubishi Corp. has been a hive of activity in recent years. The company's Singapore LNG unit, Diamond Gas International, has steadily expanded its ranks, growing from just two workers in 2013 to more than 20.

Mitsubishi's peers also are bulking up operations in the city-state. Itochu had just one LNG spot trader there in 2015, but has since expanded its team to seven members and looks to grow further. Mitsui & Co. sent LNG trading experts in 2016. And ExxonMobil established an LNG sales subsidiary in Singapore in 2015, joining the 40 companies that have moved there. LNG companies are more concentrated in Singapore than anywhere else in the Asia-Pacific region, according to a government enterprise office.

Farsighted policies aimed at making the city-state an LNG trading hub are to thank. Government-backed Singapore LNG opened the nation's first terminal for the gas in 2014 and the fourth storage tank is under construction. The terminal aims to snare as much LNG distribution business as possible, acting as a key waypoint for exports of the fuel. The government also offers tax incentives to draw in companies. Singapore's proximity to some of the largest growth markets for LNG adds to its appeal.

Leading South Korea presidential candidates want to scale back coal

(Reuters; April 12) - No matter who is elected South Korea's new leader next month it's clear that coal and nuclear power generation will likely be scaled back, with most of the candidates laying out plans April 12 to address public concerns over pollution and safety. Less than a month from a May 9 election to replace impeached President Park Geun-hye, policy experts at a forum outlined proposals of four of the five contenders.

The two leading candidates, liberal front-runner Moon Jae-In and centrist Ahn Cheol-soo, both plan to lower South Korea's reliance on coal and nuclear power, pointing to a need to shift to renewable energy, according to their policy advisers. South Korea, Asia's fourth-largest economy, gets 40 percent of its electricity from coal, 30 percent from nuclear, 20 percent from natural gas, and the rest from oil and renewables.

But policy changes are expected amid growing concerns over pollution and the safety of nuclear energy. "We should move away from coal and nuclear power, and shift to clean or renewable energy-based platforms," said Kim Jwa-kwan, head of Moon's energy policy team. Kim said his team planned for nuclear and coal power to account for 18 percent and 15 percent respectively of power supply by 2030, while the contribution of liquefied natural gas would increase to 37 percent to support the rise of renewables.

Growth in LNG trade could provide boost for beleaguered shipyards

(Bloomberg; April 6) - For the many shipyards in Asia that have been fighting to survive a slowdown by cutting jobs and seeking bailouts, rising demand for cleaner fuel is offering a glimmer of hope. Contracts for vessels to transport liquefied natural gas are picking up amid an abundance of shale gas in the U.S. and increasingly stringent curbs on pollution. The world may need about 180 more vessels to move LNG, benefiting shipbuilders with expertise in this area, said Hana Financial Investment in Seoul.

“Gas is going to be the bright spot for shipbuilders,” said Park Moo-hyun, a Hana Financial shipbuilding industry analyst. “Gas prices have fallen, making it an economical option to generate electricity and power the transportation industry. We might see a spurt of orders as early as in the second quarter.” LNG cargoes are projected to rise as much as 5 percent a year between 2015 and 2030 as more gas is used as fuel in power stations and the marine industry instead of coal and oil, according to Shell estimates.

China and India will lead that demand, generating work for Asian shipyards that have struggled with a drop in orders for offshore projects as oil prices have fallen over the past three years. Globally, the three biggest shipyards, all based in South Korea, have as much as 80 percent of the LNG tanker market. Helping vessel orders, in addition to increased gas demand, may be wear and tear. Some 126 ships started to cross the 20-year mark about three years ago, making them inefficient, according to Hana Financial.

Company proposes second propane export terminal for B.C. coast

(Financial Post; Canada; April 11) - Pembina Pipeline Corp. is considering construction of a propane export terminal in Prince Rupert, B.C., the same West Coast city where liquefied natural gas export projects have stalled in recent years. Pembina announced April 10 it will conduct a feasibility study and begin engineering and design work on a $125 million to $175 million liquefied petroleum gas terminal on the site of an old pulp mill near Prince Rupert, scrapping previous plans to build the terminal in Portland, OR.

If built, the project would become the second LPG export terminal in the Prince Rupert area. Calgary-based AltaGas announced in January that it would build the West Coast's first LPG export terminal nearby, on Ridley Island, at a cost of between $450 million to $500 million, to send Canadian propane to Asia. Calgary-based Pembina said it would work on engineering and consulting with communities over the next year before bringing a proposal to its board. The terminal could be built within two years of a decision.

The terminal would be built on an existing but abandoned industrial site with an existing unused shipping berth. The site is connected to a rail line, which would allow Pembina to ship in propane. The city took possession of the site years ago when the pulp mill closed and has been looking for ways to remediate and reuse the land. Propane is a byproduct of shale gas production, and domestic producers have been looking for new markets since Canadian propane has lost market share to growing U.S. supplies.

'Immovable infrastructure' may block shale gas drilling in U.K.

(EnergyWire; April 10) - Only a quarter of the shale gas in the United Kingdom's largest reserves may be recoverable, according to new research. The research, which was led by Durham University and the Researching Fracking in Europe consortium, looked at the impact that dense populations, development and natural obstacles have on the potential for extracting natural gas from the United Kingdom's biggest shale formation.

The researchers used the term "immovable infrastructure" for the buildings, roads, rivers and other natural features that stand in the way of pulling gas from the Bowland Basin in central Britain, which is thought to contain most of the country's shale gas. The researchers found that the infrastructure prevents drillers from reaching and producing more than about 26 percent of the Bowland Basin's shale gas reserves.

