Oil and Gas News Briefs
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Second tanker of Alaska crude in a month heads to China

(Bloomberg; May 20) - Canadian and Alaskan crude that normally travels to the U.S. West Coast is finding a market in China, where demand is almost back to pre-pandemic levels. The Sofia became the second oil tanker in less than a month to carry Alaska oil to Qingdao, China, when it left Valdez over the weekend, data compiled by Bloomberg show. At about the same time, the Maria Princess left Vancouver, also bound for Qingdao, becoming at least the third oil tanker to sail from British Columbia for China this year. Draft readings indicate the ships were full when they departed.

The vast majority of Alaskan as well as Canadian oil, shipped down the Trans Mountain pipeline from Alberta to British Columbia, typically winds up at refineries in Washington or California. Recently those flows have been disrupted amid depressed U.S. West Coast oil consumption — and limited oil storage availability — caused by state-ordered lockdowns that have kept drivers off the roads during the COVID-19 pandemic.

By contrast, China, the country that suffered first from the virus, is further along in opening back up with oil demand almost where it was before lockdowns began earlier in the year. China's demand dropped by close to 20% as the country went into lockdown in February. Since then consumption of gasoline and diesel has rebounded as factories reopen and commuters drive rather than use public transport, according to people with inside knowledge of the country's energy industry. Last month the U.S.-flagged Alaska Navigator sailed from Valdez, signaling China as its destination.

Strong oil price recovery could entice producers to restore output

(Bloomberg; May 20) - From the Middle East to Siberia, the North Sea down to Latin America, the prices of physical cargoes of crude are strongly rallying almost everywhere, underpinning a surge in futures markets. Now, though, attention is turning toward just how sustainable the recovery will really be. Brent crude traded on the ICE Futures Europe exchange has nearly doubled over the past month and is trading above $36 a barrel, while America's West Texas Intermediate has soared past $34.

All that's happened because global producers have slashed millions of barrels of output, tightening the supply of oil, while demand has started to recover, led by China. The dramatic turnaround means sellers are getting more for their oil, but higher prices can be self-defeating by enticing producers to ramp up output and quickly destroying margins that refineries are earning from processing crude.

"The early signs of recovery seem to be fueling a rapid repricing in parts of the market," said Richard Mallinson, an analyst at consultant Energy Aspects. "But a lot of the rebalancing depends on the supply that's gone offline remaining offline. We're not there yet, but you could get price levels where a lot of those early shut-ins start to be reversed." Some analysts view a short-term pull-back in prices as possible. "In the very short-term, prices may have accelerated a bit too fast," said Eugene Lindell, an analyst at JBC Energy in Vienna. "The situation on the refining side is pretty brutal right now."

OPEC will review production cuts at June 10 meeting

(Reuters; May 20) - OPEC is encouraged by the rally in oil prices and strong adherence to its latest output cut, its secretary general said, although sources said the group has not ruled out further steps to support the market. The Organization of the Petroleum Exporting Countries, Russia and other allies, a group known as OPEC+, agreed to cut supply by a record 9.7 million barrels per day starting May 1 to offset a slump in prices and demand caused by the coronavirus outbreak.

Oil prices have more than doubled since hitting a 21-year low below $16 in April. So far in May, OPEC+ has cut oil exports by about 6 million barrels per day, according to two companies that track the flows, suggesting a strong start toward complying with the deal. "The oil markets have responded positively to the historic agreement, as well as its robust implementation by participating countries," said OPEC Secretary General Mohammad Barkindo. "All in all, there is a gradual but steady convergence of the fundamentals of supply and demand."

OPEC+ meets next on June 10, when it will have a full month's data on compliance to review the April agreement. Sources have said OPEC+ may keep the current level of supply reduction after June rather than scaling it back starting in July as is now the plan. "There are good indications on compliance, and we have seen prices improving lately," said another OPEC delegate. "But the market is still volatile, let's wait."

