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Despite trade deal, China's 25% tariff on U.S. LNG remains in place

(Reuters; Jan. 16) - Chinese purchases of U.S. liquefied natural gas are unlikely to surge — despite an agreement for China to buy more U.S. energy supplies — because tariffs on gas from the United States remain in place, analysts and traders said. Under a Phase 1 trade deal between the world's two largest economies signed this week, China has committed to buying an additional $52.4 billion worth of U.S. energy supplies, including LNG, over the next two years.

But a 25% tariff imposed by China on U.S. LNG, which has pushed the cost of U.S. gas above the global spot-market price and restricted purchases, remains in place for now while Washington and Beijing negotiate a Phase 2 trade deal. "For China to massively increase imports of … LNG from the U.S. while tariffs remain in place is going to be challenging," said Gavin Thompson, Wood Mackenzie's Asia Pacific vice chair. The tariff started at 10% in 2018; China increased it to 25% in June 2019.

China's demand for LNG over and above its existing contracts is expected to be about 15 million to 25 million tonnes a year over the next two years, analysts said. If China covered all of that with U.S. LNG despite the tariffs, Beijing's purchases of U.S. energy would grow by about $11 billion to $12 billion, or only 20 percent of the two-year target in the Phase 1 deal, analysts said. For any U.S. LNG, importers would have to absorb the cost of the tariffs or pass it on to consumers, which could make Chinese state oil companies reluctant to commit to large-scale purchases, Thompson said.

More than $92 billion in offshore projects approved in 2019

(Reuters; Jan. 14) - Spending on new offshore oil and gas projects is set to grow further this year after developments holding more than 20 billion barrels of oil equivalent were given the go-ahead last year, Norwegian consultancy Rystad Energy said. More than $92 billion of new offshore oil and gas projects were given the green light in 2019, a nearly fourfold jump from the decade's low in 2016, Rystad, a leading consultancy in the oil and gas industry, said in a note.

The solid pickup in offshore activity was a result of stronger oil prices and deep cost cuts across the sector, leading to higher profitability for the projects. Deep-water gas fields are complex and costly, but their high capacity and production longevity means that many projects are able to compete with the shorter-cycle onshore shale production that has surged in the United States. Offshore spending in 2019 rose 5% from the previous year and is expected to grow by more than 8% in 2020.

The largest projects approved last year included expansion of the Marjan and Berri oil fields in Saudi Arabia, Anadarko's liquefied natural gas project in Mozambique, and Chevron's Anchor project in the Gulf of Mexico. Oil and gas volumes approved for development last year were the highest since 2011, more than doubling from 2018.

Reuters' annual survey puts oil at $65-$70 through 2024

(Reuters; Jan. 14) - Long-term expectations about oil prices remain firmly anchored around $65 to $70 per barrel for Brent, the global benchmark, according to Reuters' latest annual survey of energy professionals. Plentiful supplies from U.S. shale plays and other sources outside the Organization of the Petroleum Exporting Countries are expected to keep prices close to their recent range for the indefinite future.

Fears about peaking oil supplies, common 10 years ago, have disappeared. Now there are some indications that expectations about peaking oil demand are taking hold. The results are based on a questionnaire sent to over 9,000 energy market professionals, with responses received from 950 between Jan. 8 and Jan. 11. Price forecasts are very close to last year's survey and previous years.

Most respondents seem convinced there will be enough oil to meet likely demand at around $65 in the medium term. Fewer than 5% thought prices would average $100 or more in 2024, prices that would signal pressure on production. In contrast, nearly 16% thought prices would average less than $50, a possible a sign of softening demand and market saturation as part of the transition away from an oil-based transportation system.

Equatorial Guinea energy mister says $60-$70 oil makes sense

(S&P Global Platts; Jan. 12) - OPEC members largely agree that holding a stable oil price between $60 to $70 per barrel is ideal for the global economy, Equatorial Guinea's energy minister said Jan. 12. "We all probably would like higher [oil prices] because we have more revenue, but we are conscious this is not good for the economy," Gabriel Obiang Lima said at the Atlantic Council Global Energy Forum in Abu Dhabi.

