Oil and Gas News Briefs
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November 22, 2017

Gas exporting countries deal with growing market competition

(Reuters; Nov. 21) - Top officials of major gas producing countries gathering this week in Bolivia will face a harsh reality: Expanding supplies of the fuel are giving global buyers greater sway over purchase and contract terms. This week's Gas Exporting Countries Forum, which aspires to be the OPEC for natural gas suppliers, is expected to draw energy ministers from Qatar, Iran, Russia and Venezuela to Santa Cruz, Bolivia, as market oversupply reduces gas export revenues.

These countries increasingly are competing with liquefied natural gas exports from and prices set in the United States, which is on track to become the world's third-largest exporter of LNG after Qatar and Australia. That has "buyers in a better position to make contracts with shorter terms and more customized to their demand profile without risking money in high take-or-pay clauses," said Mauro Chavez, a senior research analyst at global energy consultancy Wood Mackenzie.

New suppliers are willing to offer sweeter terms to customers, roiling traditional markets and turning up the heat on producers trying to hold onto more rigid terms. The U.S. has been the most aggressive in shaking up the market through flexible contract terms. U.S. suppliers such as Cheniere Energy are allowing customers to resell cargoes, which has created a profitable market for trading houses. A growing number of spot LNG sales and swaps is also taking place. Cheniere plans to open its fifth liquefaction train in the coming months on the U.S. Gulf Coast while continuing to seek new buyers.

Smaller buyers have taken large share of new LNG supply

(OilPrice.com; Nov. 20) - LNG prices tanked over the past few years after a wave of new export capacity has come online in places like Australia and the U.S. However, despite fears that the global market would collapse under a massive glut of gas, the supply/demand balance is tighter than expected. A report from the Columbia University Global Center on Energy Policy argues that a group of a dozen smaller countries have popped up to buy some of those cargoes, relieving the market of its expected glut.

On their own, each individual country is a bit player in the global market for liquefied natural gas. Collectively, they only accounted for 3.3 percent of total LNG imports in the world in 2014, but they have taken on a majority of the growth in imports since then, accounting for 57 percent of the total increase in imports through September 2017. In other words, put together, these countries have added more LNG demand to the market than China, India, and Taiwan did combined.

The countries include Kuwait, United Arab Emirates, Thailand, Indonesia, Singapore, Lithuania, Pakistan, Egypt, Poland, Jordan, Jamaica, and Malta. The report argues one of the essential elements that has allowed for this growth is the substantial increase in the fleet of floating storage and regasification units (FSRUs) — ships that can store and convert LNG into gas for distribution and consumption. FSRUs can be moved around and have increasingly replaced the more expensive onshore LNG import terminals.

Switch to natural gas adds to industrial consolidation, costs in China

(Bloomberg; Nov. 19) - The great Chinese environmental clean-up is shifting the corporate landscape in unexpected ways and even stoking inflationary pressure that may soon be felt in supply chains worldwide. As President Xi Jinping's government intensifies the fight against China's world-class pollution, companies are scrambling to adapt to tighter regulation while investing in cleaner energy such as natural gas.

In industries from steel to textiles and consumer goods, the resulting shakeout has left the survivors with far more pricing power. These trends are reshaping the business environment, said Cui Li, Hong Kong-based head of macro research at CCB International Holdings. "The environment clean-up is and will be a key driver of the industrial consolidation," said Cui, who expects to see greater concentration in steel, paper-making and pharmaceuticals. "With costs rising from wages, land and pollution curbs, China's manufacturers will have to invest and upgrade to survive."

Take He Wenyong, manager of a mid-sized textile company that has supplied Walt Disney and its license holders. Amid a forced switch to gas from coal, the company, Shenzhen Yabi Textiles, is benefiting by taking the market share of smaller competitors that couldn't foot the bill. Speaking at Guangzhou's massive trade fair earlier this month, he said his company is now able to raise prices by 8 percent. Across China, factories still left standing are passing on price increases to customers. This year, foreign buyers across multiple lines saw significantly higher prices and suppliers less willing to bargain.

Qatar says its low production costs give it an edge in global market

(Gulf Times opinion column; Qatar; Nov. 18) - Qatar's commitment to boost long-term production will solidify its position as the global leader in liquefied natural gas amid supply growth from competitors and demand growth in several markets. Qatar's share of global LNG supply stood at 30.1 percent last year as it captured nearly 70 percent of new demand from Africa, more than compensating for its reduced deliveries to Japan.