Total-led Mozambique LNG project lines up $15 billion in financing

(Bloomberg; May 20) – The Total-led liquefied natural gas project in Mozambique will receive financing commitments for about $15 billion at a signing scheduled in June, marking rare progress for an LNG export terminal as companies scrutinize their spending and market demand forecasts. The first and most significant phase of the financing commitment for the Mozambique project — Africa's biggest private investment — involves lenders including about 20 banks, according to sources.

Acquiring funding for construction of the $23 billion project, which will chill natural gas into a liquid for export, comes as oil and gas companies globally are focused on cutting expenditures as the coronavirus curbs energy demand and pressures prices. The group of about 20 banks involved in the lending includes Rand Merchant Bank, Standard Bank Group and Societe Generale, which is acting as the financial adviser, according to one of the people familiar.

Dele Kuti, Standard Bank's head of oil and gas, said the company was "pleased to see the progress" on achieving final credit approvals for the project without confirming details. Plans for other LNG projects have been put on hold or canceled. Shell exited a multibillion-dollar LNG export terminal planned for Louisiana in March. ExxonMobil delayed a final investment decision on its Rovuma LNG project in Mozambique that was expected later this year. The LNG market glut is expected to last through at least the middle of the decade, but some developers are betting demand will recover.

Russian LNG cargo headed to China via Northern Sea Route

(Bloomberg; May 19) - Russia's biggest liquefied natural gas producer is sending the fuel across the Arctic to China more than a month earlier than usual as the ice that typically blocks the route thaws. The Christophe de Margerie, an ice-class vessel serving the Novatek-led Yamal LNG project, departed from the production plant in Sabetta on May 18 and is headed east via the Northern Sea Route, according to ship-tracking data on Bloomberg.

That pathway is the shortest and cheapest way for Yamal cargoes to reach Asia, but it's usually closed for half a year due to thick ice. "May is indeed a very unusual time for the start of an eastbound journey via the Northern Sea Route," said Sergey Balmasov, head of the information office at the Center for High North Logistics. "Normally, as late as in April, the navigation conditions are the toughest in that part of the route. The shipment is proof that the timeframe of the navigation season can be extended."

Novatek is examining eventually year-round navigation along the route with a new class of nuclear-powered icebreakers, a task made easier with climate change and thinning Arctic ice. The company did not immediately respond to requests for a comment. The Christophe de Margerie is slated to reach the Caofeidian terminal in China on June 11. Cargo-tracking company Kpler identified the vessel's movements. In 2018 and 2019, the first shipments via the route were dispatched in late June and arrived in July.

Corpus Christi storage operators add millions of barrels of capacity

(Houston Chronicle; May 19) - Companies operating at the Port of Corpus Christi are adding millions of barrels of crude oil storage at time when record low commodity prices have producers desperate to find a place to store their crude until market conditions improve. The South Texas waterway has more than 40 million barrels of crude storage.

With those tanks 65% full, port officials said six companies are adding more than 20 million barrels of additional crude oil storage over the next year.

The additional tanks will give oil companies in the Permian Basin of West Texas and Eagle Ford Shale of South Texas more storage options until prices improve. The price of West Texas Intermediate, the U.S. benchmark, which was just above $30 a barrel on May 19, had plunged to nearly negative $40 in April over fears that the Cushing, Oklahoma, trading hub would run out of storage. The tanks there that hold 76 million barrels are almost 80% full, according to federal data.

Export terminal operator Moda Midstream completed a project in late April to add 10 million barrels next to the company's Corpus Christi docks and an inland depot. The next biggest project is from pipeline and storage terminal operator Buckeye Partners, which plans to add 5 million barrels of oil storage to its port facility. And port officials are seeking a permit to build 3 million to 5 million barrels of storage as part of a project on Harbor Island, but it faces opposition from environmentalists and nearby residents.

Asian LNG demand growth will slow down as countries adjust

(S&P Global Platts analysis; May 20) - Asia's pipeline of new LNG import projects has stalled amid ongoing turbulence as fundamental assumptions that underpinned the projects — gas supply, power demand and financing — have to be recalculated. The projects span the Southeast Asia countries of the Philippines, Vietnam, and Myanmar — which were billed as the next batch of Asian LNG importers — and existing importers Thailand, Malaysia, Indonesia, and nations expanding their gas import capacity.

