Oil and Gas News Briefs
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LNG market may need 25 to 30 million tonnes per year new supply

(Reuters; Aug. 6) - The race to build multibillion-dollar liquefied natural gas plants is gaining momentum after a long investment hiatus as energy giants sense a widening supply gap in five years. Spending on new facilities that super-chill gas into liquid dried up following the collapse in energy prices in 2014. Appetite was further dampened by fears that a plethora of LNG plants built since the late 2000s would lead to a supply glut.

But sentiment has radically changed over the past year. Buoyed by rising oil prices and exceptionally strong demand from rapidly growing economies such as China and India, executives are increasingly confident conditions are ripe for new projects. Qatar, the world's largest LNG producer, is preparing to expand its output by a third by 2023-2024. State-owned Qatar Petroleum expects long-time partners ExxonMobil, Shell, Total, and ConocoPhillips, as well as possibly new entrants, to help build and fund the expansion.

The market will require roughly 25 million to 30 million tonnes per year in new capacity additions to 2025, according to analysts at Sanford C. Bernstein & Co. The main source of growth is expected to come from the United States, where gas supplies have risen sharply and prices plummeted with the shale gas boom. "The supply-demand balance definitely looks more favorable toward producers these days," said Philippe Sauquet, the head of gas at France's Total, the world's second largest LNG trader after Shell.

China's tariff could hurt U.S. LNG developers, analysts warn

(Bloomberg; Aug. 5) - China's threatened tariff against U.S. liquefied natural gas comes as a second wave of American export terminals seeks financing with an eye toward the Asian giant's drive to reduce its use of coal. The U.S., with its abundance of shale gas, is rapidly growing its ability to export the fuel. China, which became the world's biggest pipeline gas and LNG importer in May, is seen as a key sales target.

But a 25 percent tariff on U.S. LNG imports, retaliating for a U.S. proposal to expand its trade levies against China, could give Qatar, Australia, and Russia an edge in winning LNG contracts. President Trump's plan for U.S. energy dominance "will cease to exist if one of the largest energy markets in the world is preemptively placing tariffs on LNG," said Charlie Riedl, executive director of the industry's Center for Liquefied Natural Gas.

“The 25 percent tariff will definitely price USA LNG completely out of the China market,” said Claudio Steuer, senior fellow at The Oxford Institute for Energy Studies. If the tariff goes ahead, said Warren Patterson, commodity strategist for ING Bank, China could turn to Australia and Qatar, the world’s two biggest exporters. “If Qatar had any doubts about expanding, they won’t now,” said Marianne Kah, former chief economist at ConocoPhillips, now on the advisory board of the Columbia Center on Global Energy Policy. Additionally, Russia plans to begin pumping gas to China by the end of 2019.

Analyst says threatened LNG tariff ‘smacks of a negotiation’

(Bloomberg; Aug. 5) - Chinese President Xi Jinping’s trade policies are threatening to make his environmental goals more expensive. The world’s No. 1 gas importer included U.S. liquefied natural gas on a list of goods Aug. 3 that could be hit with a 25 percent duty. While no date has been set to apply the tariff, the announcement comes just a few months ahead of winter, when China’s demand for the U.S. heating fuel is likely to peak.

“China imposing tariffs on LNG imports from the U.S. marks a shift in strategy, but this action is more likely to hurt Chinese buyers than U.S. exporters,” said Katie Bays, an analyst with Height Securities in Washington D.C. The United States, however, plays a relatively small role in China’s gas supply as the country gets most of its imports via pipeline from Central Asia or from LNG heavyweights like Qatar and Australia.

Tariffs would make U.S. gas uneconomical to China, so traders would shift cargoes to send U.S. LNG to other buyers like Japan and South Korea while redirecting non-U.S. fuel to China, said Trevor Sikorski, with Energy Aspects in London. China would probably end up paying about 10 percent more for spot cargoes after the swaps.

The rhetoric could be setting up a larger trade deal between the two countries centered around gas. “The latest rhetoric smacks of a negotiation being played out in a very public way,” said Neil Beveridge, an analyst with Sanford C. Bernstein & Co. in Hong Kong. “LNG is one of the most obvious ways to lower a trade deficit between the U.S. and China, and if there is a trade deal to be done LNG will be involved.”

