Oil and Gas News Briefs
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Saudi Arabia, other OPEC members considering more oil cuts

(The Wall Street Journal; Nov. 3) - Saudi Arabia and other OPEC members are considering deepening their oil production cuts amid rising COVID-19 cases in the West and fresh economic lockdowns in Europe that could curb oil demand further, according to oil officials and advisers in these countries. The debate comes at a time when OPEC members had hoped to be in a position to start turning production back on.

In April, OPEC, a 13-member cartel led by Saudi Arabia, and 10 Russia-led producers jointly agreed to carry out record production cuts of 9.7 million barrels a day. The cutbacks came after the initial flare-up of the new coronavirus shuttered economies around the world. The accord called for producers to return that lost output gradually. The next extra two million barrels a day were expected to start flowing in January.

Last month The Wall Street Journal reported that Saudi Arabia and other producers were debating whether to delay adding production by three months. Such a move, at a minimum, is now increasingly likely, OPEC officials said. Amid increasingly weak oil prospects recently, Saudi Arabia and other producers are also now considering new cuts as one of several options to deal with lackluster demand, officials in these countries said. Deeper curbs "is now an option," said one of these officials. The discussions come after U.S. crude futures last week hit a low of $36.17, the lowest since June 1.

Renewed Libyan oil production comes at a bad time for prices

(Calgary Herald; Nov. 2) - New oil is flooding the global market at a time when the resurgence of COVID-19 in Europe and elsewhere is causing crude demand to crater and the confluence of those two factors, deemed "the sum of all fears" by analysts, could hang over oil markets well into 2021. Global oil prices have dipped below $40 per barrel the past week. Analysts say a combination of weak demand for crude and ballooning production from Libya and Alberta is dragging down the price of oil.

"The global oil market was already soggy to begin with. The market is going to have a hard time absorbing the additional barrels from Libya," said Michael Tran, managing director of global energy strategy with RBC Capital Markets in New York. The additional Libyan barrels might not have had such a large effect on global oil markets in a normal year, but lackluster oil demand as a result of the coronavirus pandemic and a fresh wave of lockdowns in Europe turn small changes in supply into large swings in prices.

"It magnified the outsized downward risk to this market because global oil demand has been just hanging in there," Tran said, adding that he thinks "anemic oil demand" would be a good outcome for oil markets considering a fresh wave of European economic lockdowns. "If we're able to revert back to the US$40-level, I think that's the best scenario," Tran said. He expects global oil prices next year to lie in the US$40 range for the first half of the year but climb into the US$50 range at the end of the 2021.

OPEC members overproducing just weeks before meeting

(Bloomberg; Nov. 2) - OPEC's effort to shore up world oil markets during the pandemic is facing a new threat — from the group's own rising production. In the past few months, the resurgent coronavirus has increasingly frustrated the cartel's attempt to defend prices through cutting its output. Oil futures have sunk below $40 a barrel in London to their lowest since May. But a fresh challenge is emerging from within the organization's own ranks, just weeks before members meet to draw up plans for the year ahead.

OPEC production increased significantly last month, according to a Bloomberg survey. Libya, a member exempt from the pact to restrain production, is reviving oil exports as its political turmoil eases. Meanwhile, Iraq and Nigeria are once again reneging on pledges to rein in their shipments. Output from OPEC countries jumped by 470,000 barrels a day in October to 24.74 million barrels per day, according to the survey.

OPEC and its partners announced unprecedented supply cutbacks in the spring as the economic fallout from the virus sent fuel demand crashing. The alliance is keeping about 7.7 million barrels of daily output — roughly 8% of world supply — offline to stave off a glut. The group is due to meet Nov. 30 to Dec. 1 amid growing expectations that it will keep the restraints in place in the first quarter 2021, rather than ease off as planned. In Russia, oil companies met with the energy minister Nov. 2 to discuss the possibility of delaying the tapering by three months, according to people familiar with the matter.