These projects were meant to usher in the next wave of LNG demand, based on economic growth and electricity demand projections in the pre-COVID 19 era. Most of the assumptions have either been totally dismantled or delayed by several years. "It's obvious to expect delays in the short-term … (giving) time for players to figure out and adjust during this time of crisis," said Christophe Malet, senior vice president for upstream and midstream LNG at Chinese gas and renewables company Hanas.

"Developers will need to establish how much of the initial projected demand and bankability plus financing assumptions they can still rely on," Malet said. Financing will become tougher in the short-term as lenders sort out their priorities in the crisis, with the exception of some policy-driven stimulus packages, he said. LNG projects in countries like Myanmar and Bangladesh already faced bankability issues, preventing them from backing new export projects with long-term offtake agreements.

Federal payroll loans go to shaky energy companies

(Washington Post; May 18) - Emergency payroll loans totaling $221 million have gone to at least 21 publicly traded U.S. energy companies, and a survey of those companies' finances shows just how volatile and troubled that sector of the economy has been. The federal loan program is limited to smaller businesses — firms that in the energy field have been the most vulnerable to the downdrafts even before the COVID-19 pandemic.

Several of the firms were in serious financial straits. For them the loans were at least a temporary lifeline but not a solution to their problems. They already faced headwinds of sharp stock declines, millions of dollars in losses over the past year, and large global surpluses of oil, coal, and gas. Lenders wouldn't normally do business with companies that may be on the road to bankruptcy. But the congressionally mandated emergency loan effort — called the Paycheck Protection Program (PPP) — is different.

One coal mining company said it might not be able to survive to the end of 2020. Its stock had cratered and its losses mounted, but it received a maximum $10 million emergency loan through PPP. Most of the energy companies surveyed have weak prospects and would struggle to secure credit, as investors have largely turned away from the sector. The PPP program has put the federal government in the position of funneling money into companies with decidedly problematic balance sheets. Three firms' share price has fallen so low they are set to be delisted by stock exchanges.

Producer cutbacks could delay some gas pipeline projects

(S&P Global Platts; May 19) - Billions of dollars in spending cuts by gas producers and pipeline operators likely will reshape what and when natural gas midstream infrastructure is developed over the next several years. But the deep capital expenditure cuts and broader energy market woes are likely to carry uneven ripple effects for interstate gas pipeline projects, according to a range of analysts.

"Our basic expectation at this point is that projects that have been approved [by the Federal Energy Regulatory Commission] will move forward, but that there may be less of an urgency to get them into service," said Gary Kruse of LawIQ. According to Kraig Grahmann, a partner at law firm Haynes and Boone, the impact is likely to vary with the gas production region. Those with midstream gas assets heavily focused on gas associated with oil drilling such as the Permian are more likely to suffer.

"Pipelines that are uncontracted and intended to carry associated gas from the Permian Basin ... will likely sit on the back burner until the oil market recovers," said Katie Bays, of Sandhill Strategy. Companies are significantly cutting oil production in the Permian in response to low prices, causing a drop in associated gas production. "The pandemic may give some an excuse to delay or cancel (pipeline) projects that were headed that direction anyway," said Michael Webber, of Webber Research & Advisory. The impact really depends on what the market thinks about the duration of the energy demand loss.

Low prices stop Egyptian LNG exports

(S&P Global Platts; May 19) - Egyptian LNG exports have ground to a halt with no cargoes shipped since March 11 from the country's only operational liquefaction facility, the Shell-operated Idku plant, data from S&P Global Platts Analytics and Platts trade flow software cFlow showed May 19. The drop-off in exports comes as spot LNG prices have hit record lows, with the front-month Japan Korea Marker spot Asia LNG price falling to just $1.825 per million Btu in late April.