China’s tariff threat on U.S. LNG likely to deter spot sales

(S&P Global Platts; Aug. 6) - China's possible imposition of a 25 percent tariff on U.S. LNG imports will likely deter spot procurement of U.S. volumes in the near term, several Chinese end-users and suppliers said Aug. 6. End-users told Platts that, if implemented, the tariffs would push the cost of U.S. LNG above what companies could afford for spot cargoes in the near term. "[A] 25 percent [tariff] is not something we can absorb even if domestic demand is strong," said a source at a state-owned Chinese company. "So, while this uncertainty persists, I doubt buyers will be buying a lot of spot U.S. LNG."

Privately owned LNG buyers said they, too, would be deterred from taking U.S. gas in the near term if the tariff is enacted. "The 25 percent hike completely eats away our margin," a buyer said. Another end-user said the tariff, combined with the 10 percent value-added tax, would add over a third to procurement costs for Chinese buyers.

The uncertainty of a steep tariff on U.S. LNG imports to China may also alter spot-market trading and limit liquidity in the near term as buyers may seek to exclude U.S. cargoes from their bids, sources said. "If I were a Chinese buyer or with significant China positions, then yes, I would want that clause [which excludes U.S. volumes]," a Singapore-based trader said.

U.S./China trade fight could benefit Australia, Papua New Guinea LNG

(Australian Financial Review; Aug. 6) - A threat by China to slap a 25 percent import tariff on U.S. liquefied natural gas may hand an edge to rival sellers such as Australia and Papua New Guinea in winning new long-term sales deals, experts said. In a move described by one consultant as "an LNG bombshell," China has included LNG for the first time in its list of potential tariffs in response to the Trump administration's tariffs.

LNG consultant Tony Regan at DataFusion in Singapore described the move as "an LNG bombshell, if implemented," while noting that Chinese buyers seem to have anticipated the move and already reined in imports of U.S. cargoes the past two months. Longer term, U.S. developers may be affected, providing a boost for rivals. "It could support development of other projects outside of the U.S. targeting the Chinese market, potentially allowing them to push for higher long-term contract prices," he said.

Chinese buyers are potential customers for planned new export projects including Woodside's Browse and Scarborough projects in Australia, and for expansion in Papua New Guinea. PetroChina is a partner in the US$20.5 billion Browse venture offshore Australia, which is targeting start-up in 2026. In Papua New Guinea, PetroChina is also a prime candidate for a long-term purchase deal to underpin expansions led by ExxonMobil and Total after striking a three-year sales contract this month with PNG LNG. Australia-listed Oil Search and Santos are partners in the expansion.

PetroChina in advanced talks on LNG deals with Qatar

(Reuters; Aug. 8) - PetroChina is in advanced discussions with Qatar to buy liquefied natural gas under short- and long-term agreements, sources said Aug. 8. China needs to secure more LNG for its push to replace coal with cleaner-burning gas to reduce air pollution. Tying up with Qatar, the world's largest LNG producer, makes sense as the Middle Eastern country is seeking to sign up buyers to expand its output.

One of the deals under discussion as late as last week covers several million tonnes of annual supply starting this year through 2022, said two sources briefed on the talks. The price and volume are yet to be finalized, the sources said. A third source, who was also briefed on the matter, said PetroChina is also discussing a longer-term deal with Qatar, without giving further details. "The short-term deal is to supplement an existing long-term agreement," said one of the sources, a Beijing-based industry executive.

PetroChina started talks with Qatar several months ago to cover a growing long-term supply gap as demand is set to keep climbing, said two sources. Despite growing competition from rivals such as Australia, Russia, and the U.S., Qatar is among the most attractive suppliers to China due to its output capacity, geographic proximity and low cost, said Chen Zhu, managing director at consultancy SIA Energy. Qatar is looking to expand its LNG capacity to 100 million tonnes per year from 77 million tonnes currently.

