Oil and Gas News Briefs
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June 30, 2020

China's big refiners may join together for better deals on crude

(Bloomberg; June 28) - China's state-owned oil refining giants are in discussions to form a purchasing group to buy crude together, increasing their bargaining power and avoiding bidding wars. Senior executives from PetroChina, CNOOC, China Petroleum & Chemical Corp. and Sinochem are in advanced talks to iron out details of the plan, said sources, who asked not to be identified as discussions are private. The proposal has won support of the Chinese central government and industry watchdogs, sources said.

For a start, the group is set to collectively issue bids for certain Russian and African grades in the spot market, they said. While it's unclear how the cooperation will evolve, the group represents refiners that import more than 5 million barrels of oil a day. That's nearly a fifth of OPEC's total output, which would make the group the world's largest crude buyer in theory. The initiative gained traction this year as the coronavirus spurred historic output cuts by OPEC and its allies in an effort to regain control of the market.

The original epicenter of the pandemic, China was the first major economy to reopen, and its consumption of transportation and industrial fuels is now almost back to pre-virus levels. The recovery has in recent months prompted the country's state-owned and independent refiners to snap up Russian and Brazilian crude in the spot market, pushing up prices. The state-owned refiners may jointly bid for Russian cargoes as early as next month in a trial run, the sources said.

Shell takes write-down of $15 billion to $22 billion

(Bloomberg; June 30) - Shell said it will write down between $15 billion and $22 billion in the second quarter, giving investors a wider glimpse of just how hard the coronavirus crisis has hit Big Oil. The impairment is the firm's largest since Royal Dutch Petroleum and Shell Transport & Trading merged in 2005, and shows how the pandemic has left no part of the giant's sprawling business unscathed. Shell lost money from pumping oil, its fuel sales fell, and shipments of liquefied natural gas to petrochemicals suffered.

The lockdown-induced slump has permeated through the industry, which is reassessing both the value of its assets and its longer-term business models. Shell's large LNG business, which is central to its vision of the future of energy, is seen taking the biggest hit — and the company indicated there is more pain to come from LNG sales, which have a price lag of three to six months compared with oil. The impact of low crude prices on LNG margins became “more prominent” from June, the company said.

The drop in energy demand comes as little surprise. Oil majors’ earnings took a beating in the first quarter, and the companies warned things would only get worse as the full impact of the pandemic started to hit in March. Despite a rebound in demand in some countries, resurgent waves of the virus show the recovery remains fragile. Shell’s oil-product sales volumes will be 3.5 million to 4.5 million barrels a day in the second quarter, down from 6.6 million a year earlier, driven by a “significant drop” in demand because of the pandemic, Shell said June 30 in a statement.

States try consumer protection angle to sue oil and gas companies

(E&E News; June 29) - The District of Columbia and Minnesota last week launched major lawsuits against the oil and gas industry, adding to a growing swell of climate battles focused on consumer protection. Legal experts say climate litigators facing off against the fossil fuel industry's major players are getting more creative in their use of state statutes and common law, which could help them avoid prolonged procedural battles over whether the cases belong in state or federal court — a problem that has plagued local challengers seeking industry compensation for climate impacts.

By strengthening their arguments for state venues, state challengers could move more quickly to the meat of their cases. "It is less likely to see these removed to federal courts since there is less likelihood of a federal statutory preemption," said University of Houston law professor Victor Flatt. "Consumer protection is definitely historically a state thing." A pair of lawsuits filed last week by the Minnesota attorney general and District of Columbia attorney general target ExxonMobil and other giants for misleading residents about the link between oil and gas consumption and rising greenhouse gas emissions.

These cases — and a similar lawsuit filed last year by Massachusetts — are distinct from climate nuisance lawsuits brought by cities, counties, and one state that seek to hold oil and gas companies financially responsible for rising sea levels and other effects of climate change. That could make it harder for companies to bump the suits to federal court. Experts like Hana Vizcarra, staff attorney at Harvard Law School, said the states' consumer protection cases also move away from claims rooted in federal securities law. "It's noticeable there's been this common shift to consumer protection," Vizcarra said.

Old oil tanker off Yemen’s Red Sea coast starting to fall apart

(CBS News; June 29) - Yemen's raging civil war has created a ticking time bomb off the country's Red Sea coast. The Safer, a 45-year-old supertanker loaded with more than 1 million barrels of crude, has been caught between the warring sides and left to decay. Activists and officials warn the ship could hemorrhage its oil into the sea at any time, with devastating consequences for nature and the already-beleaguered Yemini people.