Egypt is among a small group of spot-exposed LNG exporters that have been forced to curtail production because of the low prices. Egypt is not short of gas — in fact it is currently restricted in how much it can produce due to weak domestic demand and limited export capacity. The problem is cost — Platts Analytics estimates breakeven costs at $4.70 from the Idku plant, making exports at current prices uneconomic.

Egyptian LNG exports were already much reduced in the first quarter, when just six cargoes were shipped, down from 12 cargoes in the first three months of 2019 and from 17 cargoes in the fourth quarter of 2019.

Maintenance delays could cause problems for oil and gas facilities

(Reuters; May 19) - The coronavirus pandemic has disrupted maintenance at oil and gas projects and refineries from Russia’s Far East to the coast of Canada, adding to problems for an industry already reeling from slumping prices, analysts say. Lockdowns to stop the spread of COVID-19 have snarled the supply of spare parts and have prevented maintenance workers from doing their job.

Regular repairs are needed to keep wells pumping, pipelines and refineries functioning, and ships moving. Without maintenance, the risk of problems or unplanned outages increases and delays risk driving up the cost of work later — partly because there will be a rush to do maintenance when lockdowns ease, and partly because plants have lost the optimal timing and weather for work during the northern hemisphere spring.

For example, a large maintenance program at Russia’s Far East Sakhalin-2 project faces delays as the firm could not get pre-ordered pieces of machinery, sources said. “There was a major headache with parts manufactured in China. After the coronavirus outbreak there, the supplier told us it couldn’t deliver our order,” an industry source said.

Exploration and production companies spent an average of $80 billion a year on maintenance between 2015 and 2019, according to Rystad Energy. The industry typically takes advantage of periods of slow demand to do repair work. But with oil prices nearly halved since the start of the year, this is no ordinary trough. Companies, many of them encumbered with high debts, are slashing all but the most essential work.

Australia plans credits to encourage carbon-reduction projects

(Bloomberg; May 19) - Australia is seeking to cut emissions in one of the world's biggest per-capita polluters by offering financial credits to encourage oil and gas producers to invest in carbon-reduction projects. The nation on May 19 said it would revamp a multibillion-dollar climate fund to support development of technologies such as carbon capture and storage to improve efficiency and reduce greenhouse gases.

The move was welcomed by the oil and gas industry and blasted by climate groups, which said it undermines renewable energy projects. Calls for Prime Minister Scott Morrison to do more to combat climate change got louder after devastating bushfires destroyed thousands of homes this past summer. Morrison has said the country will meet its international commitments, but progress on emissions reduction has stalled in recent years as a number of heavy-polluting LNG export facilities started operations.

The government plans to revamp its A$2 billion (US$1.3 billion) Climate Solutions Fund, after an independent report published May 19 found that stronger action was needed for the country to meet its climate commitments under the Paris Agreement. Energy Minister Angus Taylor said he will support a proposal to award credits to big facilities for adopting low-emissions technology, which could then be used to meet their climate obligations under the government's "safeguard mechanism." That system sets a target limit for a facility's emissions, above which it must purchase abatement.

Green certification program excludes LNG carriers

(The Maritime Executive; May 19) - The Climate Bond Initiative (CBI) has excluded liquefied natural gas carriers from its green-financing certification program, citing the greenhouse-gas content of the cargo. The decision has drawn objections from the international group Sea\LNG, which advocates for the use of LNG as a marine fuel. The U.K.-based, international CBI effort offers a screening tool for governments and investors that allows them to identify green bonds certified to address climate change.

Since LNG carriers carry natural gas, CBI has placed them on a list of intrinsically GHG-intensive investments, alongside other oil and gas industry asset classes like crude oil tankers. In its decision to exclude LNG carriers, CBI also cited rising levels of methane emissions due to methane from the unburned natural gas in dual-fuel engine exhaust.

Methane is a far more powerful greenhouse gas than carbon dioxide, though the quantity released by LNG-fueled ships is contested.

Under the CBI criteria, most conventionally fueled ships — container ships, bulkers, even petroleum product tankers — are eligible for certification if they meet a "decarbonization trajectory" with a plan to transition to low- and no-carbon fuels. The list of applicable future fuel options includes electric, hydrogen, wind, or advanced biofuels, including biogas. The trajectory criterion acknowledges that these fuels are not currently available in commercial quantities but anticipates that they may be in future years.

