Oil and Gas News Briefs
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Nations will increasingly compete on oil production tax incentives

(The Wall Street Journal; Sept. 23) - After decades of relative maturity, the oil market might be about to enter a second childhood. Although there is little consensus on the timing, most expect demand for crude to peak in the coming years — if it hasn't already. BP argues 2019 might be the top. Others expect the decline to begin in the mid-2020s, or even as late as the mid-2030s. The threat of shrinking demand, whenever it comes, undermines a strategy that has ruled the market for nearly a century: In times of plenty, producers agreed to pump less today to boost prices for a more profitable tomorrow.

This approach no longer makes sense if demand consistently falls. Producer nations will likely become impatient about selling their crude and compete to get oil out of the ground. This year, an oil glut coupled with a coronavirus-induced fall in demand of 20% has provided an early glimpse of this future. The peak might be followed by a plateau or gentle decline rather than a plunge. But once demand starts decreasing, prices will be more volatile and enter a downward trajectory, much as they have for coal and fuel oil for power generation, said Artyom Tchen of researchers Rystad Energy.

Nations will have to compete to persuade companies to drill in their country. Geography and geology can't be changed, but politicians can adjust taxes and regulations. The competition already is underway, said Alan Gelder of researchers Wood Mackenzie. Norway, Russia, and Angola are among the countries considering new incentives. If nations start to believe their barrels might be stranded in the ground, the market could degenerate further. A new scramble between rival producer nations is in the cards, even if it isn't there yet. The next 50 years for oil likely won't look much like the past 50.

No one wants another showdown between Russia and Saudi Arabia

(Bloomberg commentary; Sept. 26) - Oil producers could be set for another showdown before the end of the year, with heavyweights Saudi Arabia and Russia holding different views on how to approach the halting recovery in oil demand. Renewed restrictions on travel and social gatherings across Europe, along with the tapering of state economic support packages for businesses, are having a chilling effect on demand for crude, just as the OPEC+ group of oil producers, who cut production by a record 9.7 million barrels a day in May, begin to contemplate the next easing of limits on their output.

The International Energy Agency and the OPEC have both cut their forecasts for this year's oil demand. But it's not all about demand. The capacity for the market to absorb additional supply from the OPEC+ countries also depends on how much oil is coming from elsewhere. There are fears — or hopes, if you're a rival oil producer — that output from U.S. shale deposits is set for another big drop in the coming weeks and months. Well completions in the U.S. are now so low that large monthly declines in production may be imminent, Standard Chartered bank analyst Emily Ashford warned last week.

Saudi Arabia wants, above all, to prevent oil prices from slipping, even if it means holding off on plans to ease production quotas. Russian Energy Minister Alexander Novak is less nervous about the market, and prefers to wait as long as possible before making a decision whether to alter the plans of OPEC+ to further ease its deep production cuts starting in January. We've all seen where a standoff between the two big beasts of the OPEC+ group can lead. Nobody wants a repeat of that.

Russia expects long and slow recovery of world oil demand

(Bloomberg; Sept. 27) - Russia expects a long and gradual revival of the oil market after the pandemic this year crushed energy demand across the world. "The recovery won't be fast, it will take quite a while before the pre-crisis levels can be reached," Russia's Energy Minister Alexander Novak said Sept. 27. In 2020, on the back of coronavirus lockdowns, global oil demand is set to decline by as much as 10% compared to last year, he said in his address to a two-day online meeting of G-20 energy ministers.

The recent rebound in the oil market has stalled as fuel consumption remains weak in the U.S., while several European governments have reintroduced measures to keep a lid on the coronavirus. At the same time, the market is struggling to absorb returning supply. Oil traders have reported a sharp increase in Iraqi exports for next month, while output from Libya has shown signs of rising as its civil war abates.

Neil Atkinson, the International Energy Agency's head of oil industry and markets, said at a Bloomberg event last week that the agency is more likely to downgrade its demand forecasts than lift them in its next report. Russia is doing its best to prevent a collapse in the global energy market and the world's economy, Novak said. OPEC+, which includes Russia, indicated earlier this month that it stands ready to take preventive action, if needed, to balance the market. The group will be "proactive and preemptive," according to a statement from OPEC's Joint Ministerial Monitoring Committee.

U.S. crude in the $40s could be here awhile

(S&P Global Platts; Sept. 24) - U.S. oil producers continue to struggle from the fallout of the COVID-19 pandemic as crude prices continue to languish near $40 per barrel with little hope for a substantial or sustainable rally in the foreseeable future. With demand rocked by the COVID-19 crisis, prices have yet to rebound in spite of massive cuts in production by OPEC+ nations and U.S. companies — and it is very hard to find anyone optimistic things will improve anytime soon.