China's August imports of U.S. LNG well below peak in January

(Reuters columnist; Aug. 5) - President Donald Trump claims that his tariffs on trade are "working big time," but this ignores signs that the best hope the United States had for boosting exports to China is being crushed as Beijing clamps down on energy imports from the U.S. The latest Chinese response included proposed tariffs on liquefied natural gas. The fuel now joins crude oil, certain refined products and coal on the list of U.S. imports that may be slapped with Chinese import duties of up to 25 percent.

LNG was another product where the U.S. had real potential to boost exports to China, something Trump touted before launching his trade war. China has overtaken South Korea to become the world's No. 2 importer of the fuel behind Japan. Rapid growth is likely to continue as Beijing continues to implement anti-pollution measures aimed at reducing the use of coal. China's imports of U.S. LNG were about 1.9 million tonnes in the first seven months of year, representing 6.9 percent of its total purchases.

August's imports are likely to be around 150,000 tonnes, roughly matching the two cargoes offloaded in both June and May, but well below this year's peak of seven in January. No cargoes have been booked for September, raising the possibility that China's imports of U.S. LNG will drop to zero, even before any new tariff is imposed.

LNG arrives at China's first privately owned major import terminal

(Reuters; Aug. 8) - Chinese gas distributor ENN has received its maiden cargo for the country's first major privately owned liquefied natural gas import terminal, Thomson Reuters Eikon shiptracking data showed. The LNG tanker Stena Blue Sky arrived at Zhoushan port Aug. 7 after loading up at Qatar's Ras Laffan LNG terminal July 22.

ENN has signed long-term deals including sales-and-purchase agreements with Chevron and Australia's Origin Energy and also has an agreement to buy LNG from Total. The deals total about 1.5 million tonnes per year. China overtook South Korea as the world's second-largest LNG importer in 2017 with imports of 38 million tonnes, 46 percent higher than the year before. To meet the higher demand and to reduce their dependence on supply from state-owned companies, Chinese companies are building their own LNG import terminals.

Louisiana LNG developer plans to start construction next year

(Reuters; Aug. 8) - U.S. liquefied natural gas hopeful Tellurian said Aug. 8 it remains on track to begin construction of its Driftwood LNG export terminal in Louisiana in the first half of 2019, with operations to start in 2023. Houston-based Tellurian is on schedule to announce its partners in the $27.5 billion project in the third or fourth quarter of this year, Tellurian CEO Meg Gentle said in the company's second-quarter earnings release. The project's intended output capacity is 27 million tonnes per year of LNG.

Driftwood is one of more than two dozen proposed LNG export projects in the United States seeking customers so they can start construction and enter service in the next decade. U.S. LNG exports have almost quadrupled from 183.9 billion cubic feet of gas in 2016 to 706.4 bcf in 2017, worth about $3.3 billion, and are on track to rise to over 1,000 bcf in 2018, making the country one of the world's biggest LNG exporters.

Tellurian said it has about 25 customers interested in partnering with and buying gas from the project. The company expects the Federal Energy Regulatory Commission will approve construction in January 2019, enabling Tellurian to make a final investment decision in the first half of 2019. FERC released its draft environmental impact statement for Driftwood on June 22. Unlike most other proposed U.S. projects that will liquefy gas for a negotiated fee, Tellurian is offering customers the opportunity to invest in a full range of services from gas production to pipelines and liquefaction.

Shell-led LNG Canada project waits for steel tariff ruling

(The Globe and Mail; Canada; Aug. 6) - A liquefied natural gas venture led by Shell is preparing its British Columbia waterfront site for construction, should the project receive a favorable court ruling on new Canadian tariffs on imported construction components. Before deciding whether to start construction, the partners in LNG Canada are awaiting a Federal Court of Appeal ruling in September, according to a government source.

LNG Canada argues imported modules — some up to 10 stories high — should not be on the list of fabricated industrial steel components subject to tariffs. The modules would come from fabrication yards in China because Shell and its partners say no domestic producers exist to build the components. The venture last year filed a request with the federal Finance Department to exempt the project from the duties of up to 45.8 percent.

The Finance Department will first see what the court rules in September, said the source, who emphasized that the federal government would consider intervening with tariff relief only as a last resort. Analysts believe the Canadian tariffs could inflate the project's costs by at least $1 billion in a potentially make-or-break situation. The full cost of the LNG development, including a 415-mile gas pipeline, is estimated at C$40 billion.