Electric vehicles could get boost from oil industry's troubles

(Reuters; May 19) – Auto makers are betting the coronavirus crisis will help accelerate an electric future. With economies reeling from lockdowns to curb the virus, the sharpest plunge in oil prices in two decades has slashed the cost of filling up a tank of gas, eroding some of the incentive to make the switch to cleaner fuels. But looking ahead, cuts in capital spending forced upon energy companies as their revenues crumble could tighten supply enough to cause a spike in oil prices, making electric vehicles more attractive just as automakers ramp up production, analysts say.

"We think this will lead to a tipping point, accelerating the switch to electric vehicles in many more countries around 2023-2024," said Per Magnus Nysveen, senior partner at Rystad Energy, an Oslo-based consultancy. "All the growth in transportation is being eaten by electricity," said Harry Benham, chairman of Ember-Climate, a British energy transition think-tank. "Oil and gas companies have got no ability to defeat electricity as a transport fuel."

With fuel for road transport accounting for about half of the world's oil demand, the possibility of a faster-than-expected switch to electric vehicles in the wake of the pandemic is one of the main reasons some forecasts of peak oil demand have been brought forward to this decade. Underscoring the changing economics of transport, Tesla plans to introduce a new low-cost, long-life battery in its Model 3 sedan in China that it expects to bring the cost of EVs in line with gasoline models.

Economic stimulus will make it hard for China to meet climate targets

(Reuters; May 20) - China may struggle to meet its climate pledges this year as it turns to heavy industry and carbon-intensive projects to shore up its coronavirus-stricken economy, government researchers and analysts say. China had pledged to cut "carbon intensity" — the amount of CO2 emissions it produces per unit of gross domestic product — by 40% to 45% from 2005 through 2020 as part of the global climate change pact it signed in Paris in 2015.

The world's biggest greenhouse-gas producing country had been on course to reach its target at the end of last year, prompting calls for Beijing to set more ambitious goals. But experts say the economic damage done by the pandemic — especially to the less carbon-intensive service sector — has made the target far harder to meet. "We had thought it wouldn't be a problem for China to meet the carbon targets if previous efforts continued to be carried out," said an expert at a think tank affiliated with China's state planning agency, the National Development and Reform Commission.

"But the coronavirus outbreak and the approaches to economic stimulus may bring uncertainties," said the expert, who declined to be named as he is not authorized to talk to the news media. There are already signs China is turning to "dirty" industries and investments to kick-start its economy, which slowed for the first time in decades in the first quarter. More heavy industrial output and infrastructure construction over the rest of the year, combined with a weakened service sector, will raise the amount of CO_2 produced per unit of GDP growth, analysts say.

Work-from-home world nudges LNG trading to go electronic

(Bloomberg; May 19) - Companies seeking to get a slice of trading in the world's fastest-growing fossil fuel appear to be getting a push from the coronavirus. Liquefied natural gas is one of the few main commodity markets left where traders still rely heavily on meetings, phone calls, emails, or even fax machines to hash out deals worth millions of dollars. But innovators seeking to profit from making the industry more transparent and inclusive could be getting a boost from the new work-from-home world order.

"In the current environment when people can't meet face to face to negotiate deals, it would make sense to do more online," said David Thomas, an independent adviser and former head of LNG at commodity trader Vitol. Online platforms are gaining because the need for speed has never been greater. LNG prices have slumped to record lows and opportunities come and go faster than ever. Spot trading surged to 27% of the LNG market last year, displacing the industry's traditional multi-year deals.

The spot market really only emerged in the past decade. And while this corner of the energy industry is much younger than other markets, there is still a general reluctance among traders to embrace digital tools. "LNG is a relationship business, and face-to-face meetings are required when discussing long term. However, going forward the frequency for such meetings will definitely be less than before the pandemic," said Sarah Behbehani, a senior vice president of LNG at Japan's JERA Global Markets.