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‘Moment of truth’ on LNG Canada project before year-end

(Wall Street Journal; Sept. 24) - Shortly after Ben van Beurden took over as CEO of Shell in 2014, he bet the company on natural gas, with a roughly $50 billion takeover of a rival (BG Group) focused on selling the fuel around the globe. Now he is preparing to double down on that bet. Van Beurden said Sept. 24 that an international consortium led by Shell will decide before year-end whether to move forward with LNG Canada, a proposed C$40 billion liquefied natural gas export terminal in Kitimat, British Columbia.

“We postponed the decision previously when the project wasn’t ready in terms of economic fortunes,” he told The Wall Street Journal. “But there are only so many times you can postpone and recycle and revisit. The moment of truth will come in the next few months.” Shell holds the largest stake in the project alongside partners PetroChina, Japan’s Mitsubishi, Korea Gas, and Malaysia’s Petronas. The liquefaction plant, marine terminal and 415-mile gas pipeline could take five years to construct, van Beurden said.

China’s retaliatory 10 percent tariff on U.S. LNG — part of the country’s trade fight with the Trump administration — doesn’t necessarily improve the decades-long financial outlook for LNG Canada, but it could help build favor for the project among investors, van Beurden said. “These tariffs are not going to stay forever; you make an investment decision and the market will take a view of this project over multiple decades,” he said. “In terms of sentiment, it may nudge it a little bit in a certain direction.”

Shell reportedly will announce LNG Canada go-ahead Oct. 5

(Financial Post; Canada; Sept. 26) - Shell and its partners are set to announce a decision on their $40 billion (US$31 billion) liquefied natural gas terminal in western Canada as early as next week, amid signs the companies are poised to approve it, according to people familiar with the plans. Preparations for an Oct. 5 announcement followed by an LNG Canada event and fireworks at the local golf club the next day are underway in Kitimat, B.C., site of the proposed project, sources said.

LNG Canada — backed by Shell, Mitsubishi, Malaysia’s Petronas, PetroChina, and Korea Gas — would be Canada’s largest-ever infrastructure project. With the capacity to eventually export as much as 26 million tonnes per year of LNG, primarily to Asia, it would be the largest new LNG terminal to be sanctioned in years worldwide. “We are currently reviewing the decision support package that LNG Canada submitted to joint-venture participants,” Shell Canada said in emailed response to questions Sept. 25.

The group has long said an investment decision will be made this year. British Columbia has set a Nov. 30 deadline for a final decision if the project is to claim as much as $6 billion in tax breaks and savings. "We are hopeful that Shell will make a positive investment decision which will lead to the creation of thousands of jobs," said Pierre-Olivier Herbert, spokesman for Canadian Finance Minister Bill Morneau. Prime Minister Justin Trudeau met with Shell CEO Ben van Buerden in New York on Sept. 25.

Canada ready to exempt LNG Canada project from steel import tariffs

(Bloomberg; Sept. 26) - Canada's federal government concedes that a Shell-led group can't get the steel it needs from domestic mills to construct a C$40 billion ($31 billion) liquefied natural gas export terminal in Kitimat, British Columbia, opening the way for it to be exempted from new tariffs on imported steel, according to Canada's Globe and Mail. The tariffs, ordered this summer, are as high as 45.8 percent on "imported fabricated industrial steel components," which, unless exempted, could apply to the steel used in production modules for the LNG Canada project.

Prime Minister Justin Trudeau's administration has told LNG Canada it agrees the project will need to be built from imported steel modules, the newspaper reported, citing unnamed sources. LNG Canada has filed a request with the finance ministry for a "duty remission" that would exempt it from duties on imported steel modules that could add C$1 billion to construction costs, it said. The government is first waiting for a tariff ruling from the Federal Court of Appeal on the matter before any announcements.

Qatar boosts capacity expansion project by 10 million tonnes

(Bloomberg; Sept. 26) - The world's biggest producer of liquefied natural gas wants to bulk up as competing supplies from Australia and the U.S. are set to come to the market over the next decade. State-owned Qatar Petroleum will build four new liquefaction trains by 2025, up from a previously announced three, CEO Saad Sherida Al Kaabi said, boosting annual capacity to 110 million tonnes of LNG from 77 million currently. Qatar last year announced plans to reach 100 million tonnes within seven years.

The decision to increase output even more was driven by rising demand for gas and the "good results obtained through recent additional appraisal and testing in the North Field," Al Kaabi said, referring to Qatar's portion of the giant offshore reservoir shared with Iran. Global LNG consumption is expected to rise by more than a third over the next decade to 416 million tonnes a year, according to Bloomberg New Energy Finance.