Global oil traders say second COVID wave will cut into oil demand

(Reuters; Nov. 2) - Global oil traders Vitol and Trafigura expect a resurgence in coronavirus cases in Europe and the U.S. to hurt fuel demand, although their estimates vary. A second virus wave would see oil demand destruction at about 1 million barrels per day in the United States and 1.5 million in Europe, Trafigura's CEO Jeremy Weir said at a Financial Times event in Singapore on Nov. 2. "As we move now into what we consider the second wave, our anticipation is … further demand destruction," he said.

Trafigura expects oil demand to fall to around 92 million barrels per day or below in the short term, while Vitol sees winter demand at 96 million. The heads of both trading companies said oil demand in most Asian markets, led by China and India, has rebounded except for jet fuel. The global market had been close to 100 million barrels a day before the pandemic crashed demand for gasoline, diesel and jet fuel.

Consultant predicts world will hit peak oil demand in 2028

(Reuters; Nov. 2) - The COVID-19 pandemic and a faster transition to renewable energy sources will have a permanent impact on global oil demand, Norway's biggest independent energy consultancy Rystad predicted Nov. 2. Global demand will likely peak in 2028 at 102 million barrels of oil per day, down from a pre-pandemic forecast of a peak in 2030 at 106 million, Rystad Energy said.

The new prediction assumes the share of oil in various sectors of the global economy will develop in line with stated government goals to move toward a cleaner-carbon future, such as in the electrification of transport, the company said. In 2020, the coronavirus will likely drive down global demand to 89.3 million barrels per day from 99.6 million in 2019, before a partial recovery to 94.8 million next year and a return to around 100 million in 2023, Oslo-based Rystad said.

"The slow recovery will permanently affect global oil demand levels," it said. While lockdowns are stunting economic recovery in the short term, Rystad predicted, the pandemic will also leave behind a legacy of behavioral changes affecting oil use, contributing to a decline in global demand by 2050 to around 62 million.

French buyer calls off talks to take U.S. LNG

(S&P Global Platts; Nov. 3) - France's Engie said it has ended talks over a potential $7 billion long-term supply deal with U.S. LNG developer NextDecade, as the company has been pressured not to import LNG produced from shale gas. Engie in October said it needed more time to consider any future contract with NextDecade after it was reported that the French government and environmentalists were pushing the partly state-owned company not to buy the gas because it did not conform to French climate-change goals.

"Engie has decided not to proceed with commercial discussions with NextDecade on this gas supply project," the company said in emailed comments Nov. 3 to S&P Global Platts, without elaborating. "We will not be making any further comment." NextDecade, which is trying to develop the Rio Grande LNG facility in Texas, declined comment.

Environmental group Les Amis de la Terre France (Friends of the Earth France) welcomed Engie's decision to back away from the deal. NextDecade has said it plans to make a final investment decision on Rio Grande LNG in 2021, having pushed back its schedule several times. Shell's 20-year agreement to buy 2 million tonnes per year of supply is the only firm off-take deal tied to the terminal announced by NextDecade. The developer has said it needs to sell an additional 9 million tonnes a year under long-term contracts to achieve FID to start on two or three trains at its Brownsville site.

Estonia still burns oil-soaked rocks to generate electricity

(Bloomberg; Nov. 1) - As the European Union accelerates the transition away from fossil fuels, one of its members still sees its own small oil industry continuing for a decade or more. Estonia is the only country in the world that has depended for decades for most of its energy needs on burning oil shale, a sedimentary rock that contains hydrocarbons. Despite the similar name it differs greatly both in chemistry and its carbon intensity from U.S. shale oil, which has transformed the global energy market.

For decades Estonia generated electricity by burning the oil-soaked rock, but since 2018 most of those power plants have shut down as the European Union’s carbon dioxide costs surged. However, Estonia, population about 1.3 million, still expects to extract the hydrocarbon, also called kerogen, in a less carbon-intensive form to produce fuel oil for another 10 to 15 years, according to Economy Minister Taavi Aas.