Yemen's government said the Safer is in "bad and deteriorating" condition. The single-hulled vessel was part of Yemen's national oil infrastructure before the war started. Permanently anchored, it was used as an offloading terminal for oil exports until the war stopped virtually all of that activity. Since then the ports have become the gateway for about 85% of the vital but still insufficient humanitarian aid coming into war-torn Yemen.

In 2015, along with the coastline, the Safer fell under control of Yemen's Iranian-backed Houthi rebels. Since then the majority of the state-owned tanker’s crew has left and access is barred by the Houthis. Without routine maintenance to prevent corrosion and keep vital systems running over the past five years, the tanker is starting to fall apart.

Last week The Associated Press quoted an official with Yemen's state-run oil company as saying seawater had entered the engine room, forcing the shutdown of engines that keep inert gas pumping through the empty space in the oil tanks. That gas maintains pressure to prevent the build-up of oxygen or other potentially flammable gases. The fact that inert gas is not being pumped into the tanks creates a serious risk of explosion.

U.S. LNG producers see opportunities with railcar deliveries

(Houston Chronicle; June 23) - Energy companies are already eyeing exports to Mexico and other business opportunities after federal officials approved regulatory changes that will allow shipments of liquefied natural gas by rail. U.S. officials earlier this month authorized the use of cryogenic railcars to ship the supercooled fuel from production plants to destinations across the nation. Liquefied natural gas is used as a fuel to generate electricity at mining operations, drilling sites, industrial operations, farms, and industrial facilities in remote areas beyond the reach of the traditional power grid.

Most LNG is exported from the U.S. by sea using tankers that can hold 30 million gallons of the fuel. But over the past five years, a boutique industry has been created using tanker trucks to haul up to 10,000 gallons to customers in remote areas of the United States and Mexico. Georgia-based cryogenic gas equipment manufacturer Chart Industries said the company’s plant in Minnesota makes railcars that can each haul 30,000 gallons. CEO Jill Evanko said LNG by rail can be used to deliver greater volumes and is competitive on price on shipments traveling more than 250 miles.

Houston-based Stabilis Energy opened a $55 million plant capable of making 120,000 gallons of LNG a day in the South Texas town of George West in 2015. It initially focused on supplying fuel to portable LNG-powered generators at remote drilling and fracking sites, but it has since added at least 10 Texas frac sand mines, out of reach of pipelines and power grids. Stabilis also tapped into a growing market in Mexico, where it sends LNG to industrial users and greenhouses. Its Texas plant is next to a rail spur.

Pipeline makes more sense than LNG expansion in Norway

(Oil & Gas Links; June 26) - A Rystad Energy analysis of Norwegian pipeline operator Gassco's proposed options to export the country's ample arctic natural gas resources shows that expansion of Norway's pipeline infrastructure is a more viable solution compared to boosting the capacity of the 13-year-old Hammerfest liquefied natural gas plant. However, at least 1.5 trillion cubic feet of additional gas from new discoveries would be needed in order to justify such an initiative, the energy consultancy said.

At present, the Hammerfest LNG terminal has capacity to produce about 4.3 million tonnes per year of LNG, a little more than 200 billion cubic feet of gas. The plant is expected to hit full capacity in 2026, when gas production in the region will exceed the plant's ability to handle the volume. The terminal was built to accommodate the gas discoveries of the 1980s, but since then new discoveries have added up. Rystad estimates the remaining discovered gas resources in the Barents Sea at around 3 tcf.

For the gas to reach European markets, there are two options: Build a new pipeline as a link to existing lines, or expand Hammerfest. "The cards appear to be increasingly stacked against further development of LNG. High project costs, technically complex solutions, and harsh environment conditions don't make for happy bedfellows even when the opportunity is great. When the economics are more marginal, the simpler pipeline solution is most likely the right one," said Dane Inglis, an analyst at Rystad Energy.

First Nations ask that well clean-up funds be spent on their lands too

(CBC News; Canada; June 28) - As Alberta, British Columbia, and Saskatchewan dole out C$1.5 billion in federal funding to clean up inactive oil and gas wells, indigenous leaders are concerned that none of the cash will be spent cleaning up their land. The federal government announced the program as part of its aid package to the oil patch, designed to stimulate work for the oil-field service sector while reducing the environmental risk from aging and in many cases abandoned wells.

The three provincial governments have already started dispersing the money, but so far none of it has been directed toward remediating wells on First Nations land, said Stephen Buffalo, president of the Indian Resource Council, which represents more than 100 First Nations with oil and gas reserves. "We have been here before where we were told that things will be taken care of. Right now we're in working committees [with government officials]. Meanwhile, these funds are being flowed out," Buffalo said.