Chinese imports of the fuel surged 35 percent in the first eight months of this year, and gas producers from Australia, Africa, and the U.S. are boosting output to capture a bigger share of this growing market. Qatar Petroleum plans to make its final investment decision on the expansion by the end of 2019, Al Kaabi said. Tenders to drill new offshore wells will be issued next month. Al Kaabi did not disclose how much Qatar Petroleum would spend on the expansion.

China could overtake Japan as world's top LNG importer late 2019

(LNG World Shipping; Sept. 26) - China is set to become the world's largest importer of natural gas for the first time overtaking long-time leader Japan. Over the first eight months of this year China has imported the equivalent of 57.18 million tonnes of liquefied natural gas, in the form of LNG and pipeline deliveries. In contrast, Japan has imported 56.45 million tonnes, all in the form of LNG, over the January-August 2018 period. China's 57.18 million tonnes is equal to about 2.75 trillion cubic feet of gas, averaging about 11.2 billion cubic feet per day.

Gas imports are growing much more quickly in China — both LNG and pipeline gas — than in Japan, where LNG import volumes are relatively stable. This trend will reinforce the emergence of China as the world's top gas importer by the end of 2018. China's August 2018 LNG imports were up by 51.5 percent year-on-year on the same month in 2017. The August results boosted China's total LNG imports for the first eight months of 2018 to 32.63 million tonnes, a leap of 47.8 percent over the first eight months of 2017.

At the same time, China's imports of gas by pipeline in August 2018 were up by 21.2 percent over the same month last year, reaching the LNG equivalent of 3.06 million tonnes. Pipeline imports in the first eight months of 2018 were up by 20.7 percent over a year ago, reaching the LNG equivalent of 24.55 million tonnes. If China maintains its current high rate of import growth, it will be vying with Japan for the title of top LNG importer as soon as the end of 2019. It would then emerge as the clear leader in 2020.

U.S. LNG may be profitable in China, but tariff creates new obstacle

(S&P Global Platts; Sept. 26) - A 10 percent tariff on U.S. liquefied natural gas is not enough to make shipping cargoes to China unprofitable, but it adds an obstacle for the second generation of American terminals, industry observers said. "With the 10 percent tariff implementation, we are probably not going to see a cessation of U.S. LNG exports to China," Madeline Jowdy, senior director of gas and LNG analytics at S&P Global Platts, said at an energy industry conference. "But there will be a price to be paid."

Jowdy and others at the U.S. Association for Energy Economics conference this week in Arlington, Virginia, said the biggest effect could be greater difficulty for developers already struggling to find long-term buyers for their multibillion-dollar projects. "Who do you trust to sign a long-term procurement agreement for LNG? And if you are having a trade spat with that partner, it's really hard to get them to come to the table and sign a trustful long-term agreement," said Dean Foreman, the American Petroleum Institute's chief economist. The tariff took effect Sept. 24.

Still, even with the tariff and trade fight, sending U.S. gas to China could be profitable, said Ronald Ripple, a professor of energy business and finance at The University of Tulsa. "Even with a 10 percent reduction off of the market price in Asia, they get a greater netback for that than if they ... went to Europe," Ripple said. "They'll still take it to Asia. They'll still take it to China."

China says its tariff on U.S. LNG creates potential for Australia

(Australian Financial Review; Sept. 25) - China says its trade war with the United States creates "huge potential" for Australia's liquefied natural gas industry. China has imposed a 10 percent import tariff on U.S. LNG in response to President Donald Trump's latest round of tariffs. A senior Chinese trade official Sept. 25 suggested this could benefit Australia and other countries exporting LNG to China.

"The U.S. could be a major LNG supplier to China. But because of the trade restriction measures the U.S. imposed, China is compelled to adopt counter-measures. Therefore, for U.S. LNG producers there will be an impact to their exports to the major market of China," Wang Shouwen, China's vice minister of commerce, told a press conference. "Australia is also an important source of China's LNG imports and the trading volume between China and Australia is pretty sizable and there is huge potential."

Analysts have predicted escalating trade tensions between China and the U.S. could lift demand for LNG from Australia, the world's second-biggest exporter. China already has several long-term purchase deals that include Chevron's Gorgon and the Woodside-run North West Shelf venture in Western Australia and two LNG projects on the eastern side of the country. China also is a potential buyer for proposed new projects, including Woodside's Browse and Scarborough projects and an expansion in Papua New Guinea.