A final investment decision by LNG Canada's five partners is expected by the end of 2018. The two largest partners are Shell (40 percent) and Malaysia's state-owned Petronas (25 percent). LNG Canada is aiming to start production in late 2023.

Court vacates permits, FERC orders halt to gas pipeline work

(Bloomberg; Aug. 6) - A $3.7 billion pipeline in America's biggest shale gas play could be rerouted after a federal agency ordered all work on the project to stop. In a rare move, the Federal Energy Regulatory Commission on Aug. 3 ordered EQT Midstream Partners to halt construction of its 303-mile Mountain Valley line, which would carry natural gas from the Marcellus basin to southern markets. The decision follows a U.S. appeals court order of July 27 vacating two key permits for the project.

The ruling, which requires the U.S. Forest Service and Bureau of Land Management to take a closer look at the line's environmental impact, could lead to a "material reroute" for the pipe, Height Securities analysts Katie Bays and Josh Price said Aug. 6 in a note to clients. EQT Midstream is confident that the permits in question will be restored, and that the Bureau of Land Management will stand by its decision that the route favored by the company is better than alternatives, spokeswoman Natalie Cox said in an email.

FERC said in its decision that it cannot predict when the BLM or Forest Service may act or whether they will approve the same route. "Should the agencies authorize alternative routes, (Mountain Valley) may need to revise substantial portions of the project route … possibly requiring further authorizations and environmental review," FERC said. EQT last month delayed the line's projected start-up to the first quarter of 2019. But late 2019 or early 2020 is more likely, said Charles Robertson, an analyst at Cowen & Co.

Court says federal agencies' gas line permitting work was deficient

(Reuters; Aug. 6) - A U.S. appeals court on Aug. 6 vacated permits by two federal agencies for Dominion Energy to build its Atlantic Coast gas pipeline, a decision the company does not expect to hold up its $6 billion to $6.5 billion project. Dominion said it would work with the agencies to reinstate the permits for the 600-mile pipe from West Virginia to Virginia and North Carolina to carry 1.5 billion cubic feet of gas per day. Spokesman Aaron Ruby said Dominion will continue pipeline work on portions unaffected by the court ruling and still expects to finish the line by late 2019.

The ruling was the latest victory for gas line opponents in the 4th U.S. Court of Appeals. Last week, the court told EQT Corp. to stop work on its Mountain Valley pipeline from West Virginia to Virginia after voiding two federal permits for that project. Atlantic Coast and Mountain Valley are two of several pipelines under construction to connect growing output in the Marcellus and Utica shale basins. In the Atlantic Coast case, opponents challenged decisions by the U.S. Fish and Wildlife Service and National Park Service.

The Fish and Wildlife Service authorized pipeline construction in areas inhabited by threatened or endangered species, including mussels, bumble bees, crustaceans, and bats. The court wants the agency to put more limits on how the company deals with the animals. The court also wants the National Park Service to better explain why permitting a pipeline to cross under the Blue Ridge Parkway in Virginia is consistent with the conservation and preservation purpose, including scenic views, of a national highway.

Goldman Sachs may step into the LNG trade

(Wall Street Journal; Aug. 8) – Just in from the Gulf of Mexico, 2.8 billion cubic feet of natural gas rolls daily through the Sabine Pass, Louisiana, plant, where it is liquefied and loaded onto tankers bound for Asia and South America. One may depart soon with the financial backing of Goldman Sachs, a first for the Wall Street firm and a sign that its appetite for risk, though diminished since the financial crisis, hasn't disappeared.

Goldman is in talks with plant owner Cheniere Energy to buy a cargo of liquefied natural gas, sources said. Should a deal be struck — which is not a certainty — it would give Goldman a sought-after toehold in the LNG market, which is growing quickly as U.S. gas output soars and many countries shift from coal-fired generation to gas. The U.S. is forecast to become the world's second-largest LNG exporter by 2022 as new projects start operating. Some expect LNG trading to eventually resemble oil markets.