“Whether it is possible to produce shale oil in Estonia until 2040 — probably not because as we see, Europe’s climate goals become steadily more ambitious, meaning a rise in CO2 prices. Maybe it won’t be 2040, but I think 2030 or 2035 is still valid,” he said. Earlier this year the government backed an injection of 125 million euros ($146 million) into utility Eesti Energia for a new plant producing oil from kerogen, gas, and electricity, due to be completed in 2024. The move was criticized by the political opposition and subject to a legal challenge by a renewable energy lobby group.

Angola gets a boost with oil sales to China

(Bloomberg; Oct. 30) – For a glimpse of the growing disparity in the oil market’s recovery, look at crude sales from West Africa. Nigeria, the region’s biggest producer, has slashed prices while struggling to attract buyers in Europe, its main export market where demand is faltering. Meanwhile, Angola — closely linked to China — has had little trouble finding refiners to take its crude as the Asian country revives its purchases.

With the pandemic surging in Europe and Asia seemingly able to tame it, West Africa’s oil giants, both OPEC members, are seeing their fortunes move in opposite directions. The trend highlights the unevenness in demand and concerns about supply as OPEC and its allies prepare to meet in a few weeks to determine the future of their production cuts. Much of Angola's oil is a heavy-to-medium variety favored by China's refineries, while the majority of Nigeria's oil is a lighter type that is mostly processed in Europe.

Nigeria has been forced to offer its key export grades at deep discounts to Europe's oil benchmark, lowering the November official selling prices to their weakest levels in five months. Some unsold oil has also been pushed into storage, traders said. For Angola, crude sales for November have gained pace, led by a resurgence in Chinese buying, traders said. OPEC+ production cuts and U.S. sanctions on Venezuela and Iran have limited the supply of some other medium-heavy crudes that the Chinese market prefers.

China raises oil import quota for non-state owned companies

(Bloomberg; Nov. 2) - A sharp drop in oil prices may be about to get some relief from China. Against a backdrop of sagging global demand and signs of growing supply, the world's biggest oil buyer raised the quota for use of overseas oil by non-state entities next year by more than 20% versus 2020, according to an announcement from the Ministry of Commerce. The increase in the import quota is about 823,000 barrels a day.

The firms that will use the oil include private refiners, known as teapots, which have become increasingly important in the global market in recent years. Those companies have been running their plants at a higher utilization rate than a year ago for many months, while their counterparts in the U.S. and Europe lag behind. The increased allocation signals oil purchases from the world's biggest importing nation will be even stronger at a time when global demand faces new headwinds from more restrictions and lockdowns as coronavirus infections spread again in Europe and the U.S.

Behind the boost to imports is China's ambitious capacity expansion. The country's new, mega-refiner Zhejiang Petrochemical started up one of its new 200,000-barrel-per-day distillation units on Nov. 1. Independent refinery Shenghong Petrochemical is working on building the country's single-largest crude unit, which is scheduled to start up by the end of 2021. Oil traders have been buying up cargoes since early October and sending them to China, hoping to capitalize on an expected surge in demand at the end of the year when independent refineries receive 2021 import licenses.

Russia makes plans to expand Arctic oil and gas exploration

(The Barents Observer; Norway; Nov. 3) – Russian Prime Minister Mishustin wants to tap into vast oil and gas resources on the arctic shelf and has commissioned his cabinet ministers to make a big plan for drilling. While governments and energy companies in Europe are rapidly scaling down investment in petroleum, the Russian side is moving in the opposite direction. The Russian Arctic Strategy signed by President Vladimir Putin on Oct. 26 includes emphasis on hydrocarbon development, including Rosneft's grand oil projects in the Taymyr Peninsula and Novatek's expansion in Arctic LNG.

