Oil and Gas News Briefs
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Talks continue to curb oil production, but it's challenging

(Bloomberg; April 6) - The world's largest oil producers are pressing ahead with talks for an unprecedented deal to mitigate the devastating impact of the coronavirus crisis on their industry, even as their leaders exchange barbs. The challenge now is to nail down numbers everyone can live with. Ministers and diplomats will spend the next two days talking about who's willing to cut production and by how much. The most important contributions will come from oil's trio of big powers: Saudi Arabia, Russia, and the U.S.

An effective deal will require all three to participate. Russia and Saudi Arabia are set to curb their production significantly, said people familiar with the negotiations. The U.S. is more likely to offer up the kind of gradual output reductions that will come as American companies respond to the economics of a market where prices are low and storage tanks are full. After a turbulent few days of sniping between Moscow and Riyadh, there were signs that diplomats were making progress. But the talks still face big obstacles.

A meeting of producers from OPEC+ is tentatively scheduled for April 9. Russia and Saudi Arabia want the U.S. to join in on production curbs, but President Donald Trump has so far shown little willingness to do a deal with the cartel. The OPEC+ meeting will probably be followed the next day by talks between energy ministers from the Group of 20 on wider contributions to a production deal. The G-20 may be a better forum to bring on board the U.S. and other big, non-OPEC+ producers — such as Canada and Brazil.

It's not clear if Russia and Saudi Arabia will require the U.S. to publicly commit to cut production — a challenge in the private, fragmented U.S. industry — or if a compromise gesture would be enough. Alexander Dynkin, president of the Institute of World Economy and International Relations in Moscow, a state-run think tank, said Moscow would like the U.S. to lift some of its economic sanctions on Russia as a compromise.

UAE joins call for all oil-producing nations to reduce output

(S&P Global Platts; April 6) - UAE's energy minister said on April 5 that all oil-producing countries need to address the weak global demand for crude as the OPEC+ alliance gears up for an emergency meeting April 9 to discuss an oil output cut. "A joint and combined effort by all oil-producing countries is required, not only the group of OPEC+ countries, in order to address the weakness of demand in the global oil market," Suhail al-Mazrouei said in a statement carried by the state-run news agency.

"The UAE is confident that, if an agreement can be reached, all producing countries will work quickly and cooperatively to address the weak demand for oil in global markets, helping to rebalance the market and maintain global oil inventories at reasonable levels," he said. The UAE is OPEC's third-largest oil producer. It joins Iraq, OPEC's second-largest oil producer, in calling on countries outside the 23-member OPEC+ coalition to help stabilize the oil market and boost prices.

Iraq's Oil Minister Thamir al-Ghadhban said on April 5 that any new agreement among OPEC+ members needs to be supported by key oil producers outside the alliance, such as the U.S., Canada, Norway, and others. So far only Norway has suggested it may join a new OPEC+ pact. Norway, Europe's largest oil producer, would be willing to participate in production cuts as part of a "broad" international effort, Petroleum and Energy Minister Tina Bru said April 4.

Even with output cut, it will take a long time to draw down stockpiles

(S&P Global Platts; April 6) - Tanker storage is about the only thing in demand in the oil market right now. The coronavirus pandemic has obliterated consumption, forcing producers and traders to store more oil on the water. Draining these floating stockpiles may take years despite rising hopes of an OPEC+ production cut. S&P Global Platts Analytics estimated there was potential storage capacity for crude, oil products, and gas liquids of 1.4 billion barrels — about 1 billion barrels on land and 400 million at sea.

Commercial storage has filled up rapidly since January and could near the top by the end of the month, according to Platts Analytics. With land options running out, the race to secure floating storage has picked up significantly in recent weeks with up to 60 tankers under long-term charter, according to S&P Global Platts. Some supertankers have been booked to store crude up to three years — potentially the longest ever duration for storage at sea, traders said. Some analysts said Saudi Arabia was chartering tankers to raise storage costs and squeeze rival producers.

Meanwhile, producers now face an almost insurmountable task to rebalance the market, even if a coordinated cut emerges of 15 million barrels per day. That may be enough to stop storage capacity from being exhausted, but a longer-term problem will be reducing stockpiles back toward their five-year average. Production cuts look inevitable if storage is exhausted and demand remains depressed. Analysts said the greatest impact will be in the Atlantic Basin where low prices, high stocks and the longest travel time to buyers will likely lead to production curtailments in the U.S., Canada, Brazil, and West Africa.