Goldman would look to quickly resell the gas to another party, sources said, avoiding the dangers associated with a weeklong voyage but leaving Goldman bearing the risk if it can't find a buyer or if prices swing. The average spot cargo leaving the U.S. is worth roughly $30 million at current prices. Goldman is the eighth-largest marketer of gas in the U.S., according to Natural Gas Intelligence, and has been angling for a way into the LNG market. Financial middlemen buy gas from producers such as Cheniere and resell it at higher prices to utilities and others in developing countries in Asia and Africa, whose low credit ratings prevent them from inking long-term deals with suppliers.

Sinopec joins push to build more gas storage capacity

(S&P Global Platts; Aug. 7) - State-owned China Petroleum and Chemical Corp., or Sinopec, is building natural gas storage facilities in the northern Henan province to help ease supply bottlenecks in peak winter season, the company said on its website Aug. 6. China is set to become the world's largest gas importer within two to three years, but the lack of pipeline and gas storage capacity has impeded the growth of LNG demand, forcing end-users to rely on expensive last-minute logistical solutions like LNG trucking.

Additional storage in northern China will also help alleviate supply issues to central and eastern China, and cushion surges in the price of LNG that touched a high of $11.70 per million Btu last winter. Sinopec did not give a timeline or investment amount for building the new storage, which could hold domestically produced gas or regasified imported LNG. It joins China's largest petroleum company, PetroChina, which recently announced construction of additional underground gas storage in northeast China.

Sinopec's gas-storage cluster in Henan will comprise 16 facilities built at the site of abandoned oil and gas fields, such as the Zhongyuan oil field, the company said. "The Zhongyuan oil field has entered its final stage after more than 40 years of exploration and development, but some underground reservoirs have formed an enclosed space that is suitable for gas storage," said Li Cungui, director of oil and gas development management department at Zhongyuan oil field branch.

Bangladesh soon to become first new LNG importer of 2018

(S&P Global Platts; Aug. 7) - Excelerate Energy has successfully moored its floating liquefied natural gas storage and regasification unit, the vessel Excellence, to its docking facility in Bangladesh and is expected to start injecting gas into the country's pipeline network Aug. 11, a senior Petrobangla official told S&P Global Platts on Aug. 6.

The vessel, carrying LNG from Qatar, arrived at the Moheshkhali Island terminal April 24, according to S&P Global Platts trade flow software cFlow, and was due to start injecting gas into the pipeline network in May, but technical issues and rough seas kept the vessel stranded off the south coast of Chittagong for more than three months.

More work remains, however, as construction of necessary connecting pipelines is not completed. The current infrastructure only has capacity for around 250 million cubic feet of gas per day, half of the project's regasification capacity. The country's first LNG cargo is part of a 15-year contract with Qatar's RasGas for 2.5 million tonnes per year. The cargo will make Bangladesh the first new LNG importer in 2018. Malta was the only new importer in 2017. Bangladesh will become the 41st LNG importing country in the world.

Oil line project will cost Canadian government additional $1.9 billion

(The Canadian Press; Aug. 7) - Kinder Morgan Canada documents say expanding the Trans Mountain pipeline will cost the federal government an additional C$1.9 billion beyond the company's original construction estimate and will take another full year to complete. The 25 percent cost escalation figure is included in documents Kinder Morgan Canada filed Aug. 7 with the U.S. Securities and Exchange Commission related to the company's plan to sell the pipeline to the Canadian government for C$4.5 billion.

Kinder Morgan has long said it would cost C$7.4 billion to build a second pipeline parallel to its existing line in order to almost triple its capacity to 890,000 barrels a day from Alberta to the British Columbia coast, but the financial documents now say the company expects a C$9.3 billion price tag. The documents also suggest construction won't be done until December 2021 — a year beyond the last date of December 2020.

Canadian Finance Minister Bill Morneau has been reluctant to discuss how much more it will cost to build the pipeline while the deal is still being finalized, and the closing date for that deal is now being pushed back well into the fall. The company's documents say shareholders will meet Aug. 30 in Calgary to vote on the proposed sale. The Canadian government decided to buy the pipeline project to ensure the expansion will be completed, as Kinder Morgan faced strong opposition in British Columbia.