Oil and Gas News Briefs
Compiled by Larry Persily
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Oil Search will cut one-third of staff, with more going by December

(The Sydney Morning Herald; July 1) - The head of Australian-listed energy producer Oil Search said the axing of one in three workers was a painful but necessary decision in order to ride out a prolonged period of devastation facing the global oil and gas industry. Oil Search on July 1 said it would reduce its total workforce by more than 550 full-time jobs — cutting employees from 1,649 to 1,222 immediately, with a further 137 positions to be cut by December. The global oil crash has forced Oil Search to slash spending and suspend projects in Papua New Guinea, where it is a partner in an LNG operation.

Oil Search managing director Keiran Wulff said the job cuts would be "extremely challenging" and made more difficult by the pandemic. "This process has been made even more difficult given the current circumstances of COVID-19. We will emerge from the recent challenges more resilient while retaining all the capabilities required to operate our production assets safely and efficiently with a strong platform for progressing our growth projects when conditions allow."

The cuts come amid growing expectations that low oil prices will not be temporary. One of the world's largest oil and gas companies, Shell, announced a write-down of up to US$22 billion on the value of its assets following a similar move by BP. Oil Search has slashed its investment spending by $675 million, suspending all non-essential projects and activities in Papua New Guinea and deferring exploration work it had planned. In Alaska, work to begin early oil production at its Pikka project has been put on hold and the company has suspended formal talks to sell off a 15% stake in its Alaska assets.

Saudis threaten new price war if Angola, Nigeria don’t cooperate

(The Wall Street Journal; July 1) - Saudi Arabia has threatened to ignite an oil-price war unless fellow OPEC members make up for their failure to abide by the cartel’s recent production cuts, delegates said. Saudi Energy Minister Prince Abdulaziz bin Salman issued the ultimatum in recent weeks as he asked Angola and Nigeria to submit detailed pledges to carry out additional oil-production curbs, delegates said. The hardline stance from OPEC’s de facto leader risks a new flare-up within the organization.

It comes just months after Saudi Arabia waged a price war against Russia following a dispute over how to supply markets as the coronavirus spread. In April the Saudis and Russians settled the fight, joining in a 23-nation effort to reduce output by 10% to shore up prices. During a June 18 OPEC video conference, Prince Abdulaziz signaled that the kingdom would sell its oil at a discount to undercut Angola and Nigeria, after the two nations said they weren't ready to commit to adhere to specific figures, according to the delegates. "We know who your customers are," the prince said, according to a source.

Angola and Nigeria mostly sell their light, highly prized crude to China and India. The markets are relatively easy to target. A price war in China would be hard to contain and could easily affect global prices. Oil prices have rebounded since the depths of the price rout in April, but they remain relatively low. In recent days the International Monetary Fund has warned African producers would be among the worst hit by low oil prices, after years of underinvestment and overspending.

Best quarter for oil prices since 1990, but still down for the year

(CNBC; July 1) - Oil prices registered their best quarterly performance in 30 years during the three months through to the end of June, staging a dramatic comeback after falling to record lows in April. Brent crude futures skyrocketed more than 80% in the second quarter. It was the international benchmark's best quarterly performance since the third quarter of 1990, when it registered gains of 142% during the first Gulf War.

U.S. West Texas Intermediate futures surged 91% in the three months through to end of June, also reflecting the best quarterly performance for U.S. crude since the third quarter of 1990 when it soared 131%. However, despite notching extraordinary gains in recent weeks, both Brent and WTI futures are still down over 34% since the start of the year. International Energy Agency Executive Director Fatih Birol has reportedly said he believes 2020 may well come to be regarded as the worst year in the history of global oil markets with April likely to be the worst month the industry has ever seen.

"I think obviously what we saw with the COVID crisis was unprecedented and, in oil markets, it was coupled with the dislocation of the supply agreement between Russia and the OPEC countries at the same time," Martin Fraenkel, president of S&P Global Platts, told CNBC on June 30. Those two "massive" events impacting oil prices was "a once-in-a-generation coincidence, so I don't really expect that again," Fraenkel said.