Qatar's No. 1 position is likely to be cemented by its July decision to boost production by 30 percent to 100 million tonnes per year over the next five to seven years. The production boost will come through increasing LNG output from the new export-oriented gas project in the North Field, expected to be completed within the next seven years, said Qatar Petroleum. Qatar's gas development at North Field would certainly give it a competitive edge after 2020, when the global LNG market is expected to tighten.

Even as Qatar increases production, it is likely that the output from Australia and the United States would flood the LNG market by then. But Qatar has a distinctive advantage over its competitors — Ras Laffan, which is home to Qatar's world-scale LNG production facilities, has one of the lowest costs of natural gas production. Qatar's low-cost base gives it a price advantage over other established LNG suppliers and could benefit the country in maintaining a competitive edge after 2020.

Iran could enter LNG market next year with floating liquefaction plant

(Financial Tribune; Iran; Nov. 20) - Iran could export its first liquefied natural gas cargo from the Persian Gulf as early as next year if it presses ahead with its proposed floating LNG production project. The National Iranian Oil Co. has signed a contract with joint-venture company IFLNG to deploy a barge to liquefy gas from the giant South Pars field in the Persian Gulf and store and transfer the cargoes, the LNG Shipping World news website reported.

IFLNG is a joint-venture between Helma Vantage of Norway and Iran's Kharg Gas Refining Co. They are talking to Belgium-based shipowner Exmar about a short-term charter for Caribbean FLNG. The liquefaction and storage vessel was built in China for work offshore Colombia, but the project was canceled in 2015, leaving the Exmar ship unused. The vessel is capable of making 500,000 tonnes of LNG per day. Iran has long wanted to enter the global LNG trade, but Western sanctions had blocked investment.

Analysts at BMI Research said the $600 million Iranian project would be "insignificant" in terms of volume, but would help Iran deepen its integration with partners in Asia and Europe and build up the country's experience in LNG trade and marketing. Subject to financing and securing the vessel, the Kharg/Helma project could be ready to operate "in a short period," BMI said. "Iran offers one of the fastest options to employ and monetize the currently redundant Caribbean FLNG vessel," BMI said.

Import duties on steel could add to LNG costs in British Columbia

(Business in Vancouver; Nov. 21) - Developers like LNG Canada, whose backers of the proposed Kitimat, B.C., project include Shell, Mitsubishi, PetroChina, and Korea Gas, have been lobbying the British Columbia provincial government to reconsider the fiscal framework set by the former government of Premier Christy Clark, who left office this summer. While LNG developers in the province would have to pay a carbon tax and an LNG tax, their competitors — companies in Australia and the U.S. — have neither.

And now Canadian companies are facing a potential increase in costs for LNG plants, thanks to new federal anti-dumping duties. This summer, the Canadian International Trade Tribunal and Canada Border Services Agency imposed anti-dumping duties as a response to complaints by Canadian manufacturers that China, South Korea, and Spain were dumping cheap steel into Canada. Imports of fabricated industrial steel components from China and Korea could be hit with 45 percent import duties.

If the duties are applied to prefabricated LNG modules built in China or Korea —among the few countries with that expertise — it could add about $2 billion to a project's costs. The units that liquefy the gas represent about 34 to 38 percent of an LNG plant's capital costs, according to one calculation. The tribunal has refused to clarify whether the duties will apply to LNG modules. "It puts us into a position where … we have to assume that the duties apply," said Susannah Pierce, spokeswoman for LNG Canada. The venture is among the companies that have filed for a judicial review of the duties.

Indian buyer says no new deals as it starts taking U.S. LNG next year

(Reuters; Nov. 21) - GAIL (India) will skip new medium-term liquefied natural gas deals in 2018 as it starts getting supplies from its U.S. portfolio in February, its head of finance said. "We used to buy every year one medium-term contract to cater to domestic demand. This year, we are not doing it. So we will be catching that volume from U.S. volumes," Subir Purkayastha told an analyst conference call last week, according to a transcript made available to Reuters on Nov. 21.

GAIL, India's biggest gas transmission and marketing company, has signed contracts to take up to 5.8 million tonnes of LNG per year from U.S. export facilities on the Gulf Coast and Chesapeake Bay. The company is also likely to cut its spot purchases once volumes from the United States begin, Purkayastha said, adding that in 2018 GAIL expects to obtain close to 80 cargoes from the United States.