Mishustin followed up on Nov. 2 with a series of instructions for cabinet ministers. The list includes a plan for more drilling in arctic waters. The plan is to be presented by the Ministry of Natural Resources by Dec. 18 and will include exploration and mapping, as well as sources of financing. The Ministry of the Far East and Arctic has been instructed to propose tax incentives for oil and gas companies in the region. And the Ministry of Industry and Trade was asked to present a plan to boost national capacities in offshore technology and reduce dependence on foreign drilling and exploration equipment.

Russia has vast hydrocarbon resources on its arctic shelf and the government is eager to expand in the region. According to the newly adopted Arctic Strategy, there is up to 3,000 trillion cubic feet of gas and 125 billion barrels of oil on the country's Arctic shelf.

Qatar will base budget on $40 oil

(Bloomberg; Nov. 3) - Qatar will base next year's budget on an oil price of $40 a barrel, below what some analysts expect, as the world's biggest exporter of liquefied natural gas seeks to reduce the impact on its finances, according to its ruler. The move will help Qatar "avoid negative economic consequences due to oil-price volatility," Emir Sheikh Tamim bin Hamad Al Thani told members of the country's legislative body, the Shura Council, on Nov. 2. The sales price of Qatar's LNG is closely linked to oil prices.

Still, gas has fared better amid this year's coronavirus-triggered slump in energy prices, helping Qatar weather the fallout more easily than oil-dependent neighbors such as Saudi Arabia and Kuwait. Early results show that Qatar's budget deficit for the first half of the year is 1.5 billion riyals ($406 million) despite expectations it would be much higher, the emir said.

At the beginning of the year, the government planned to run a slight surplus on the assumption that oil would average $55. But Qatar, which has faced a trade and political boycott by three of its Gulf neighbors since 2017, has had to prop up businesses and guarantee wages during the coronavirus pandemic with its revenues diminished by the drop in oil prices affecting LNG profits.

Equinor plans to become net-zero emitter by 2050

(Reuters; Nov. 2) - Norwegian energy producer Equinor aims to become a net-zero emitter of greenhouse gases by 2050, including emissions from production and use of oil and gas, its new CEO said as he took office on Nov. 2. Anders Opedal, the first engineer to lead state-controlled Equinor, plans to expand the acquisition of acreage for wind power while also utilizing carbon capture and storage and so-called natural sinks while looking to develop technology to make hydrogen power commercially viable.

Opedal reiterated the company's ambition of increasing oil and gas output by 3% a year over 2019-2026 but declined to say if Equinor will persevere with its loss-making onshore U.S. shale oil and gas operations. "The decision to invest (in U.S. onshore) was taken a long time ago, when we had different sentiments about oil and gas and different price assumptions," he said. "We will see in the future whether we can extract more value from it." Opedal will present a detailed strategy update next June.

The burning of oil and gas accounts for the majority of the world's carbon emissions and many investors have pushed oil majors to strengthen their green ambitions. Oil companies have set varying goals for cutting emissions, including so-called Scope 3 emissions from final consumption. Equinor said it is looking to acquire more acreage suitable for wind power and expects to produce less oil and gas in the longer term as global demand falls gradually from around 2030.

The Philippines will stop permitting new coal power plants

(Reuters; Nov. 3) - The Philippines has stopped accepting new proposals for coal-based power projects to encourage investment in other energy sources such as natural gas and renewables, the government's energy chief said Nov. 4. The moratorium on endorsements for greenfield coal-powered plants comes as the government aggressively pursues gas as a major source of energy, not just for power generation but also industrial, commercial and household sectors.

Coal is set to remain the dominant power source for years to come, however, with the coal-based projects already in the works and proposals already submitted to the government not covered by the moratorium, Energy Secretary Alfonso Cusi said. A rash of approvals for coal-fired power plants in recent years has boosted coal's dominance in the country's power mix, accounting for 41% of capacity last year, when the country's overall installed power capacity stood at 25,531 megawatts. Renewable energy made up 29% of the mix, while natural gas took 13.5%. The rest was oil-based fuel.

