# Oil and Gas News Briefs
# Compiled by Larry Persily
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## Goldman Sachs says price war could drive crude into the $20s

(Bloomberg; March 8) - OPEC and Russia have started an oil price war that could push crude to its lowest level in 20 years, according to Goldman Sachs. Brent crude may dip as low as $20 a barrel, testing the levels at which some producers can operate, analysts including Damien Courvalin wrote in a report. The move completely changes the outlook for oil and gas markets, the bank said. Goldman Sachs sees some improvement later in the year, though it still slashed its forecast for the second and third quarters to $30.

"We believe the OPEC and Russia oil price war unequivocally started this weekend," the analysts said. "The prognosis for the oil market is even more dire than in November 2014, when such a price war last started, as it comes to a head with the significant collapse in oil demand due to the coronavirus."

OPEC and its allies failed to reach an agreement to prolong output cuts last week, firing the starting gun on a price war that has already roiled prices. Over the weekend Saudi Arabia slashed its official selling prices, while the kingdom also plans to lift its output above 10 million barrels a day to go after market share.

## Saudi Arabia starts price war, plans to boost production

(Bloomberg; March 7) - Saudi Arabia plans to increase oil output next month, going well above 10 million barrels a day as the kingdom responds aggressively to the collapse of its OPEC+ alliance with Russia. The world's largest oil exporter started a price war March 7 by slashing the prices it sells crude into foreign markets by the most in at least 20 years, offering unprecedented discounts in Europe, the Far East, and the U.S. to entice refiners to purchase Saudi crude at the expense of other suppliers.

Saudi Arabia has told some market players it could raise production much higher if needed, even to a record 12 million barrels a day, according to people familiar with the conversations who asked not to be named to protect commercial relations. As the coronavirus outbreak ravages demand, opening the taps would kick markets into chaos.

Saudi production is likely to rise above 10 million barrels a day in April, from about 9.7 million this month, sources said. "That's the oil market equivalent of a declaration of war," said a commodities hedge fund manager. The shock-and-awe Saudi strategy could be an attempt to impose maximum pain in the quickest possible way on Russia and other producers, in an effort to bring them back to the negotiating table.

“Saudi Arabia is now really going into a full price war,” said Iman Nasseri, managing director for the Middle East at oil consultant FGE. In the most significant move, Aramco widened the discount for its flagship Arab Light crude to refiners in northwest Europe by a hefty $8 a barrel, offering it at $10.25 a barrel under Brent. Traders said the Saudi move was a direct attack on the ability of Russian companies to sell crude in Europe.

## OPEC+ collapse could drive prices below $30 a barrel, analysts warn

(Bloomberg; March 6) – The alliance between Saudi Arabia and Russia was the only thing that kept the world oil market from tumbling into the abyss. Now its collapse threatens to plunge the industry into a generation-defining freefall with few precedents in modern history. OPEC+ ministers left a fractious meeting in Vienna on March 6 with no deal to continue restraining output, raising the specter of a price war that could end up the deepest since the 1980s, just as the coronavirus triggers a drop in demand.

“This is going to get nasty,” said Doug King, a hedge fund investor who co-founded the Merchant Commodity Fund. “OPEC+ is going to pump more, and the world is facing a demand shock. $30 oil is possible.” The market reaction March 6 was as vicious as it was swift. Benchmark Brent crude fell 9.4%, the most since the global financial crisis. The spiral may not be over. Previous collapses in cooperation between OPEC nations since 1960 have triggered punishing slumps that shaped the industry for years.

“This is an epic fail,” said Bob McNally, founder of Rapidan Energy Advisers. There may still be time for reconciliation. OPEC said the door was open to further talks with Russia. “Hopefully they’ll come back,” said Suhail Al Mazrouei, United Arab Emirates’ energy minister. Oil traders are looking to history for an indication of how low prices could go. One potential is $27.10 a barrel, reached in 2016 during the last price war. But some believe the market could go even lower. “We’re likely to see the lowest oil prices of the last 20 years in the next quarter,” said Roger Diwan, an oil analyst at consultant IHS Markit and a veteran OPEC watcher, implying that the price could fall below $20.

## Russia refuses OPEC proposal to reduce oil output; prices fall 10%

(Reuters; March 6) - A three-year production-curbing pact between OPEC and Russia ended in acrimony March 6 after Moscow refused to support deeper output cuts to cope with the outbreak of coronavirus and OPEC responded by removing all limits on its own production. Oil prices fell 10% as the development revived fears of a 2014 price crash, when Saudi Arabia and Russia fought for market share with U.S. shale producers.