"$45 is not an easy price to live at; $35 makes it really hard. It's going to be an ongoing challenge," said Duane Dickson, U.S. oil, gas and chemicals sector leader for Deloitte. "In the U.S., we're probably returning to normal [demand] levels 18 months from now," he said. However, the benchmark West Texas Intermediate futures curve suggests a more pessimistic view. Current futures contracts are trading below $45 through 2023, and are only slightly better in March 2025.

"I'm expecting $45 to $50, and probably closer to $45 seems more realistic," Texas-based energy economist Karr Ingham predicted for prices into 2021. "Here's hoping we get beyond COVID and things get closer to normal. But we're not moving toward that pre-COVID lifestyle very quickly at all." Judging from comments in their second-quarter earnings calls, independent producers are not optimistic about higher prices coming anytime soon either. They indicated the price slump would continue well into next year.

OPEC faces challenges as it turns 60 years old

(Agence France-Presse; Sept. 28) - OPEC faces a critical moment in its 60-year history with the coronavirus crushing crude oil demand and prices, discord among its members, and threats from a world seeking cleaner fuels. Founded in September 1960 by Iraq, Iran, Kuwait, Saudi Arabia, and Venezuela, seeking to control crude oil output, OPEC currently comprises 13 members including nations from Africa and Latin America.

The 60th anniversary "comes at a critical moment in its history," said UniCredit analyst Edoardo Campanella. "Its ability to steer the oil market in its favor has never been put in question to the extent it is now." That ability has dimmed in recent years, prompting it to join forces with 10 non-OPEC producers including Russia to curb their collective oil output. OPEC+ essentially wanted to counter the surging crude supplies from U.S. shale producers and help clear a stubborn, price-crashing supply glut on world markets.

Today OPEC pumps about one third of global oil — but OPEC+ accounts for almost 50%, giving it greater clout. Carlo Alberto de Casa, a trader at Activtrades, insists the cartel retains a "relevant" function in the market, dismissing talk that the organization is a "has-been". Rystad Energy analyst Paola Rodriguez-Masiu, while noting that OPEC has lost market share in recent years, said the cartel still has an important role to play because it possesses the largest amount of accessible crude.

[Conoco sees global oil demand returning to pre-pandemic levels]

(Reuters; Sept. 24) - ConocoPhillips sees global demand returning to 100 million barrels per day and growing from there, with oil an "important part of the energy mix in any scenario" going forward, a senior executive said Sept. 24. The view stands in contrast to that of rival BP, which sees the coronavirus pandemic leaving a lasting effect on global energy demand, though ConocoPhillips still expects "quite a bit of uncertainty next year," Senior Vice President Dominic Macklon said during a Q&A with Raymond James.

The company's capital spending in 2021 will be "somewhat below" its original planned 2020 level of $6.6 billion, Macklon said. The hardest-hit area of the oil industry in 2020 has been U.S. shale, where producers cut production and sidelined equipment as oil prices crashed. While U.S. shale output was about 8.2 million barrels per day at the start of the year, that level will likely fall by 4 million in 2022, Macklon said.

Conoco left seven drilling rigs at work in shale fields, but cut all fracking crews earlier this year as oil prices crashed. It is returning two fracking crews to work, Macklon said. Meanwhile, some producers are stockpiling federal drilling permits ahead of the presidential election as a hedge against possible rule changes under a Democratic administration. Just 20% of Conoco's Permian acres are on federal land in New Mexico.

[Researchers say China's refined products demand could peak in 2025]

(Argus Media; Sept. 24) - China's oil-product demand growth is likely to ease in the next five years because of a slowing economy and a switch to alternative fuels, state-owned China National Petroleum Corp.'s research arm said. And more deregulation is likely as the government takes a supervisory role. China's economic growth may recover to an average of 5% to 6% per year in 2021-2025 from about 3% this year, though still down from 6.1% in 2019, CNPC's China Petroleum Planning and Engineering Institute said.

China's demand for gasoline, diesel and jet fuel could collectively peak by 2025. The institute expects demand growth to average just 0.9% per year in 2021-2025 as displacement by alternative fuels increases. Under the report's moderate scenario, gasoline demand growth averages just 1.1% per year and peaks around 2024, while diesel demand declines 2.2% per year. But jet fuel demand, which has been decimated by the COVID-19 pandemic, rebounds by an average of 12.5% per year to 2025.