EIS says Utah oil-hauling railroad would damage wildlife habitat

(The Salt Lake Tribune; Nov. 3) - A proposed oil-hauling railroad would degrade up to 10,000 acres of wildlife habitat in northeastern Utah, potentially disrupting migration corridors and ruining wetlands, according to a draft environmental review. The federal Surface Transportation Board is reviewing the 85-mile Uinta Basin Railway, proposed by a group of energy-producing Utah counties that hopes to connect the state's oil patch to the national rail network.

Such a transportation conduit would take hundreds of tanker trucks off Utah highways, but it would result in unavoidable, permanent and significant impacts, according the 580-page environmental impact statement, released last week. The Seven County Infrastructure Coalition is proposing the rail line, expected to cost $1.4 billion, but it would be financed and operated by private firms as a "common carrier," meaning it would be open to any freight haulers.

Rio Grande Pacific Corp. would operate the line and the Ute Indian Tribe, which holds extensive oil and gas resources in the basin, is expected to become an equity partner, according to the EIS. Planning money has come from controversial grants totaling $28 million from the Utah Permanent Community Impact Fund, which distributes revenues from federal mineral royalties to local governments impacted by mining and drilling. State leaders support the project because of its potential to create rural jobs in Utah and promote economic development. The public has until Dec. 14 to comment on the EIS.

Japanese LNG carrier operator signs on for Russia's second project

(International Shipping News; Nov. 3) - Mitsui O.S.K. Lines CEO Junichiro Ikeda announced Nov. 2 that the Japan-based company had signed charter deals to supply three ice-breaking liquefied natural gas carriers for the Arctic LNG-2 project under construction in Russia. The three ships will be built by Daewoo Shipbuilding & Marine Engineering in South Korea, and are scheduled for delivery in 2023.

The ships will mainly transport LNG from the production plant on the Gydan Peninsula in the Russian Arctic to floating LNG storage units located at a transshipment terminal in Russia's Far East in Kamchatka (for eastbound cargoes) and another near Norway in Murmansk (for westbound cargoes). Compared with earlier design ice-breaking LNG carriers, which are limited to eastbound transits when the ice is thin, the new ships will have a narrower width and a new hull form optimized for ice breaking, along with increased propulsion to sail eastward year-round.

Mitsui has been engaged in carrying LNG using three ice-breaking LNG carriers on the Northern Sea Route since March 2018 for the Yamal LNG project in Russia. Russian gas producer Novatek is the lead partner in the Yamal and Arctic LNG-2 terminals.

LNG charter rates recover to almost triple summer lows

(American Shipper; Nov. 2) - Tankers carrying crude oil and refined products are wallowing below cash-breakeven and their near-term prospects are grim. In contrast, spot charter rates for liquefied natural gas carriers are now highly profitable, with some vessels earning $125,000 per day. “The gains have become more significant over the past couple of weeks, and current rates are a stark improvement from [rates] seen this past summer,” said Clarksons Platou Securities on Nov. 2.

While six-figure rates look impressive, they’re typical for this time of year. The good news is that LNG shipping — unlike crude and product tankers — is actually seeing a normal seasonal upswing despite COVID. The rates are up sharply from mid-June lows of $30,000 to $40,000 a day. The bad news is that LNG shipping is still not back to where it was in 2019 — and there are major concerns about rates in 2021 and beyond.

But current rates need to be put in context. At this time in 2019, rates were $140,000 and $150,000 per day, respectively. At this time in 2018, some spot charters were earning $170,000 per day with a few vessels being booked at all-time highs of $200,000 per day. Then in mid-summer 2020 as LNG demand was down, dozens of U.S. cargoes of the fuel were canceled. Now as the market recovers, the more U.S. LNG that goes to Asia as opposed to Europe, the longer the voyages and the higher the vessel demand. That’s what’s happening, which is good for spot charter rates.