India wants to raise the share of natural gas in its energy mix to 15 percent in the next few years from about 6.5 percent now. But price-sensitive customers in the South Asian nation already have forced importers to renegotiate the price of two long-term LNG deals. To manage its contractual commitments and hold down costs, GAIL has signed its first time-swap deal with Swiss trader Gunvor to sell some of its U.S. LNG. It has also sold some of the U.S. volume to Shell to keep its volumes in line with actual need.

Pakistan’s second LNG import terminal to take first delivery Friday

(Reuters; Nov. 20) - Pakistan expects the first cargo of liquefied natural gas for its new import terminal to be delivered Nov. 24, Prime Minister Shahid Khaqan Abbasi said Nov. 20, outlining huge growth plans for Pakistan’s consumption of LNG. The South Asian nation has become a hot destination for global energy giants, with producers such as ExxonMobil and LNG traders like Vitol seeking partners to build import terminals after Abbasi re-oriented Pakistan’s energy policy toward gas.

Pakistan’s second LNG terminal in Karachi, delayed by several months, is capable of receiving 4.5 million tonnes per year of LNG and was set up by a consortium of Pakistani companies and global energy trader Trafigura. GasPort, one of the partners in the venture, also plans to build another LNG terminal in Pakistan, but is facing stiff competition from several other consortia battling to establish a foothold in one of the fastest-growing LNG markets in the world.

Engro Corp., which built Pakistan’s first LNG terminal in 2015, also near Karachi, is working out plans with Shell, Fatima Group and trading house Gunvor for a terminal with capacity of 4.5 million tonnes per year. Abbasi said on top of the first two terminals already built, there are up to five others in the works. “The industry sees the demand, it sees the need, and it is coming in to fulfil that need,” he said. “You will see that Pakistan will exceed 30 million tonnes within the next three years.”

Boost in domestic production could reduce Vietnam’s need for LNG

(Interfax Global Energy; Nov. 21) - A boost in domestic gas production — together with the start-up of pipeline imports from Indonesia — will keep Vietnam’s demand for liquefied natural gas imports lower than previous government forecasts, according to analysts. Vietnam’s gas production is expected to more than double from its current level of 800 million cubic feet per day by 2026, according to Jean-Baptiste Berchoteau, an upstream oil and gas analyst at Wood Mackenzie.

Among the biggest projects under development is the Blue Whale field, led by ExxonMobil. The company has signed agreements with PetroVietnam and its subsidiaries to develop the offshore field. Blue Whale could fuel at least four power plants once it comes online, which is slated for 2023, according to January news reports. The field, estimated at 5 trillion cubic feet of gas, is 50 miles off the central Vietnamese coast. Investment in the field and the power projects could total $10 billion.

Argentina expands financial incentives to develop shale gas

(Platts; Nov. 17) - Argentina's energy ministry said Nov. 17 it has expanded an incentives program for unconventional gas projects to the Austral basin, the country's southernmost source of gas. The incentives will be the same as those available in the Neuquen basin, home to Vaca Muerta, one of the world's largest shale plays, the ministry said. The goal is "to accelerate the development and production of gas" from tight and shale plays in the Austral basin, the ministry said.

Under the incentives, producers can get the attractive price of $7.50 per million for output from such plays through 2018, gradually declining to $6 in 2021, after which market pricing will take over. The market price in 2021 is expected to be in line with the current average of $4, according to analysts and government estimates. The incentives are intended to give companies time to learn how to develop unconventional plays more efficiently, helping to reduce costs so that they can produce at lower prices.

The government introduced the incentives early this year in the Neuquen basin, where most of the drilling into shale and tight plays is taking place. Investment has surged in the Neuquen to $7 billion this year, and is on track to increase to $20 billion in 2019 as companies like ExxonMobil, Shell, Total, Wintershall, and YPF shift from pilot projects to mass development, according to energy ministry estimates. Argentina wants to encourage investment to rebuild gas production after more than a decade of decline.

West Virginians should be careful in courting Chinese investment

(West Virginia Public Broadcasting opinion column; Nov. 20) - President Donald Trump announced during a recent visit to China that state-owned China Energy might invest $83.7 billion in West Virginia over the next 20 years, but will it be good for West Virginia? Yes — if it happens, and if the state doesn't give away an arm and a leg in subsidies and tax breaks to try to make it happen.

The surprise investment pledge represents more than the state's entire 2016 GDP of $74 billion. Aside from the enormity of the number and its sudden nature, the announcement is noteworthy for another reason — its uncertainty. It included few details and is only a memorandum of understanding, not a contract.