Chinese tariff could cost U.S. shale gas industry opportunities

(Nikkei Asian Review; Sept. 22) - With China about to slap a retaliatory tariff on U.S. liquefied natural gas, the American shale gas industry stands to be cut off from its third-biggest export market, casting a shadow over its growth. The 10 percent duty that China imposed on U.S. LNG will not have a significant impact on the country's total purchases as LNG imports are surging under Beijing's drive to wean the country off coal. U.S. cargoes have jumped six-fold on the year, but still are less than a tenth of China’s total.

China has other suppliers it can turn to. Qatargas said Sept. 10 it has signed a 22-year deal to supply LNG to a subsidiary of PetroChina. Russia can sell more to China as well. Next year's opening of a gas pipeline connecting eastern Siberia and China will increase Russian supply. In contrast, the U.S. is certain to suffer a drop in LNG sales to China, and U.S. suppliers are looking to Europe as an alternate market. With the ranks of exporters and importers growing, the game of musical chairs is likely to continue.

The U.S.-China trade war may rearrange flows completely, said Dave Ernsberger of S&P Global Platts. Market observers are focused on what this change will mean in the long run, as LNG projects require massive investments and a prolonged trade conflict will discourage Chinese investment in U.S. facilities. The LNG tariff could undermine U.S. competitiveness, said Samuel Phillips of Barclays. If it is unable to serve China's voracious appetite, the U.S. shale gas industry will lose significant opportunities.

Appalachian gas pipeline hit with $1 billion cost overrun

(S&P Global Platts; Sept. 25) - EQT Midstream Partners boosted the expected cost of its Mountain Valley Pipeline again, this time by about $1 billion, in the latest example of how bad weather, regulatory hurdles, schedule delays, and environmental mitigation measures are affecting the U.S. natural gas sector. The developer said Sept. 24 it has increased its cost estimate to $4.6 billion for the project in West Virginia and Virginia. A spokeswoman said that is up from a July estimate of $3.5 billion to $3.7 billion.

When the project was announced in fall 2015, EQT had estimated the pipeline would cost $3 billion to $3.5 billion to build. The overruns come as the market awaits more takeaway capacity out of the Northeast's prolific Appalachian Basin. The approximately 300-mile pipeline is seen as a key conduit to serve downstream markets, including LNG exports. The line is planned to move up to 2 billion cubic feet of gas per day.

"The halting of construction due to court challenges from environmental opponents have caused lengthy project delays, material cost increases, and burdens for local communities and agencies,” EQT said. The developer also blamed significant rainfall throughout the summer and recent hurricane preparedness actions that interrupted full-construction activities, as well as other unanticipated construction cost overruns.

Sinopec completes third storage tank at LNG terminal

(Reuters; Sept. 25) - China’s Sinopec completed construction of a third tank to store liquefied natural gas at its receiving terminal in Tianjin, marking the completion of construction of the first phase of the import facility, the state oil and gas group said Sept. 25. The terminal, in the northern port city near Beijing, began operations last February. It has an annual receiving capacity of 3 million tonnes of LNG and an annual send-out capacity of 140 billion cubic feet of natural gas.

The terminal already has received 22 shipments of LNG this year, totaling 1.46 million tonnes, the company said. Sinopec operates two other terminals, one in Beihai in the southwest Guangxi region and one in Qingdao in the eastern province of Shandong. The Chinese government has asked gas suppliers and distributors to boost storage capacity to cope with winter-demand spikes.

Russia, China in talks on another major gas pipeline

(RT; Russian government-funded news channel; Sept. 22) - One of the world's longest gas pipelines — the Power of Siberia — which is being built to deliver gas from Russia to China, is almost complete, and the sides are getting ready to ink a deal on another major pipeline. Agreement on the Power of Siberia 2 — the western route for delivery of Russian gas to western China — might be signed in the first half of 2019, said Nur Bekri, director of the National Energy Administration of China. The new line would move up to 3 billion cubic feet of gas a day, similar to the Power of Siberia eastern line.

"If we agree on the western route," Bekri said, Russia's combined pipeline gas deliveries and liquefied natural gas cargoes could make it the largest supplier to China. A recent report by the U.S. Energy Information Administration said China will account for at least a quarter of all global gas consumption growth between 2015 and 2040.

Supplies via the eastern route (the Power of Siberia line, at almost 2,000 miles) are expected to start by the end of next year. Initial volumes will stand at about 500 million cubic feet per day, reaching 3.6 bcf a day by 2024.