Exxon cuts 2020 capital spending by 30%; delays Mozambique LNG

(Reuters; April 7) - ExxonMobil on April 7 throttled back a multi-year investment in shale, liquefied natural gas and deepwater oil production and will cut planned capital spending by 30% this year as the coronavirus pandemic saps energy demand and oil prices. Oil companies worldwide are reversing 2020 spending and production increases by an average of 20% as countries limit air travel, order businesses to close, and tell residents to stay home to curb the spread of the virus. In a one-two punch to suppliers, crude prices have sunk nearly 60% this year and demand for fuels is falling sharply.

"We haven't seen anything like what we're experiencing today," CEO Darren Woods said as Exxon detailed its spending cuts, the last of the oil majors to do so. The largest U.S. oil producer, which last month pledged "significant" cuts to spending, set 2020 capital expenditure at $23 billion and said it could go lower if required. Exxon previously expected to spend up to $33 billion this year and had spent $26 billion last year.

The company had planned annual spending of $30 billion to $35 billion for the next several years, but 2021 spending could come down as well, Woods said. Exxon will quickly lower spending in U.S. shale, where it plunked down $6 billion in 2017 for drilling leases and had expected to produce about 360,000 barrels per day this year. It now expects to reduce output by about 15,000 barrels per day this year, and 100,000 to 150,000 barrels per day in 2021. Exxon has delayed a final investment decision for its LNG project in Mozambique and some spending in offshore Guyana, where it started oil production just a few months ago, targeting output this year of 120,000 barrels a day.

Analyst expects oil tanker rates to drop as storage is 'destocked'

(S&P Global Platts; April 6) - Asian tankers have just had one of their best first quarters in years as traders rushed to store oil products on the water as the COVID-19 pandemic slashed oil demand globally, but the boom in charter rates is not expected to continue beyond the second quarter. Given the magnitude of the jump in rates in the first quarter, market participants say the trend is unsustainable and a major correction is expected before the end of June with the timing hinging on how the global pandemic pans out.

Spot rates for very large crude carriers, able to carry 2 million barrels, on the Persian Gulf-North Asia route are currently at more than $225,000 a day, according to broker estimates. Dozens of tankers are being deployed as floating storage for crude, gasoil, jet fuel, gasoline, and other products, making spot tanker rates one of the best-performing asset classes at a time when most commodities are at multiyear lows. "The outlook is bullish for the short term for all tankers, but one needs to be cautious for the medium term," said Oslo-based analyst Ole-Rikard Hammer, with Arctic Securities.

The current strength in tanker markets is based on imbalances in the oil market that are unlikely to last, Hammer said. Strong demand for floating storage for crude and refined products was simply because there were hardly any buyers for prompt deliveries, market sources said. A cut is expected in crude and refined oil products output in the second quarter, and a “destocking cycle” would quickly eat into the floating storage surplus, resulting in the freight market being hit by both low demand for transportation and more ships becoming available as floating cargoes are released, Hammer said.

Rising oil prices make storage uneconomical

(Reuters; April 7) - Traders seeking to store oil have put their plans on hold this week after prompt Brent crude futures prices surged against future months and made storage uneconomical, despite overwhelming supplies in the market, industry sources said on April 7. Front-month Brent crude prices have jumped since April 3 on expectations that Saudi Arabia and Russia may strike a deal to cut output and support prices.

That has created a growing disconnect with physical markets where traders are struggling with unsold supplies from previous months after the coronavirus pandemic destroyed demand. "Demand has collapsed and supply is gushing," said Ashok Sharma, managing director of shipbroker BRS Baxi in Singapore. "The market is totally disconnected from supply-and-demand fundamentals."

The contango spread between the first- and sixth-month Brent crude futures narrowed sharply to $5 a barrel on April 7 after hitting an all-time gap of $13.45 a barrel at the end of March. Prompt prices are lower than those in future months in a contango market, encouraging traders to sell oil later at higher prices. However, the lower spread is insufficient to cover storage costs for a Very Large Crude Carrier (VLCC), which was most recently chartered at about $1 a barrel per month, one of the sources said.

Border-crossing construction begins on Keystone XL oil line

(The Associated Press; April 6) – TC Energy said April 6 it has started construction on the long-stalled Keystone XL oil sands pipeline across the U.S.-Canada border despite calls from tribal leaders and environmentalists to delay the US$8 billion project amid the coronavirus pandemic. A company spokesman said work began over the weekend at the border crossing in northern Montana, a remote area with sprawling cattle ranches and wheat fields. About 100 workers are involved initially, but that number is expected to swell into the thousands in coming months as work proceeds, the company said.