Chevron announces another delay in restarting Gorgon LNG unit

(Reuters; Nov. 2) - Chevron said Oct. 30 that it expects liquefied natural gas production at Train 2 of its Gorgon LNG plant in Western Australia to resume in the second half of November, a second delay. Train 2 at Australia's second-largest LNG plant has been shut since May for maintenance, which was extended after cracks were found in the production unit's propane kettles. The company had initially hoped to complete repairs by early September, and was further delayed to October as more time was needed.

Chevron will shut Train 1 once Train 2 is back online and will then inspect it and determine if repairs are needed and how long it will be down. This will be followed by Train 3, said Chevron Chief Financial Officer Pierre Breber. The Gorgon plant can produce up to 15.6 million tonnes of LNG annually, equating to about 4.5% of global LNG trade in 2019. Chevron is the plant operator and 47.3% owner. ExxonMobil and Shell own 25% each with the rest held by Japan's Osaka Gas, Tokyo Gas, and JERA.

Saudis produced record volume of gas, but it wasn’t enough

(Bloomberg; Nov. 3) - Saudi Aramco’s greater focus on developing natural gas resources paid off with record daily output of the fuel — but it still wasn’t enough to keep the kingdom’s power plants supplied when they needed it most. Saudi Arabia consumes all the gas it produces, much of it to generate electricity. Because gas pollutes less than crude, power plants prefer it as fuel. Aramco pumped a record 10.7

billion cubic feet of gas on Aug. 6, the company said Nov. 2 without giving an average figure for the period.

Yet crude use at Saudi power stations also peaked that month. The country burned 702,000 barrels a day in August, the most in four years. Saudi Arabia is the world's biggest oil exporter, but it's also well-endowed with gas. The nation holds the eighth-largest gas reserves, and its production last year ranked ninth worldwide. However, it's been slow to exploit its gas, unlike neighboring Qatar, the biggest exporter of liquefied natural gas. Qatar pumped 17 billion cubic feet a day of LNG last year, according to BP.

While Aramco started capturing so-called associated gas at oil fields in the 1970s, it's only recently developed gas-only deposits. Electricity use in Saudi Arabia soars in July and August, when people crank up air-conditioners to cope with temperatures that can exceed 122 degrees Fahrenheit. The country came under extra pressure this year as it curbed crude production to fulfill its obligations under OPEC's oil-cuts accord with allies such as Russia. That reduction squeezed Saudi supplies of associated gas.

Republicans maintain 25-year control of Texas oil and gas regulator

(Reuters; Nov. 3) - A Republican businessman swept to victory in the Texas Railroad Commission over a Democratic energy lawyer who had sought to put climate change on the state energy regulator's agenda. Jim Wright's win keeps the Republican Party's 25-year dominance over the commission, which overseas companies producing 4.7 million barrels of oil per day in the state.

The contest for a seat on the commission turned into a referendum on the regulator's rubber-stamping of emissions permits with energy lawyer Chrysta Castaneda calling it a health and safety issue. Wright, who raised less than a fifth of what his Democratic rival did, held a more than 1 million vote lead on Nov. 3 with about 86% of the ballots counted. Castaneda campaigned to end routine flaring and venting of natural gas in the state. "If we would just do those two things, we would have a huge impact on both greenhouse gases and old-fashioned air pollution," she said.

Wright had rejected any ban on flaring, or burning unwanted gas, saying it would cause the U.S. to "become more dependent on foreign sources of oil." He promised to work to boost production and find markets for the natural gas. Wright was fined previously by the regulatory agency after taking responsibility for an oil field waste site. Castaneda raised about $3.7 million, including $2.6 million from billionaire Michael Bloomberg.