"The U.K. is a small, crowded island," said Fred Worrall, a professor in Durham's Department of Earth Sciences. "We wanted to see how many wells we can put into an area without conflicting with what's on the surface." The research could cast doubt on the possibility of creating a significant U.K. shale gas industry. While the U.S. has enjoyed a boom in shale development, the United Kingdom has yet to see the industry take off. "I think we're an awful long way from developing a significant shale gas industry in the U.K.," said Jon Gluyas, a professor in the Department of Earth Sciences.

Algeria may change oil and gas laws to help attract investment

(Reuters; April 11) - Algeria could change its hydrocarbons law to boost energy partnerships with foreign firms and draw more investment into its oil and gas sector, Energy Minister Nourredine Bouterfa said in a statement April 11. Any move to amend its law — criticized by some oil companies as too tough — would be a major shift as Algeria looks to boost production. Changing the law, however, could face resistance from the country's political old guard wary of ending more nationalist policies.

A key gas supplier to Europe, Algeria has managed over the past year to reverse stagnant production and increase oil and gas output, bringing new fields online and getting better yield from mature fields. But new exploration for longer-term output will need more foreign investment just as Algeria is juggling reforms to help offset the sharp slide in global crude prices that have slashed the government's energy revenues.

"We have engaged a dialogue with oil firms to shed light on their understanding of our laws, including their apprehensions with regard to taxes and to bring the necessary corrections so we can boost the development of our partnership and make our country more attractive," Bouterfa told EU officials in Brussels. Algeria's legal framework and taxes have been seen by foreign oil and gas firms as a hurdle to investment. But the law is only one barrier. Oil firms say bureaucracy and delays are others.

First Nations that backed oil line angry at lost economic opportunity

(Financial Post; April 10) - Most aboriginal communities in northern British Columbia that would have benefited from the Northern Gateway oil sands pipeline supported the Enbridge project and are angry that Canadian Prime Minister Justin Trudeau rejected it, said representatives of three of the bands. Elmer Ghostkeeper of the Buffalo Lake Metis Settlement, Chief Elmer Derrick of the Gitxsan Nation, and Dale Swampy of the Samson Cree Nation said they are disappointed in the “political decision.”

Ghostkeeper said more than 30 of the 42 bands on the Alberta-to-B.C. coast pipeline right-of-way were looking forward to sharing in the construction and long-term benefits. “Their expectations were raised with the promise of $2 billion set aside in business and employment opportunities,” Ghostkeeper said at the Calgary Petroleum Club on April 7. “Equity was offered to aboriginal communities, and with the change in government that was all taken away. We are very disappointed in this young government.”

Ghostkeeper said he’d like to see an oil pipeline, but led by aboriginals. “We have to partner with the oil and gas industry and be treated as equals, not as tokens. … The old ways of doing business don’t cut it.” Saying “the Great Bear Rainforest is no place for a pipeline and the Douglas Channel is no place for oil tanker traffic,” Trudeau killed the project last November. Environmental groups and multiple coastal First Nations waged a relentless campaign, arguing the risk of spills outweighed any economic benefits.

Canada warns 'Buy American' pipelines could hurt coal, iron states

(GreenWire; April 10) - Canada is warning the Trump administration that a "Buy American" plan for U.S. oil and gas pipelines could have an unexpected casualty: coal country. The Canadian government last week told the Commerce Department that requiring all new, retrofitted, repaired or expanded pipelines in the United States must use American-made materials and equipment would spell trouble for top coal- and iron-ore-producing states that sell their raw goods to Canada.

Facing the toughest slog would be leading iron ore suppliers — Michigan, Minnesota and Utah — and the nation's top coal suppliers — Wyoming, West Virginia, Kentucky, Pennsylvania and Illinois — the Canadian embassy warned. "Canadian steel producers source the majority of their raw materials from the U.S.," the embassy told the Commerce Department. "The loss of this market for Canadian steel producers would certainly result in … a reduction in their purchase of raw materials from U.S. suppliers."

Canada was responding to a memo Trump signed in January ordering the Commerce Department to craft a plan requiring all new and expanded U.S. pipelines to use as much domestic material and equipment as legally permitted. Commerce is expected to submit a plan by August. The administration in recent weeks exempted the Alberta-to-Nebraska Keystone XL oil line from its "Buy American" strategy, noting that developer TransCanada had already stockpiled steel from Arkansas, Canada, Italy and India.

New oil pipeline into China starts up as Myanmar accepts lower tariff

(Bloomberg; April 10) - A crude oil pipeline to southwestern China through its neighbor Myanmar has started operations after years of delays, allowing the world's second-biggest oil user to receive supplies faster from the Middle East and Africa. A tanker began offloading oil for the pipeline on April 10 at Myanmar's Made Island, according to China's Xinhua News Agency. The line was completed in 2014 and scheduled to start up that year, but was delayed until the government of Myanmar agreed to charge lower transit fees, Wang Dongjin, president of PetroChina, said last month.

The pipeline link, which allows China to import crude from the Middle East and Africa without having to ship through the Straits of Malacca and into the South China Sea, is part of President Xi Jinping's "One Belt, One Road" infrastructure and trade development plan stretching across Asia to Africa and Europe.

The 479-mile pipeline is designed to move about 442,000 barrels of oil per day. For Myanmar, the initial benefits are probably minimal, said Suresh Sivanandam, a senior research manager for Asia refining at Wood Mackenzie. The country may get a small amount of oil and some revenue from oil storage and pipeline tariff fees. The pipeline ends in China’s Yunnan province, where PetroChina has built an oil refinery that has been waiting for pipeline deliveries to start.