The 1,200-mile pipeline was proposed in 2008 to carry up to 830,000 barrels a day for transfer to U.S. refineries and export terminals on the Gulf of Mexico. It's been tied up for years in legal battles and several court challenges are still pending, including one that's due before a judge next week. TC Energy's announcement last week that it intended to start construction came after the Alberta government invested US$1.1 billion to jump-start work. Montana issued the final state permits April 3 the company needed.

Leaders of American Indian tribes and some residents of rural communities along the pipeline route worry that workers could spread the coronavirus. As many as 11 construction camps, some housing up to 1,000 people, were initially planned for the project, although TC Energy said those are under review because of the virus. TC Energy said it plans to check everyone entering work sites for fever and ensure workers practice social distancing. A hearing on a request to block work is scheduled for April 16 before U.S. District Judge Brian Morris in Great Falls, Montana.

Oil Search plans stock sale to raise money to weather low oil prices

(Reuters; April 6) - Oil Search plans to raise A$1.1 billion ($666 million) through a share sale to weather weak oil prices through 2021, two people who have been approached about the capital raising said April 6. The Papua New Guinea-focused oil and gas producer sought a trading halt on its shares on April 6, saying it was going to announce a capital raising. Oil Search declined to comment on its capital raising plan ahead of an announcement to the market.

The company last month slashed its planned spending for 2020 to shore up its balance sheet following a 50% slide in oil prices since the start of the year, but analysts and investors raised questions about whether it would be able to meet covenants on its debt. Its shares have slumped 50% in the past month. The company is shoring itself up for prices to average $20 a barrel this year and $30 a barrel in 2021, one person said.

As of the end of 2019, Oil Search had net debt of $2.98 billion, including $440 million in a drawn lending facility that it tapped to fund the acquisition of assets in Alaska. “We have been very wary of OSH’s (Oil Search’s) exposed balance sheet since the oil price started falling,” Credit Suisse analyst Saul Kavonic said in a note April 6 after the trading halt. “We think it may be better for OSH to raise earlier rather than later, and raise big rather than small, to dispel further market conversations regarding ... balance sheet risk, and given that oil prices could drop lower over coming weeks,” Kavonic said.

Qatar says bidding delay will not deter LNG expansion

(Reuters; April 6) - Qatar Petroleum will postpone the start of production from its new gas facilities to 2025 due to a delay in the construction bidding process, but is not downsizing the world’s largest liquefied natural gas project despite concerns of a mounting glut, its chief executive told Reuters. Saad al-Kaabi said the company is not scaling back a plan to build six new LNG production units for its ambitious scale-up in output, though commercial bids from contractors and the start of output will be delayed.

QP, the state-run LNG producer and the world's top supplier, had wanted to lift its output to around 110 million tonnes per year by 2024 from today's 77 million tonnes as the first phase of its expansion. Kaabi said the company had been expecting to receive final bids from contractors this month for the first phase — the North Field East project, which will involve construction of four LNG trains. However, that was delayed as firms asked for more time to submit bids due to the global lockdown linked to coronavirus.

That will delay the award of the final main contracts, which cover major onshore engineering, procurement, and construction, to the fourth quarter of this year, Kaabi said. "We are going to be starting first LNG (production) in 2025, so the delay is for three to six months," he said. "We are moving full steam ahead with the North Field expansion. There is absolutely no hesitation on that," Kaabi told Reuters.

Kaabi said selecting partners for the expansion "goes hand in hand" with finalizing the contractor bids and will also happen before the end of the year. QP has shortlisted six international oil firms for up to a 30% stake in the first phase, he said. The second phase will boost Qatar's LNG production capacity to 126 million tonnes a year by 2027.

Low prices may stall $1.8 billion plan for Argentine shale oil

(Bloomberg; April 1) - Just a bit more than three weeks ago, the head of Argentina's state-run driller outlined an aggressive $1.8 billion spending plan for 2020 in the country's Vaca Muerta shale region, based on $60 crude. With global prices starting the year above $68, it wasn't unrealistic. Now all bets are off. The toxic mash-up of an oil-price war between Saudi Arabia and Russia and the COVID-19 pandemic have driven global crude to below $25 a barrel. That's created a new reality for Argentina's plans to develop the formation known as Vaca Muerta, or "dead cow" in English.