"It depends on who you ask, but I think the consensus is that that $60 to $70 is okay for producers and for consumers," Obiang said. Front-month ICE Brent closed Jan. 10 at $64.98, and OPEC and its allies will be closely watching the benchmark in the lead-up to their next meeting March 5-6 in Vienna, when they will decide whether to deepen, ease or extend their production cut agreement, said Obiang, who represents OPEC's smallest producer at 120,000 barrels per day.

OPEC, Russia, and nine other countries are in the fourth year of output cuts aimed at supporting prices with the current deal calling on the 24 countries to cut 1.7 million barrels per day through the end of March. "Anything lower than $60 creates problems for us. Anything above $70 we understand will not be good for the consumer," Obiang said. OPEC ministers are largely loathe to comment on prices for fear of triggering complaints of anti-competitive collusion.

Analyst says collapse of Iranian government could drive oil to $40

(CNBC: Jan. 14) - Oil prices could plummet toward $40 per barrel if the Iranian regime collapses, according to the chairman of an energy research institute. Johannes Benigni, chairman of JBC Energy, made the comments on CNBC's "Capital Connection" amid continuing unrest in Iran. Demonstrations erupted on Jan. 11 and have continued for three days since, following the government's announcement that its military was responsible for shooting down a Ukrainian passenger plane.

Benigni said a change in leadership in Tehran would have a major impact on prices. "For the oil market, it would mean the likelihood of oil prices dropping toward $40 is very high," he said on Jan. 14. "Remember, Iran could easily add 1.5 million barrels within a shortest period of time. Maybe even 2 million barrels, and that's a lot of oil," he said.

Coal consumption still on the rise in Asia, IEA says

(Nikkei Asian Review; Jan. 13) - Although renewable power generation is expected to rise significantly in Asia, India's vast electricity needs will still underpin global demand for coal until 2024, according to a recent report released by the International Energy Agency. China, however, will be the biggest decider of coal's future, as it accounts for half of global consumption of the fuel, the IEA said.

Wind power generation capacity in India is expected to double between 2018 and 2024, the report said, while solar power generation is seen to surge fourfold over the same period. But India's coal consumption is expected to rise by 4.6% per year through 2024, the biggest expansion the IEA sees in any country. Over the same period, Southeast Asia's coal demand is also seen to rise by 5% annually, led by Indonesia and Vietnam.

The increases will offset any drop in coal consumption in the European Union. The burning of coal emits more greenhouse gases than from any other energy source. As such, it is a key contributor to climate change, and several EU countries have adopted plans to phase out coal-power generation. Even China's coal demand is expected to decline over the next few years as a result of air pollution concerns and economic changes. "Coal demand in China plateaus by 2022 and then starts to decline slowly."

[States oppose proposed federal rule change to move LNG by rail]

(Reuters; Jan. 14) - Attorneys general of 16 states oppose a federal proposal to allow liquefied natural gas to move in rail tank cars, arguing that it would increase safety risks to residents and emergency responders. The top legal officers of Maryland, New York, California, and other states on Jan. 13 urged the Department of Transportation Pipeline and Hazardous Materials Safety Administration to withdraw the proposal pending completion of safety studies and development of an environmental impact statement.

The administration proposal would help two industries — natural gas drillers desperate to export the fuel because of a glut — and rail operators, which have suffered as coal output has fallen to the lowest level since 1975. "The administration is bending to the will of the fossil fuel industry ... and it puts at risk neighborhoods, towns, and cities across our nation," said Maryland Attorney General Brian Frosh.

The attorneys general warned that the broad proposal could allow LNG unit trains nationwide of up to 100 cars operated by just one person. They said LNG-by-rail raises the risk of spills that can form highly flammable ground-hugging vapor clouds. In December, the agency approved the use of trains to ship LNG from the gas fields of northeastern Pennsylvania to a proposed small-scale LNG terminal in southwestern New Jersey. The agency also has approved LNG-by-rail transport in Florida and Alaska.