Brent has lost about a third of its value this year, tumbling toward $45 a barrel, its lowest since 2017, putting oil-dependent nations and oil companies under a heavy strain as the global economy reels due to the virus outbreak, which has hit business and industrial activity. “From April 1 neither OPEC nor non-OPEC have restrictions,” Russian Energy Minister Alexander Novak said after long talks at OPEC offices in Vienna on March 6.

“Russia’s refusal to support emergency supply cuts would effectively and fatally undermine OPEC+’s ability to play the role of oil-price stabilizing swing producer,” said Bob McNally, founder of Rapidan Energy. The result will be higher oil price volatility and geopolitical volatility,” he said. In addition, plunging prices will put pressure on U.S. shale producers, whose costs are much higher than in Russia and Saudi Arabia.

The talks collapsed after OPEC effectively presented Russia with an ultimatum on March 5, offering it a choice of accepting a deal with much bigger-than-expected cuts or no deal at all. OPEC ministers backed an additional 1.5 million barrels per day of production cuts until the end of 2020, in addition to rolling over existing cuts of 2.1 million barrels per day. That would have removed 3.6% of global supply. Moscow rejected the proposal, saying it was only willing to extend existing cuts past March.

## Traders store more oil and LNG at sea; 79 tankers as of March 3

(Wall Street Journal; March 4) - A new glut of oil and gas is emerging, floating at sea, as the coronavirus epidemic cuts China’s appetite for fuel and hampers work at Chinese ports. Dozens of ships are being used as storage vats for oil and liquefied natural gas because the owners are unable to find buyers or places to store the cargoes on land, said traders, shipping brokers and analysts. Some 79 vessels were storing crude and condensates March 3, according to ship-tracking firm Kpler, up from 64 a year ago.

Traders often load up ships with crude or gas with no immediate intention of moving the cargo around the world, seeking to profit by buying fuel on the cheap and locking in a higher price in the future. In one such instance, well known among traders, Phibro, then the energy-trading unit of Wall Street bank Salomon Brothers, reaped a bonanza when oil prices shot up at the outbreak of the First Gulf War in 1991 because it had amassed an enormous stockpile of oil at sea.

The situation is different for the 87 million barrels of crude and condensates stored on the high seas today. Rather than getting paid to store oil and gas in ships, many traders simply can’t find a home for their cargo. The epidemic is the most disruptive event he has experienced in three decades in the shipping industry, said Erik Broekhuizen of Poten & Partners, the New York City-based international brokerage. Rising volumes of oil and gas at sea are likely to increase the downward pressure on energy prices.

## Reuters reports PetroChina declares force majeure on gas imports

(Reuters; March 5) - China's top gas importer PetroChina has declared force majeure on natural gas imports, including liquefied natural gas shipments and gas imported by pipelines, following the coronavirus outbreak, four industry sources told Reuters. The company issued the force majeure notice to suppliers of piped gas and at least one LNG supplier, although details of the notice could not immediately be confirmed. PetroChina did not immediately respond to requests for comment.

PetroChina meets 40% of its total gas needs through imports and about 70% of imports are through pipeline gas from central Asia, Myanmar, and Russia, while the rest are through LNG deliveries, one of the sources said. "The supply cuts will fall on suppliers proportionately, but LNG suppliers will have a lesser impact versus those on piped gas," said one of the sources with direct knowledge of the situation.

It was not immediately clear what volumes PetroChina had declared force majeure on or what time period it covers. One major LNG supplier to the company said PetroChina had requested some cargoes be deferred to the third quarter. For piped gas, PetroChina will likely ask for a cut in daily deliveries, the first source said. Last month the country's top LNG importer, China National Offshore Oil Corp., suspended contracts with at least three LNG suppliers, which drove spot-market prices to a record low.

## Coronavirus hit to energy markets could delay Australia gas project

(Australian Financial Review; March 3) - Woodside and BHP's US$11.4 billion Scarborough liquefied natural gas project could be delayed, analysts say, as the coronavirus roils oil markets and exacerbates an existing global oversupply of LNG. BHP believes oil and gas will be affected worse by the virus than commodities like copper and iron ore, as a certain amount of energy consumption has been permanently lost, rather than merely delayed, by the travel restrictions imposed to contain the virus.

The hit to demand has worsened the glut of LNG in Asia, which has weakened prices and created a difficult environment for Australia-based Woodside, which is trying to sell a stake in the project and also strike long-term LNG offtake contracts to help fund its construction. Development of the project would stretch Woodside's balance sheet and the company wants to reduce its stake in Scarborough from 73.5% to about 50%.