The federal money was divided between B.C. ($120 million), Alberta ($1 billion), and Saskatchewan ($400 million). Another $200 million from Ottawa to Alberta's Orphan Well Association is to be repaid. Within the first month of the program's launch May 1, about 3,000 companies had already applied to remediate close to 37,000 wells. The Indian Resource Council is asking that each province allocate 10% of the federal money it receives to First Nations, which would represent $150 million. So far only British Columbia has signaled a willingness to set aside funding specifically for First Nations.

Big profits may be over for tanker owners, traders on futures market

(Bloomberg; June 27) - An oil trade that earned big profits for commodity merchants and tanker owners alike is fading away with every dollar that the price of crude rallies. When oil demand cratered earlier this year because of the coronavirus and a flood of cargoes, tanker owners reaped windfalls as a frenzy to book the ships on storage charters drove up rates. Those days are done. The big financial incentive to store crude, known in trader jargon as contango, has all but vanished as oil prices have climbed back to $40.

Worse still for tanker owners, it’s disappeared partly because the OPEC+ alliance has drastically cut supply. There is no incentive to store crude at sea and less demand for ships. “For now, this play is largely over,” said Richard Matthews, an analyst who monitors the trade at E.A. Gibson Shipbrokers. “Quite simply the contango is no longer there, so it does not make any economic sense to enter into a new floating storage trade, unless the deal was locked in when the contango was sufficient to cover costs.”

Oil can effectively be bought and sold months, even years, in the future. When demand crashed in March and April, the immediate-delivery prices fell to deep discounts relative to later deliveries. That is the structure known as contango. If they could store the oil cheaply enough, and sell it later when prices were higher, traders could make several dollars per barrel. That and Saudi Arabia’s all-out oil production helped lift rates for supertankers above $250,000 a day on the Saudi Arabia-to-China trade route. As of June 25, day rates were just below $22,000 as demand for tanker charters has fallen.

Several smaller Canadian oil and gas companies may go under

(The Financial Post; Canada; June 29) - Chesapeake Energy is the oil market’s latest victim — but likely won’t be the last. The company on June 28 became the largest U.S. oil and gas producer to seek bankruptcy protection in recent years, as the pandemic and heavy debt levels weighed on the company. While not as high profile, a number of small Canadian companies are also discovering they are unable to cope with low prices.

Sayer Energy Advisors, a Calgary-based mergers and acquisitions broker, notes that privately held Bow River Energy has entered into The Companies' Creditors Arrangement Act (CCAA) process and BBDO Canada has been appointed monitor for the company. Bow produces about 1,400 barrels of oil equivalent per day from its assets in Alberta and Saskatchewan. In late May, Cequence Energy said it started a strategic process to identify and pursue potential strategic options and alternatives to maximize value for its stakeholders, which will be carried out under the CCAA.

Cequence's produced about 5,700 barrels of oil equivalent per day from its assets in Alberta and British Columbia. Calgary-based Delphi Energy announced in April that it may go through a court-supervised restructuring proceeding. "As the Canadian oil and gas industry continues to deal with the mess caused by the COVID-19 pandemic, we believe that more oil and gas companies will be pursuing a court-supervised CCAA process," Tom Pavic, analyst at Sayer Energy Advisors, wrote in a note last week.

Australia profits from offering range of different crudes

(S&P Global Platts; June 24) - Australia's ability to produce both ultra-light and heavy crude may prove beneficial in protecting the country's overall crude export earnings against volatile Asian refining margins, as regional fuel producers increasingly rely on Australian feedstocks for a wide variety of oil products. Asian refiners have witnessed wild swings in the profit spread between crude input and refined output for various oil products so far this year, due to transportation restrictions to contain the spread of the coronavirus as well as new international maritime rules that capped sulfur content.

As a result, price differentials for various crude grades actively traded in the Asia-Pacific market also registered high volatility. Unlike many Middle Eastern producers that mainly export medium sour crudes and U.S. suppliers that mostly market light sweet crudes, Australia is well-positioned to weather the volatility in Asian refining margins as it can meet refiners' need for different high-quality grades to make light and heavy distillates.

Australia's export earnings this year on a per-barrel basis should outperform the global benchmark crude price, due largely to premiums paid for its low-sulfur heavy crude, said survey participants and traders in Singapore. Australian heavy sweet grades maintained spot-market premiums over the past year, supported by Asia's consistent demand for low-sulfur bunker fuel blendstock. The country's heavy-sweet grades are widely seen as one of the best feedstocks or blendstocks for making low-sulfur compliant marine fuels.