[B.C. premier says gas line vital for LNG industry]

(The Globe and Mail; Canada; Jan. 13) - B.C. Premier John Horgan has brushed aside mounting criticism from human rights organizations of the Coastal GasLink pipeline project, saying the infrastructure that is vital to securing a liquefied natural gas industry in British Columbia will be built. The pipeline is at the center of a long-running conflict that has divided Indigenous communities. While Coastal GasLink has signed deals with the elected representatives of First Nations all along the 415-mile route, a group led by hereditary leaders of the Wet'suwet'en Nation is seeking to block construction.

The U.N. Committee for the Elimination of Racial Discrimination and B.C.'s Human Rights Commission say the province and Canada must halt construction until prior and informed consent is obtained from all Indigenous peoples affected by the project. Amnesty International also flagged the project, warning against overriding the authority of indigenous peoples to make their own decisions for use of their traditional lands.

Horgan said Jan. 13 he does not believe the Wet'suwet'en opponents should have the power to veto the project. "The courts have confirmed that this project can proceed, and it will proceed," he said. "The rule of law must prevail." A judge extended an injunction on Dec. 31 to stop Wet'suwet'en members and anti-pipeline supporters from blocking access to pipeline work camps. Under Canadian law elected chiefs have authority over the reserves created by the Crown. But authority over traditional Wet'suwet'en territory involves a matrilineal system of 13 unique houses, five clans, and 38 house territories.

Editorial advises B.C. pipeline foes not to dismiss supporters' views

(The Globe and Mail editorial; Canada; Jan. 10) - Politics among the Wet'suwet'en of northern British Columbia are like politics anywhere: Divisive and heated. There are distinct poles and no seeming middle ground. The roiling issue is a pipeline. Major work on the C$6.6 billion Coastal GasLink natural gas pipeline is set to begin this summer. The pipeline would extend from gas fields in northeastern B.C. 415 miles westward to Kitimat, where a Shell-led consortium is building the C$40 billion LNG Canada project.

About one-quarter of the pipeline route crosses Wet'suwet'en land, and the politics are complicated. There are two forms of government: a hereditary system that goes back centuries; and the band council system under the Indian Act. The hereditary chiefs lead the pipeline opposition. The elected Wet'suwet'en band councils back the pipeline, as do all elected Indigenous councils along the pipeline route. In its December injunction against pipeline work blockades, the Supreme Court of B.C. said: "The indigenous legal perspective in this case is complex and diverse."

There appears solid support for the pipeline, among Wet'suwet'en and along the entire route. A Wet'suwet'en business leader has talked of a $75 million deal for construction camp facilities that could hire up to 80 people. Opposition among hereditary chiefs has to be taken seriously, however, as does the traditional form of governance. But the rule of law must be respected. No industrial project could ever win full support. Opponents should not unilaterally declare that their views supersede those of pipeline backers.

Keystone XL pipeline pre-construction could start in February

(Reuters; Jan. 14) - Canadian pipeline company TC Energy said on Jan. 14 it planned to start pre-construction work in February for its Keystone XL oil pipeline, the start of what it expects to be a busy work schedule for the long-delayed project. TC said in a filing with the U.S. District Court in Montana that it would start mobilizing heavy construction equipment in February in Montana, South Dakota, and Nebraska, and aim to begin building a 1.2-mile segment spanning the U.S.-Canada border in April.

Work on the border-crossing segment is subject to receiving federal approvals, including a right-of-way and temporary-use permit, TC said. The $8 billion Keystone XL project would carry 830,000 barrels per day of oil sands crude from Alberta to the U.S. Midwest and then on to the Gulf Coast. It has been delayed for more than a decade by opposition from landowners, environmental groups, and tribes, and after former U.S. President Barack Obama rejected the project.

The State Department has yet to issue a final environmental impact statement after a judge ruled in November 2018 the agency had not conducted an adequate review of the pipeline. Meanwhile, congested pipelines have resulted in lower prices for Canadian oil and government-ordered production curtailments in Alberta. TC said it plans to start building pumping stations in June. Work on a pipeline segment in Nebraska would also start in June, followed by segments in Montana and South Dakota in August.