Woodside had hoped to sell stakes and strike big gas contracts with Scarborough customers in the early months of 2020 ahead of taking a final investment decision mid-year. But Citi analyst James Byrne said achieving a good price for those stakes and offtake contracts might be difficult given the virus' impact on oil and gas demand. "We expect that volatile oil prices and uncertainty on economic growth (ergo LNG demand) create a cautionary mood from parties looking to buy the equity and/or LNG offtake."

## Proposed LNG project in Quebec may have lost Warren Buffet

(CBC Canada; March 5) - Warren Buffett's investment company Berkshire Hathaway has decided not to invest $4 billion in a proposed liquefied natural gas plant in the Saguenay port, about 140 miles northeast of Quebec City, Quebec, according to Radio-Canada. The terminal to ship LNG to overseas markets through the St. Lawrence River to the Atlantic is estimated to cost C$9.5 billion to build.

Stephanie Fortin, head of communications for the company behind the project, GNL Quebec, confirmed it had lost a significant potential investor, but did not want to say who it is. She said the company lost the investor because of the "current Canadian political context" of "instability" in the past few weeks, such as the ongoing rail blockades in solidarity with Indigenous opponents of a gas pipeline in British Columbia.

The project also includes construction of a 485-mile pipeline across the province to move Western Canadian natural gas to the liquefaction plant. Quebec's environmental review agency will begin public hearings on the project later this month in Saguenay. In addition to the government review, the project faces steep challenges in a globally competitive LNG marketplace. In Quebec the project has stirred opposition from members of Innu communities — the pipeline would go through their ancestral territory.

A large investor pulling out of a gas project "echoes what we have been independently hearing from other investors," Alberta Associate Minister of Natural Gas Dale Nally said in an email to Canada's Financial Post. "It's undeniable that weeks of railways and ports being blockaded would deter international investors from doing business in Canada."

## Opponents of Quebec LNG want broader environmental review

(CBC Canada; March 4) - A coalition of environmental groups is asking Quebec's environmental review agency (the BAPE) to widen the scope of its hearings into a proposed C$9.5 billion project to build a liquefied natural gas export terminal in the port of Saguenay, with access through the St. Lawrence River to the Atlantic. As it stands, the BAPE will begin public hearings later this month in the Saguenay.

The hearings will focus only on plans for the LNG plant about 140 miles northeast of Quebec City. The company behind the project is GNL Quebec, based on the French acronym for liquefied natural gas. But 42 environmental and community groups said the BAPE should study the proposed Saguenay facility alongside plans to build a 485-mile pipeline, which would deliver feed gas from Western Canada to the LNG plant.

Quebec Premier François Legault supports the project, which he said will help reduce emissions globally with exports of LNG, which produces fewer emissions than coal. But environmental groups argue the project will actually boost greenhouse gas emissions.

And their concerns don't end there. "There are … concerns about local environmental and social impacts of the project along the pipeline route, on endangered species such as the caribou, as well as impacts on the Saguenay River and Gulf of St. Lawrence," said Caroline Brouillette, a researcher with the environmental lobby group Équiterre.

## Poll shows public supports gas pipeline in British Columbia

(Vancouver Sun; March 6) - British Columbians mostly support construction of the C$6.6 billion Coastal GasLink pipeline and do not believe roadblocks, rail blockades, and other disruptions are acceptable ways to show opposition to it, according to a poll. The online poll by Leger, conducted for Postmedia, suggests that 57% of British Columbians strongly or somewhat support construction of the gas pipeline between Dawson Creek and LNG Canada's coastal plant under construction in Kitimat.

Opposition to the pipeline by Wet'suwet'en hereditary leaders has been at the forefront since Feb. 6 when police moved in to enforce an injunction against a blockade at a remote work site in northwestern B.C., which sparked solidarity protests in Vancouver, Victoria and across the country. The poll's results indicate that the public is losing patience with the roadblocks and rail blockades that closed intersections, interrupted rail traffic, blocked major rail lines, and suspended public access to the B.C. Legislature.

Some 73% disagreed that rail blockades are an acceptable form of civil disobedience. About 60% said the same for protesting outside an elected leader's home or blocking a work site. The poll also found that 59% of respondents believed pipeline disputes make the public less supportive of reconciliation efforts and 49% thought that they even impaired public sentiment for economic partnerships with indigenous communities.

## Europe's oil-and-gas majors talk more about fighting climate change

(Reuters; March 5) - Exxon and Chevron boasted to investors this week about booming U.S. oil production, illustrating how the gap has widened — at least in words — between top American oil and gas companies and their European rivals over efforts to transition to clean energy and fight climate change. World crude oil and natural gas production is running at an all-time high, bolstered by big increases in recent years in the United States, Brazil, and other nations. At the same time, a growing climate movement is pressuring governments and corporations to lower emissions as the world gets warmer.