OPEC oil output in June lowest in 20 years

(Reuters; June 30) - OPEC oil output hit the lowest in two decades in June as Saudi Arabia and other Gulf Arab members made larger cuts, a Reuters survey found, pushing group compliance in a supply reduction pact above 100% despite incomplete adherence by Iraq and Nigeria. The 13-member Organization of the Petroleum Exporting Countries pumped 22.62 million barrels per day on average in June, the survey found, down 1.92 million barrels per day from May's revised figure.

OPEC and its allies in April agreed to a record output cut to offset a slump in global demand caused by the coronavirus crisis. An easing of lockdowns and reduced supply have helped prices climb above $40 from April's 21-year low of below $16 a barrel. "Demand is expected to pick up in the second half of the year and there is a general consensus that the OPEC+ group will live up to expectations and will achieve high compliance in June and July," said Tamas Varga of oil broker PVM.

OPEC, Russia and other producers, a group known as OPEC+, agreed to cuts of 9.7 million barrels per day, or 10% of global output, starting May 1. So far in June, OPEC members in total have slightly exceeded their pledged cuts. June's output would be the lowest by OPEC since at least 2000, excluding membership changes, Reuters survey records show. The biggest drop in supply came from Saudi Arabia, which pumped 7.55 million barrels per day in June, almost 1 million below its OPEC+ quota.

Energy consultancy says oil demand probably hit its peak in 2019

(Reuters; June 30) - Global oil demand and carbon dioxide emissions probably peaked in 2019 as the COVID-19 pandemic will have a lasting impact on both, energy consultancy DNV GL said July 1. The Norway-based consultancy, which advises petroleum and renewable energy companies worldwide on risk management and technology, now forecasts that global energy use will be 8% lower in 2050 than previously expected due to the impact of the pandemic.

"Lasting behavioral changes to travel, commuting and working habits will also decrease energy usage and lessen demand for fossil fuels from the transport sector as well as from iron and steel production," DNV said in a statement about its research on the impact of the pandemic on oil demand and emissions. "While we expect oil demand to recover next year, we think that it's likely that it will never reach the levels seen in 2019," Sverre Alvik, head of DNV GL's Energy Transition Outlook, told Reuters.

DNV GL has previously predicted oil demand would plateau in 2022. Growing skepticism about long-term global oil demand in a post-pandemic world is putting pressure on oil companies to revalue their assets. Shell this week took a write-down of $15 billion to $22 billion on its balance sheet. Renewable energy is seen as benefiting from the crisis, because when total energy demand falls, the cheapest sources, such as wind and solar, are preferred to fossil fuels, Alvik said.

ConocoPhillips restores curtailed production

(Houston Chronicle; July 1) - ConocoPhillips plans to ramp up its U.S. oil production this month after crude prices appear to have stabilized near $40 a barrel. The Houston-based company, which in May and June shut down a third of its production, said it will begin reopening wells that were temporarily closed in the U.S. and Canada. The move comes after CEO Ryan Lance said in an interview last month by industry research firm IHS Markit that it is thinking of slowly returning to the market because of rising oil prices.

During the second quarter, ConocoPhillips slowed production by about 225,000 barrels of oil equivalent per day. About 65% of the curtailments took place in the Lower 48, 15% in Alaska, 15% in Canada and the remainder in Malaysia. ConocoPhillips joins several companies looking to restart wells and restore production as coronavirus-related restrictions ease around the globe.

Tanker traffic jam offshore China carrying 73 million barrels

(CNN Business; July 1) - China bought so much foreign oil at dirt-cheap prices this spring that a massive traffic jam of tankers has formed at sea waiting to offload crude. As of June 29, China — the world's second-largest consumer of oil after the United States — had amassed 73 million barrels of oil on 59 different ships floating at sea off the country's northern coast, according to ClipperData, which tracks waterborne flows of crude in real-time. For context, that is three-quarters of the world’s daily demand.

Barrels arriving today would have been purchased in March and April — when oil prices were melting down because of the pandemic. China's so-called floating storage — defined as barrels of oil on vessels waiting for seven days or longer — has nearly quadrupled since the end of May, according to ClipperData. Not only is that the most on record going back to early 2015, it's up seven-fold from the monthly average during the first quarter of 2020. The hoarding of oil at sea is a reflection of China's bargain-hunting during a time of extreme stress in the energy market.