N.D. legislators consider promoting natural gas for drying crops

(Grand Forks Herald; ND; Jan. 13) - Mike Brandenburg said this is the first year his family has had to dry almost every bushel of soybeans and corn they've produced on their farm near Edgeley, North Dakota. Going forward, as farmers move toward growing longer-maturity corn that produces higher yields, they will need more drying capacity. Son Micah Brandenburg thinks it could be feasible to install equipment that would allow a grain dryer to switch back and forth between liquefied natural gas and propane.

Along with farming, Mike Brandenburg is a state representative and is serving on an interim committee looking at ways to finance a plan to move the natural gas that is a byproduct of oil production from west in the state to the demand in the east. Lawmakers are considering using the state's Legacy Fund, a savings account of oil and gas revenues that voters approved in 2010, to help pay for the plan, which would make grants available to promote development of gas processing and distribution in the state.

Much of North Dakota's gas production gets flared — burned off as waste — in the oil fields of western North Dakota, where the oil is valuable and the lack of pipelines means the gas has no place to go but up in smoke. Brandenburg said the state should step in to make sure that excess gas can be used to serve the needs of farmers and others rather than wasted. If the gas is liquefied, it could be trucked to crop-drying plants.

Pennsylvania governor threatens veto of bill to ease drilling rules

(Pittsburgh Post-Gazette; Jan. 13) - A proposal to ease environmental regulations for Pennsylvania's struggling conventional oil and gas industry advanced in the state House on Jan. 13, despite a vow from Gov. Tom Wolf to veto it in its current form. The bill aims to give traditional oil and gas drillers a distinct set of rules, since their smaller, shallower operations have been overshadowed and squeezed by prolific shale drilling.

The House Environmental Resources Committee amended the bill to strip out the most contentious provision, which would have allowed spreading of untreated brine from wells on dirt roads to keep down dust. Still the Wolf administration said it cannot support the bill as it is drafted because it weakens protections for drinking water supplies, allows more spills to go unreported, and skirts erosion permitting requirements.

The bill exempts spills as large as 200 gallons of brine and 80 gallons of oil from having to be reported to regulators. The current standard is 5 gallons. Rep. Martin Causer, one of the bill's advocates, called it a necessary compromise. "We need a separate statute for conventional operations versus unconventional because they're very different operations," he said. Facing low oil and gas prices and few options for cost-effectively dealing with wastewater, many conventional oil and gas drillers are fighting to survive.

Demand down one-third for custom Bible marketed to oil workers

(Bloomberg; Jan. 11) - The slowdown in U.S. oil production growth is rippling through all aspects of life in West Texas — even religion. Demand for a custom Bible aimed at oil workers is declining in the Permian Basin, the world's biggest shale patch. It's yet another effect of the downturn in the region, which has led to a reduction in jobs, rig counts, hotel proceeds, and home sales.

Last year the Oilfield Christian Fellowship shipped about 16,000 Bibles — titled "God's Word for the Oil Patch: Fuel for the Soul" — across its 11 chapters in the U.S., Canada, and Venezuela. That's down by about a third from its normal volume, mainly due to a drop in North American working rigs and crews, said Mike Chaffin, the nonprofit group's head of Bible supply. Religious groups have focused on getting their message to the work camps that sprouted as makeshift housing for oil workers across the Permian.

Nowhere else in America do oil and religion intertwine more than in West Texas, the heart of the Permian. At one desolate spot along the highway sits a 30-foot cross bathed in bright light. Next to it the Ten Commandments are etched into a stone tablet and a plaque thanks Callon Petroleum Co. for providing electricity from its oil fields to illuminate the structure. The Permian chapter of Oilfield Christian Fellowship hosts a monthly lunch-hour devotion at a facility not far from Callon Petroleum's oil wells. The site's entrance is marked by a tall cross fashioned from leftover oil field pipe.

California looks for new uses for offshore oil platforms

(Orange County Register; California; Jan. 14) - Long a scourge to environmentalists, California's offshore oil rigs may be transformed into ecological trophies. A dozen or more of the state's 27 offshore platforms could be decommissioned in the next decade.