There is an additional level of uncertainty baked into huge promises to invest in the U.S. and elsewhere. Ask residents of Harrisburg, Penn., who are still waiting on jobs. In 2013, Taiwanese tech giant Foxconn, which assembles iPhones, announced it would build a factory there. Four years later, no factory. Everyone in the business world knows what a memorandum of understanding is; it's an agreement to make an agreement. It's not a contract, and it's not binding. It's a handshake on paper.

The other concern is what West Virginia is willing to offer China Energy to invest in the state. Gov. Jim Justice said the Chinese have not asked for anything. But some might consider that naive. The Chinese government and its businesses have been investing around the world for decades and are tough, thorough negotiators. Just because China Energy didn't ask West Virginia for anything up front, does not mean it won't.

Bloomberg analysis warns of excessive debt in China

(Bloomberg; Nov. 20) – China's debt is poised to soar over the next five years, severely reducing the chances the nation can avoid a financial crisis. Bloomberg Economics economists Fielding Chen and Tom Orlik estimate China's total debt will reach 327 percent of gross domestic product by 2022, double the level in 2008. That will put China among the most indebted countries in the world.

"The rapid growth and high level of China's debt have already placed them in the danger zone for a financial crisis," said the economists in a note published Nov. 21. "Adding debt equivalent to almost 70 percent of GDP in the next five years wouldn't mean a crisis is inevitable, but it would severely reduce the chances of avoiding one."

China's Central Bank Governor Zhou Xiaochuan recently warned of the risks in company and household debt, saying that corporate borrowing was "very high" and that the nation needs to be on guard against excessive optimism that could spark a sudden drop in asset prices. The Bloomberg estimates of future debt levels are based on a new model that assumes a moderate slowdown in China's growth, continued rebalancing of the structure of the economy toward services, a stabilization in the credit intensity of growth, and continued large-scale write-offs of bad loans.

West Texas gas producers suffer due to lack of pipeline capacity

(Wall Street Journal; Nov. 20) - Natural gas is gushing out of West Texas, a byproduct of frenzied drilling for oil. That's a problem for producers that are running out of places to send it all. Pipelines running from the region's Permian Basin to the Gulf Coast's chemical plants, cities and export terminals are essentially full. Drillers in the Rockies and Canada already supply markets in the north and west.

There is room on pipelines running south to Mexico, which has emerged as a major market for U.S. producers, but there is a catch: Much of the distribution infrastructure and power plants there that would buy the fuel haven't been built yet. The growing gas glut is already weighing on regional prices. Natural gas prices at the Waha trading hub in West Texas have fallen to as much as 57 cents per million Btu below spot prices at Louisiana's Henry Hub, the national benchmark, according to S&P Global Platts.

Analysts forecast the gap exceeding $1 next year. That is good news to regional gas consumers, such as power producers, that can profit from the lower price. But for producers, the excess supply could force them to take drastic measures — such as capping wells and curtailing oil drilling — until new pipelines to the Gulf Coast are built and planned power plants come online in Mexico. “We’re headed into a situation that’s never happened before,” said Rusty Braziel, who heads consultancy RBN Energy. “If Mexican pipelines are not on by the end of next year, we could even see shut-ins and flaring,” Sanford C. Bernstein & Co. analysts said in a recent report.

Opponents vow to continue fight against Keystone XL oil line

(Calgary Herald; Nov. 20) - Groups opposed to the Keystone XL oil pipeline vowed to continue fighting its construction through appeals after TransCanada won final regulatory approval Nov. 20 for its long-delayed project. The Nebraska Public Service Commission voted 3-2 in favor of Keystone XL, allowing the 830,000-barrel-per-day oil pipeline from Alberta to cross through the state, albeit along an alternative to TransCanada’s preferred route.

The commission approved a route slightly eastward for several miles. Commissioner Crystal Rhoades said she voted against approval because the route would still cross environmentally sensitive areas. Business groups touted the approval as a major win — but environmentalists and opposed landowners seized on the dissenting view and potential legal questions arising from the new route as grounds to block the project.

“There’s a legal argument that TransCanada may have to re-apply (for the public service commission for approvals),” Domina Law Group attorney Brian Jorde said. He said the commission is required to either approve or deny a route, not consider a secondary option. Jorde did not know yet whether landowners would appeal the decision. The groups have 30 days to file an appeal of the decision with the courts. Jane Kleeb, president of Bold Nebraska, said her group will continue to fight. “Keystone XL will never be built.” Others, including the Rainforest Action Network, said they would pressure banks that have provided TransCanada with financing to stop the project.