"China went on a global buying binge," said Matt Smith, director of commodity strategy at ClipperData. He noted that China's onshore storage tanks are not even close to being filled. "This is simply related to terminal congestion. They've got so much coming in that they can't bring it onshore quickly enough," he said. It was China's purchases, however, that helped prop up the battered oil market. China, the world's second-largest economy, relies heavily on foreign crude to keep its economy humming. That is why it makes sense for the country to stockpile oil when global prices were at rock bottom.

Climate-conscious investors question long-term oil price forecasts

(Bloomberg; July 1) - America’s biggest oil companies are coming under increasing pressure from climate-conscious investors to disclose their long-term forecasts for crude prices as the COVID-19 pandemic injects fresh uncertainty into the demand outlook for fossil fuels. ExxonMobil and Chevron don’t publish such estimates, meaning that shareholders are less able to scrutinize how the companies' investment plans square with expectations for a global transition to cleaner energy.

That needs to change, according to the New York State Common Retirement Fund, California State Teachers' Retirement System, and Ceres, a Boston-based coalition of investors with $30 trillion of assets. In Europe, major oil companies are sharing their long-term forecasts, with dramatic results. Two weeks ago, BP said it had radically reduced its long-term price assumption for Brent crude, causing a write-down of as much as $17.5 billion. Shell warned June 30 it would write down as much as $22 billion in the second quarter as the pandemic hammers demand for everything from oil to LNG.

Long-term price assumptions are critical because they're used by Big Oil to determine whether a resource will be economically viable and its value on a company's books. Activists and some investors say companies are at risk of being overly optimistic in their assessment of future prices, leading them to build costly projects that could become worthless — so-called stranded assets — in a world transitioning to low-carbon fuels.

"Exxon and Chevron should be more transparent and disclose long-term price forecasts and other information that investors need to assess their companies' low-carbon transition plans," said Mark Johnson, a spokesman for the Office of the New York State Comptroller, which oversees the New York State Common Retirement Fund.

Commentary: Texas regulators need to take action against gas flaring

(Houston Chronicle commentary; June 19) - The Texas Railroad Commission permitted oil and gas producers to destroy $750 million worth of natural gas in a single year, and despite the pleas of royalty owners and environmentalists, it allows that waste to continue. The three elected officials who supervise the oil and gas industry in Texas are mandated to promote efficiency and minimize waste but have issued permits allowing drillers to burn billions of dollars' worth of gas through flaring over the past seven years.

Last week, commissioners finally began considering new rules to stop it, but it doesn't look good. This associated gas produced with oil must go somewhere, and when there are no pipelines, drillers ask the Railroad Commission to burn it off by flaring. Gas contains methane, six times more harmful to the climate than carbon dioxide. Getting rid of methane is essential, and capturing it can generate additional revenue. But lately drillers have been in such a rush to pump oil, they are not waiting for gas pipelines.

The commission almost never has rejected a flaring permit. Since the fracking revolution kicked off in 2013, commissioners have allowed flaring to increase four-fold, and drillers have burned enough gas to meet Texas' power, heating, and industrial needs for three years, state records show. The Institute for Energy Economics and Financial Analysis calculated Texas drillers flared gas worth $750 million in 2018 alone.

Commission Chair Wayne Christian formed a task force to recommend what should be done about flaring. The Railroad Commission is supposed to strike a balance between energy production, environmental impacts and financial royalties. We need oil and gas. We need to fight climate change. Drillers should not cheat mineral rights owners.

Japanese government, private sector help finance Mozambique LNG

(Nikkei Asian Review; July 2) - The Japanese government and business sector will join together in a joint-financing deal totaling 1.5 trillion yen (US$14.4 billion) for the development of a liquefied natural gas project in Mozambique, the Nikkei has learned. Under the deal, a syndicate of lenders including the Japan Bank for International Cooperation (JIBC) and the nation's top three private-sector banks will provide the loans, while Nippon Export and Investment Insurance will handle default risk.

The consortium believes that the deal presents an opportunity to secure a stable, long-term supply of LNG, while diversifying Japan’s sources of the fuel. The arrangement calls for JBIC to lend $3 billion, while the rest will be shared among the African Development Bank and Japanese private-sector banks, including MUFG Bank, Mizuho Bank, Sumitomo Mitsui Banking, and Sumitomo Mitsui Trust Bank. Loans provided by the private banks will be insured by NEXI, a Japanese government-affiliated insurer.