ExxonMobil and Chevron this week focused their investor outlooks on sharp growth in oil and gas output, a stark contrast from their European rivals including BP and Italy's Eni which last month unveiled plans to trim their traditional business and reduce greenhouse gas emissions. But as of yet, no European major invests above 10% of its total spending on renewable energy. All the world's majors still plan investments in new fossil fuel production, underpinned by forecasts for years of rising oil and gas demand.

“These companies all have very similar business models,” said the Environmental Defense Fund’s Ben Ratner. “The differences we’re seeing now are largely about what they’re saying.” The Europeans are more vocal about cutting carbon emissions. BP, Eni, Shell, Norway's Equinor, and Spain's Repsol have all agreed to reshape themselves by increasing their spending on renewable energy and reducing carbon emissions. ExxonMobil CEO Darren Woods said March 5 the company was focused on reducing emissions and would not engage in a "beauty match" with its peers.

## Canada’s Supreme Court rejects appeal against oil line

(The Canadian Press; March 5) - The Trans Mountain oil pipeline expansion project has cleared another legal hurdle. The Supreme Court of Canada has decided not to hear five challenges from environmental and Indigenous groups from British Columbia. They wanted the top court to consider whether the federal cabinet violated the Species at Risk Act when it decided to approve the pipeline expansion a second time in June 2019, arguing the project would harm highly endangered southern resident killer whales.

The Federal Court of Appeal had overturned the cabinet’s first approval of the Alberta-to-British Columbia pipeline in 2018, citing insufficient consultation with indigenous peoples and a failure to take the impacts on marine animals into account. After another round of indigenous consultations and a second look at marine impacts, the cabinet gave a second green light, but the same Indigenous communities and environment groups that successfully challenged the approval in 2018 filed new appeals in 2019.

The Federal Court of Appeal heard — and dismissed last month — appeals from Indigenous communities over whether there had been enough consultation, but declined to hear arguments from the environment groups. B.C. Nature, the Raincoast Conservation Foundation, and the Living Oceans Society, the Tsleil-Waututh First Nation, the Squamish First Natio,n and a group of four young people then asked the highest court for a review. The Supreme Court chose not to hear those challenges.

## Chevron boosts Permian estimate to 21 billion barrels

(S&P Global Platts; March 3) - Chevron has upped its Permian Basin resource estimate to more than 21 billion barrels of oil equivalent, more than double the company's estimate of just three years ago, its top executives said March 3. The company's 2017 estimate for the basin, the largest source of oil output in the U.S. and a significant source of natural gas, was 9 billion barrels of oil equivalent, Jay Johnson, Chevron executive vice president of exploration and production, said in webcast remarks.

Even with flat prices, Chevron expects the Permian in West Texas and eastern New Mexico to eventually generate more than $4 billion a year of free cash flow, Johnson said. Chevron's output from the play is expected to top 600,000 barrels of oil equivalent a day this year and 1 million in 2024, he said. The production and free cash flow numbers are based on development of only half of Chevron’s 2.2 million Permian acres.

Beyond that, the company also has what CEO Mike Wirth said are future investment opportunities for several years and beyond. The major expects to take final investment decisions on two U.S. Gulf deepwater finds in 2021 and 2022, Johnson said. Other potential investments include expanded liquefied natural gas production in Australia, shale and tight-oil plays in the Permian, Argentina, and Canada, and expansion of the Tengiz project in Kazakhstan to 1 million barrels of oil equivalent a day in 2023.

## Sempra awards contract to Bechtel for proposed Texas LNG project

(LNG Global; March 3) - Sempra Energy and Bechtel announced March 3 they have signed a fixed-price engineering, procurement and construction contract for the Port Arthur LNG project in Port Arthur, Texas. As part of the contract, Bechtel will perform the engineering, procurement, construction, commissioning, start-up, testing, and operator-training activities. The agreement also includes continuing pre-final investment decision engineering to better assure project cost and schedule certainty.

Sempra’s Port Arthur LNG development project is proposed to initially include two liquefaction trains, storage tanks, and a marine berth with a capacity of approximately 13.5 million tonnes per year of LNG. The project site sits on nearly 3,000 acres of land along three miles of the Sabine-Neches waterway with expansion capabilities of up to eight liquefaction trains and approximately 45 million tonnes of annual capacity.

The Federal Energy Regulatory Commission approved the development in April 2019. Sempra, which already operates the Cameron LNG export terminal in Hackberry, Louisiana, is considering further expansion of its presence in the industry with the Texas project and a proposed export terminal on the Baja California Peninsula in Mexico.