Rather than tearing them down, many would like to preserve the incidental artificial reefs — and the enriched marine habitat — that have formed on the underwater pilings.

And up top? How about windmills? Hotels for divers? Sea farms? Marine research centers? Or simply lop them off 85 feet below the ocean surface, leaving the base for fish and the recreational fishermen who hunt them? "We're limited only by our imaginations," said Jerry Schubel, president of Long Beach's Aquarium of the Pacific. The aquarium is hosting a conference this week to explore those possibilities along with the logistics, science, and potential conflicts of what is ahead.

Issues include who would maintain the repurposed structures and what would happen to the hundreds of millions of dollars oil companies would save by not needing to remove the rigs once they've finished their oil lives, said Betty Yee, state controller and chair of the California Lands Commission, which oversees decommissioning of offshore rigs. "Most significantly, what is best for the ocean's health?" she said. "The decision will be controversial. Many believe the oil companies should remove all of the platforms and not leave their trash on the bottom of the ocean floor. … There will be plenty of debates."

Egypt moves back into LNG export business with 50 cargoes in 2019

(S&P Global Platts; Jan. 14) - Egyptian liquefied natural gas exports more than doubled year on year in 2019 to 170 billion cubic feet of gas, data from S&P Global Platts Analytics showed Jan. 14. Total exports last year from Egypt's only operational LNG plant — the Shell-operated Idku facility — increased by 151% from 2018. A total of 50 cargoes were exported from Idku last year compared with just 20 cargoes in 2018.

More gas has been made available to Idku as domestic production ramps up, mostly due to increased output from the Eni-operated supergiant Zohr field offshore. Egypt is now able to meet domestic demand, and with imports from Israel imminent, Egypt will have plenty of gas available for export. Samer Mosis, leading LNG analyst with S&P Global Platts Analytics, said Egypt has to manage its new role as an emerging gas hub.

Egypt currently produces about 7 billion cubic feet of gas a day, with 7.5 bcf expected in 2020. At that level, Egypt could have about 530 bcf of surplus gas to domestic needs available for export, or more than 150 LNG cargoes. Even at full capacity, Idku could not handle it all, so Egypt's other LNG plant, Damietta, which has been idled since 2012, could start up in 2020. Egypt was a fairly stable gas exporter before its output fell due to an investment slowdown following the Arab Spring in 2011. It began LNG imports in 2015 to fill a supply gap, then halted imports in 2018 as Zohr came online.

Israel starts natural gas exports to Egypt

(Reuters; Jan. 15) - Israel began exporting natural gas to Egypt on Jan. 15 under one of the most important deals to have been signed by the neighbors since they made peace decades ago. A private firm in Egypt, Dolphinus Holdings, will purchase 3 trillion cubic feet of gas worth an estimated $19.5 billion from Israel's Leviathan and Tamar offshore fields over 15 years.

Israel will initially export 200 million cubic feet of gas per day to Egypt, Egyptian industry sources said. Gas from Leviathan will increase to almost 500 million cubic feet per day by the second half of 2022, according to Israel's Delek Drilling, one of the partners in the fields. The gas is being supplied through a subsea pipeline connecting Israel and Egypt's Sinai Peninsula. Exports of Tamar gas to Dolphinus are expected to start later this year.

Israeli officials said gas exports to Egypt is the most significant deal to emerge since the countries signed a historic peace treaty in 1979. Egypt is hoping the deal will help it become a regional energy hub with some of the gas expected to be re-exported to Europe through the country's two underutilized liquefied natural gas terminals.

Norway's gas pipeline operator calls for more exports

(Reuters; Jan. 13) - Norway should build a new pipeline or a second liquefied natural gas unit to boost its gas exports from the Arctic Barents Sea, pipeline system operator Gassco said on Jan. 13. Natural gas represents about a quarter of Norway's overall exports, making the country Europe's second-largest gas supplier behind Russia. There is sufficient gas to increase output, though the additional export infrastructure requires buy-in from oil and gas companies as well as Norwegian authorities, Gassco said.