The deal is expected to be one of the largest ever overseas investments in Africa. Japanese general trader Mitsui & Co. and Japan Oil, Gas and Metals National Corp. will invest a 20% share in the gas field. Plans are for the LNG project, which is led by France’s Total, to start production by 2024 with annual capacity of 12 million tonnes at full output. About 30% of the gas will be supplied to JERA, a joint venture equally owned by Tokyo Electric and Chubu Electric, as well as to Tokyo Gas and Tohoku Electric.

Novatek says Arctic LNG-2 on schedule for 2022 start-up

(High North News; June 30) - Russian natural gas giant Novatek remains optimistic that its largest and newest liquefied natural gas project, Arctic LNG-2, is on track to begin production by the end of 2022. With a capacity of 20 million tonnes of LNG per year, the production plant would exceed the capacity at Novatek’s 3-year-old Yamal LNG terminal across the water, which can produce 16.5 million tonnes per year.

According to Novatek’s update to investors, about 20% of construction has been completed at Arctic LNG-2. Unlike Yamal LNG, which was built onshore, Arctic LNG-2 will be built atop gravity-based structures (GBS) — a support structure purposely sunk in shallow waters and held in place by gravity, commonly used by offshore oil platforms.

About 37% of the first GBS platform has been completed and construction continues at full capacity at the Belokamenka construction site near Murmansk.

The gas for Arctic LNG-2 will come from the Utrenneye gas field, where nine production wells have already been drilled with three drilling rigs in operation, Novatek said. The company also reported it has made progress securing off-take contracts for the project's output, although it did not disclose specific customers. As with Yamal LNG, the majority of the LNG will be sold under long-term contracts to the company's partners and investors in Asia, especially China. French energy major Total holds a 10% stake in Arctic LNG-2. Chinese and Japanese companies hold 30% with Novatek at 60%.

India wants long-term LNG deal linked to gas markets, not oil prices

(Reuters; June 30) - India's top gas importer Petronet LNG will soon finalize a deal to import at least 1 million tonnes per year of liquefied natural gas with prices closer to spot markets, which are at record lows, CEO Prabhat Singh said June 30. India wants to raise the share of gas in its energy mix from to 15% by 2030 from 6.2% now and is scouting for affordable gas for its price-sensitive customers.

"We are now in a position to come to a stage where very quickly we will be coming to the nation with virtually spot pricing for a long-term deal," Singh told a news conference. Earlier this year Petronet invited bids to buy 1 million tonnes of LNG for 10 years with pricing linked to U.S. and European benchmark gas prices. Singh said Petronet has received 13 offers and would soon finalize the deal. Petronet appears to believe those gas market prices will stay low, although they fluctuate with market conditions.

LNG prices under Petronet's current long-term deals cost about $3.50 to $4.50 per million Btu compared to a spot price of about $2, Singh said. Petronet has long-term deals to buy 7.5 million tonnes per year from Qatar and 1.44 million tonnes per year from ExxonMobil's Gorgon project in Australia. The contracts are linked to oil prices. Petronet's head of finance, V.K. Mishra, and Singh also said Petronet was in talks with Qatar to renegotiate pricing under its long-term deals to get closer to spot markets.

New Irish government opposes U.S. shale gas imports

(S&P Global Platts; June 30) - Ireland's new coalition government — formed June 27 between the country's two main political parties, Fine Gael and Fianna Fail, together with the Green Party — is bad news for the natural gas industry with plans to ban new gas exploration licenses and a pledge not to support liquefied natural gas terminals for importing fracked U.S. gas.

The pledges were welcomed by environmental groups but slammed by industry which said the policies will not reduce Ireland's carbon emissions and will make the country more dependent on U.K. gas imports. The new government has pledged to "harness the natural resources to meet our needs in this country without compromising the ability of future generations to meet theirs." It said it would stop issuing licenses for exploration and extraction of gas, just as last year's decision for oil exploration and production.

Ireland said in September that oil exploration would end because it was "incompatible" with a low-carbon future, but said it recognized the contribution gas could make in tandem with renewables. The new government has backtracked, saying it would extend the ban to gas. LNG is also targeted despite there being three potential LNG import projects on the drawing board. The main reason, it seems, for the policy shift is that two of the proposed import terminals have links to the U.S. shale gas industry and the new government said it is strongly opposed to the import of fracked shale gas.