Sinopec trading unit puts hold on plan to boost U.S. oil imports

(Bloomberg; Sept. 25) - U.S. oil exports to China are becoming a casualty of the trade war between the two countries. Unipec, the trading unit of top Chinese refiner Sinopec, has put on hold its plan to boost U.S. crude imports as it assesses the impact of the trade battle, said company President Chen Bo. It previously planned to raise volumes to 500,000 barrels a day in 2019, compared with 300,000 barrels daily from January to August this year, he said.

Sinopec's reluctance to boost its purchases of U.S. crude shows how the trade war between the major economies is reverberating in the world of energy trading even though crude isn't subjected to Chinese tariffs on U.S. goods. Unipec's caution means

China — the world's biggest oil importer — may not be able to fully take advantage of booming output at U.S. shale fields. Meanwhile, globally, buyers already are bracing for higher prices and a supply crunch due to impending U.S. sanctions on Iranian oil.

Earlier this year Unipec had shunned U.S. crude due to the threat of oil being included among U.S. imports that would incur tariffs in China. The trader later resumed some purchases after crude was removed from the list by Beijing. Still, the possibility that it may be re-introduced is making buyers wary. Chen said he hopes and expects that the disruption of trade with the U.S. will prove temporary, as U.S. oil helps Unipec diversify supply sources.

Trade fight cuts into U.S. oil exports, industry group says

(Oil & Gas Journal; Sept. 21) - The U.S. reached a new record for oil production of 10.8 million barrels per day over the past two months, but petroleum exports decreased by 1.3 million since June, according to an industry outlook from the American Petroleum Institute. With the drop in exports, the nation's overall petroleum trade balance went from net imports of 2.9 million barrels per day in June to 4.54 million barrels in August.

"While the picture is still a bit muddied, it seems to be getting clearer — the trade war appears to be limiting the U.S. access to crude export markets," said API Chief Economist Dean Foreman. "As we produce more energy here at home, the U.S. needs markets for its products in order for our economy to continue to grow. There's no question that the increase U.S. petroleum net imports, which undid a full year's worth progress, is a setback to the U.S.'s goal of energy dominance."

Also raising concerns are the Trump administration's trade and tariff policies involving steel. Prices of many tubular and specialty steel products, which are main inputs to pipelines, refineries, and natural gas liquefaction and petrochemical facilities, increased by more than 25 percent as import tariffs were recently imposed on the products.

Russia-Saudi alliance may be new OPEC

(Bloomberg opinion column; Sept. 23) - OPEC is dying. President Trump will probably rejoice, but he may not like what takes its place any better. In its youth OPEC burned brightly, helping members wrest control over their oil industries and stand up to foreign producers. But now, like every star, it is about to implode. When a star runs out of hydrogen fuel, its core contracts and heats up while the outer layers expand. It will then either collapse into insignificance to become a black dwarf or explode as a supernova.

OPEC is turning into the latter. Though its ranks have grown, its new members have done little to bolster its production potential. Just like that ball of gas in space, no external force is required to bring about the end of OPEC. The world has changed. OPEC is no longer relevant in the way it once was. Its production represents just a third of the world's oil output — the smallest share it has held in almost three decades.

OPEC's ability to influence prices also has waned, and its ability to lift output at short notice is increasingly concentrated in a dwindling band of Persian Gulf countries. The inclusion of Russia in the group's latest supply-management push reflects its waning power. Alone OPEC was unwilling and unable to agree to reduce production in 2016 to balance global supply and demand — but Russia made all the difference.

Internally, the political and economic differences between OPEC's founding members outweigh the common ground that brought them together in 1960. In particular, ideological battles between Saudi Arabia, the United Arab Emirates, Iran and Qatar are taking a toll. The death of a star takes billions of years. OPEC's will happen a little quicker. But Trump may not like a subsequent Saudi-Russian alliance any better.

Not all OPEC members see price and production the same

(Wall Street Journal; Sept. 23) - OPEC producers largely agree that oil prices above $80 a barrel would be too high. But there is widespread disagreement on how the cartel and its allies should contain crude prices once U.S. sanctions banning Iranian oil exports take effect in November. The lack of a consensus highlights inequities between oil-producing countries that can boost output beyond current levels and those that can't. The former group would like to see a rise in demand. The latter prefer higher oil prices.

At a gathering of the cartel and non-member producing nations on Sept. 23, Saudi Arabia, the de facto leader of the 14-member Organization of the Petroleum Exporting Countries, and Russia, which leads 11 other allied producers, reiterated that they want to adhere to production quotas to which they agreed in late 2016. By maintaining official limitations, the alliance will keep a floor for oil prices, which have recently hovered between $70 and $80 a barrel.