"We have concluded that gas exports could be profitable with current resources (without new gas discoveries)," Gassco CEO Frode Leversund told Reuters on the sidelines of a presentation of its proposal. While Norwegian fields farther south export gas through pipelines to Britain and the European continent, Barents Sea exports are dependent on a single LNG liquefaction unit at the plant in the Arctic town of Hammerfest.

Building a second liquefaction unit at the Snohvit terminal in Hammerfest would cost up to $2.5 billion, while a pipeline would cost significantly less, Gassco said. The operator said that either option would be profitable, but both should be studied in detail before a final decision. I f a decision is made by 2022, the pipeline or LNG unit could be built by 2026, Leversund said.

IEA says India’s gas-pricing formula hurts domestic production

(The Times of India; Jan. 12) - The International Energy Agency has slammed India's natural gas pricing policy, arguing that linking domestically produced gas to very low global reference prices has reduced incentives for Indian producers to boost supplies. In its first in-depth review of India's energy policies, the IEA said that for the share of the environmentally friendly fuel to rise, the government needs to ensure gas is treated the same as other fuels for taxation and can earn enough to cover the cost of production.

As many as 17 central and state levies such as excise duties and value-added taxes were combined into a goods and service tax (GST). But not all energy sectors are covered and not all at the same rate. Crude oil, petrol, diesel, jet fuel, and natural gas do not fall under GST and continue to incur an assortment of excise duties and state value-added taxes at the national and local level. Other fuels such as coal, naphtha, furnace oil, and liquefied petroleum gas have been brought under the centralized GST.

Another challenge is price — it’s too low, the IEA said. The government formula for pricing domestically produced gas is the average rate paid in gas-exporting countries such as the U.S., Canada, and Russia. The price under this formula currently is $3.23 per million Btu, forcing Indian companies to sell gas for less than their production cost. The government rate doesn’t cover liquefied natural gas imports, creating a disincentive to invest in domestic gas output. India pays an average of close to $7 for LNG imports.

Indonesia wants to reduce natural gas prices for local industry

(Reuters; Jan. 9) - Indonesia plans to unveil a new natural gas pricing policy for industrial customers in March in a bid to lower energy costs for manufacturers, Energy and Mineral Resources Minister Arifin Tasrif said on Jan. 9. Indonesia’s President Joko Widodo earlier this week asked his Cabinet to come up with a strategy to lower gas prices for manufacturers to around $6 per million Btu. Manufacturers have been complaining about gas prices running at about $8 to $9 per million Btu.

The ministry is studying a so-called Domestic Market Obligation, Tasrif said, which would force gas producers to sell some of their output locally at capped prices to ensure cheap supplies for manufacturers. Meanwhile, the ministry plans to ask liquefied natural gas producers to prioritize the utility as a buyer for any uncommitted cargoes rather than offering them on the world spot market. The government may compensate producers for selling at a lower price domestically by reducing the government take from production.

Mexico will keep oil-hedging data secret to foil speculators

(Bloomberg; Jan. 13) - Mexico has made key data on its sovereign oil hedge a state secret to shield the information from speculators and prevent cost increases, according to documents seen by Bloomberg. The move reduces transparency into the workings of the program, which is the largest oil transaction on Wall Street and often moves the market. This year the government provided only the approximate annual cost of the program — $1 billion — in contrast to the detailed data that it previously used to reveal.

Deputy Finance Minister Gabriel Yorio told reporters in Mexico City on Jan. 9 that disclosing more data would raise the value of premiums paid for the hedge. “Several institutions outside the hedge could use the information to speculate, buying the same financial instruments ahead of the government [and] increasing considerably their price,” the central bank said in its March 2018 resolution.

The hedge has paid off several times since its inception during the Gulf War in 1990-1991. It yielded multibillion-dollar payouts in 2009 — after the global financial crisis sent oil prices sharply lower — and again in 2015, when a record of more than $6 billion was reaped, as well as in 2016. In the hedge Mexico buys put options, contracts that give it the right to sell at a predetermined price. The deal typically involves between 200 million and 435 million barrels of crude with a value as high as $20 billion. Earlier this month the government said it had insured the budget against crude prices dropping below $49.