The region is often compared with the Permian Basin in the U.S. with the promise to push out a million barrels of oil a day. "They were in a place where they were drawing significant interest in the region because it was one of the better resources globally, but that's falling apart," said Fernando Valle, an analyst with Bloomberg Intelligence. At today's low prices, state-run YPF's three flagship shale projects — where costs are lowest with break-evens in U.S. dollars in the mid-to-high $30s — would lose money.

For years exploration companies have been excited about Vaca Muerta in Patagonia with the quality of its rock rivaling shale areas in the U.S. The companies, including global majors Chevron and Shell, have begun drilling in the region, though mostly as an initial step designed to get a better handle on how to bring the oil to market even as significant logistical and economic hurdles remain. The price crash "puts all Argentine oil production in doubt," YPF Chairman Guillermo Nielsen said at a recent event.

Despite FERC approval, Oregon LNG terminal faces daunting odds

(Natural Gas Intelligence; April 6) - Even after gaining a long-sought federal approval last month, the Jordan Cove liquefied natural gas export terminal proposed for Coos Bay, Oregon, and its accompanying gas pipeline project are facing substantial state opposition. Calgary-based Pembina Pipeline has provided a dearth of information on the project's future, but sources in Oregon indicate the chances it will be built are low because of a lack of contracted gas supplies and failure to get key state approvals.

Since Pembina took over Jordan Cove in 2017, it has not moved beyond the Federal Energy Regulatory Commission approval and some local approvals. Oregon Department of Energy's Sean Mole said nine of 14 local permits granted to Jordan Cove have been appealed to the state land-use appeals board, along with several federally delegated state actions that are unresolved. Jordan Cove lacks Oregon Department of Environmental Quality approval for a water permit, as well as Department of State Lands permit on dredging and a Coastal Zone Management Act permit.

In late February, the Department of Land Conservation and Development objected to the coastal zone application, effectively denying certification, prompting an appeal to the U.S. Commerce Department. The series of state rejections has emboldened long-standing organized opposition to the $10 billion project of an LNG terminal and 229-mile pipeline, including environmental groups and the Klamath Native American Tribe.

Singapore buyer of LNG attaches environmental terms to bids

(Bloomberg; April 2) - Singapore's biggest buyer of liquefied natural gas is poised to take a major step toward squeezing down pollution from the fuel — on paper at least. Pavilion Energy is asking sellers of LNG to quantify greenhouse gas emissions associated with each LNG cargo produced, transported and imported into Singapore. It's also encouraging bidders to offer carbon offsets as part of sales deals.

The terms are attached to a major tender for LNG purchases that will stretch more than five years. They are the first and most extensive environmental terms to be included in an offer to buy cargoes of LNG. "I expect this to become a norm," Pavilion Energy CEO Frederic Barnaud said. "It is not just a supply tender. It's also building up partnerships that will last for many years and hopefully will also have an impact on the industry."

Pavilion offered to buy as much as 2 million tonnes of LNG a year for five years and more, starting from 2023, Barnaud said. It marks the first time environmental criteria are included in what's otherwise a standard bidding process in the LNG industry. The emissions reductions and carbon offsets that LNG sellers might offer with their cargoes could include forest conservation or significant renewable power generation that would not have otherwise be developed. Singapore is striving to become an LNG trading hub.

Novatek returns to Norwegian waters for ship-to-ship LNG transfers

(Arctic Today; April 2) - The coronavirus pandemic is forcing Russian producer Novatek to return to Norway for the transfer of liquefied natural gas cargoes from its Arctic Yamal terminal, rather than using its new Russian transshipment site off Kildin Island. After last year's ship-to-ship transfers of LNG in Norwegian waters, Novatek intended to conduct future reloading operations in Russian waters. The company cited significant pressure from the West as the reason for switching to the new anchorage in Russia.

However, with the outbreak of the coronavirus pandemic, the company is now forced to return to Norway on short notice. While Novatek managed to finish construction of the new anchorage to the north of Murmansk, it is now unable to hire the needed international specialists to operate ship-to-ship transfers as Russia has restricted the entry of foreign nationals in light of COVID-19. "That's why temporary transshipment in Norway's waters is a safer and more reasonable decision," Novatek said.

The reloading helps Novatek reduce the costs of operating its expensive Arctic ice-class carriers, instead transferring LNG over to lower-cost conventional tankers once outside Russia's ice-covered waters. Between late 2018 and mid-2019, Novatek and Norway's Tschudi shipping company partnered to transfer 123 loads of LNG in the waters of Norway's Nordkapp region.