But if there is a rise in global demand, any extra supply would need to come from Saudi Arabia and Russia, which could boost production and profit from higher output even at lower prices. That's not so for production-constrained countries that want higher prices. "Every extra dollar on the oil price eases their pain," Richard Mallinson, geopolitical analyst at consultancy Energy Aspects, said of struggling OPEC producers including Libya, Angola, Algeria, Nigeria, and Venezuela. The only way those countries can ease their economic pressure "is by hoping for, pushing for a higher price," he said.

[Some predict cutback in Iranian oil exports could drive crude to $100]

(Bloomberg News; Sept. 24) - Major oil trading houses are predicting the return of US$100 crude for the first time since 2014 as OPEC and its allies struggle to cover for U.S. sanctions hitting Iran's exports. With Brent crude already jumping to an almost four-year high Sept. 24, that's exactly the kind of price surge President Donald Trump has been seeking to prevent by pressuring OPEC to raise production. Yet the cartel and its allies gave mixed signals at a meeting in Algiers on Sept. 23, ultimately showing little sign they would heed U.S. demands to rapidly push down crude prices.

OPEC's reticence, along with growing supply losses from Iran, created a bullish mood at an annual event of Asian oil industry, traders, refiners, and bankers in Singapore on Sept. 24. "The market does not have the supply response for a potential disappearance of 2 million barrels a day in the fourth quarter," Mercuria Energy Group co-founder Daniel Jaeggi said at the S&P Global Platts Asia Pacific Petroleum Conference. "In my view, that makes it conceivable to see a price spike north of US$100 a barrel."

When Trump in May announced plans to reimpose sanctions on Iran's oil exports, the market estimated a cut of about 300,000 to 700,000 barrels a day, said Trafigura Group co-head of oil trading Ben Luckock. However, the consensus has now moved to as much as 1.5 million barrels a day. Luckock sees $90 oil by Christmas and $100 in early 2019. Bank of America's main scenario is for oil prices next year at about $80 a barrel. Citigroup sees oil at that level in the fourth quarter, but sees risks that it will go higher.

[TransCanada plans to start building Keystone XL next year]

(The Associated Press; Sept. 24) - The developer of the Keystone XL oil line plans to start construction next year after a U.S. State Department review ordered by a federal judge concluded that major environmental damage from a leak is unlikely and could quickly be mitigated, a company spokesman said Sept. 24. TransCanada spokesman Matthew John said the company has already started preparing pipe yards, transporting pipe and mowing parts of the project's right-of-way in Montana and South Dakota.

The State Department report issued Sept. 21 drew criticism from environmental groups that said they will continue to fight the project. The 338-page report was released a little more than a month after a federal judge ordered the department to conduct a more thorough review of the route after Nebraska state regulators changed the pathway. The original environmental impact study was issued in 2014 before Nebraska regulators approved an alternative route that veered away from the company's preferred pathway.

The updated report said the $8 billion, 1,184-mile pipeline would have a "negligible to moderate" environmental impact under normal operations, and continuous monitoring and automatic shut-off valves would help TransCanada quickly find any leak or rupture. The draft report must still face public review and comments. Federal officials said a final report is expected by December. The pipeline would carry up to 830,000 barrels of oil a day from Canada through Montana and South Dakota to Steele City, Nebraska, where it would connect with the original Keystone pipeline to Texas Gulf Coast refineries.

Chinese-built, LNG-powered ships on their way to Finland

(Barents Observer; Norway; Sept. 21) - The sister ships Haaga and Viiki, fueled by liquefied natural gas and built in China for Finnish company ESL Shipping, will travel through the Northern Sea Route in Russian waters to their home port. The Haaga on Sept. 14 sailed into the eastern part of the Arctic shipping lane. Built by the Jinling shipyard in Nanjing, China, it loaded raw material cargo in Japan before it set course for the Arctic. It is estimated to arrive in the Swedish port of Oxelösund around Oct. 1.

The Haaga had Russian icebreaker assistance when it crossed the East Siberian Sea. Ice data from the Russian Arctic and Antarctic Research Institute show that the remaining parts of the Northern Sea Route now are practically all ice-free. The Viiki was delivered this month and is expected to start its Arctic voyage in about two weeks.

According to the ESL Shipping, the LNG-fueled vessels generate less than 50 percent of the carbon dioxide emissions of the previous generation of vessels. The ships primarily will sail in the Baltic Sea. Like all the 50 vessels operated by the Finnish shipping company, the Haaga and Viiki are heavily ice-strengthened.