The institute expects refined product prices to be further deregulated. Beijing's role could become more one of supervision, as the government allows stronger price signals for oil products from the market and more efficient resource allocation. Greater competition means state-controlled firms will likely need to improve their own product procurement management systems, the institute said. Chinese state-run firms will also face increasing challenges from the growing use of electric vehicles in particular.

Role reversal, as Permian oil lines have plenty of spare capacity

(The Wall Street Journal; Sept. 22) - America's hottest oil region has too many pipelines and not enough oil to fill them — bad news for pipeline operators. Just two years ago, rapid production growth in the Permian Basin of Texas and New Mexico overwhelmed infrastructure, causing bottlenecks that crushed local crude prices. Now the region, which is producing around 4 million barrels a day of oil, has some 3 million barrels a day of excess pipeline space, according to East Daley Capital Advisors, an energy data firm.

A pandemic-inflicted drop in oil demand caused prices to fall and forced companies to trim output, exacerbating what was already a mismatch. The abundance of pipeline capacity is a welcome change for shale companies but challenging for refiners and pipeline operators that had benefited from the congestion. Oil fields often yo-yo between not having enough pipelines to move their crude to market and having too many. But the mismatch between pipeline space and output in the Permian is particularly extreme.

As of September large Permian lines and local refineries could take 7.3 million barrels of oil a day, according to East Daley. By early next year capacity is expected to climb to 8.3 million barrels a day — producers would be using only about half the available pipeline space for crude, East Daley estimates. That is down from utilization as high as 96% in 2018. "Two years ago, we were just looking for any way out," said Suzie Boyd, president of Midland-based Caballo Loco Midstream, which helps producers sell their output. Now her clients have options. "If anything, I have more stroke with the markets that I'm directing barrels to. … They're calling me, instead of me calling them begging."

Indian Oil Corp. sees future profits in petrochemicals, not fuels

(Bloomberg; Sept. 24) - India's biggest refiner is betting on plastics as it tries to diversify from an increasingly challenging fuels business. It plans to add petrochemical plants to all of its future refinery expansions and boost output at its existing facilities, Indian Oil Corp. Chairman Shrikant Madhav Vaidya said. Overall, less than 10% of the crude it refines is used to make petrochemicals — the building blocks for car parts to food packaging — but the business contributes almost 25% of company profits, he said.

While there is consumer and government pressure across the world to reduce the use of plastics, processors in Asia are building or planning petrochemical plants as demand for transport fuels is expected to ease in the years ahead. Indian Oil this week finalized a $2.4 billion expansion at its Gujarat refinery to include a polypropylene unit, which can make products for packaging and textiles. Indian Oil has already invested about 300 billion rupees ($4.06 billion) in petrochemicals projects.

"We realized that the volatility of the fuel market can be easily controlled by having a good footprint in the petrochemicals sector," Vaidya said. "Petroleum fuels continue to be my main business … but profitability I intend to get from petrochemicals." Indian Oil, which operates nine refineries, saw its profit fall over 90% in the year ended March 31 as volatility in oil and product prices led to narrow or negative margins. The company plans to double the amount of crude processed at its refineries to make petrochemicals.

New Mexico shale producers stock up on federal permits, just in case

(Bloomberg; Sept. 25) - With the U.S. oil industry reeling from the collapse in demand this year, the New Mexico shale patch has emerged as the go-to spot for drillers desperate to squeeze as much crude from the ground without bleeding cash. There's just one problem: Joe Biden wants to ban new fracking there. Just over the border with Texas, in a two-county stretch that forms the far western edge of the Permian Shale basin, there are more rigs boring oil wells today than anywhere else in the nation.

The rock here, once overlooked by wildcatters obsessed with the much-bigger Texas side, has quietly become the most profitable place to produce oil in America. That's attracting cash-strapped fracking outfits after the pandemic pushed crude prices down to just $40 a barrel. But there's a different threat emerging for these drillers: The Permian in New Mexico, unlike in Texas, lies largely on federal land.

Biden, the Democratic candidate for president, has promised to ban new fracking on federal land on "day one" if elected. That has so unsettled oil executives that they're rushing to build a war chest of federal permits to drill in the state. In the first nine months of the year, permit applications for the area surged 25%. New Mexico wasn't always the crown jewel of the shale patch. In fact, for much of the boom's early years, it was little more than a fringe outpost tacked onto West Texas. Then companies discovered the potential of the deeper, oil-rich rock just across the state line and made their push west.

Platts forecasts natural gas demand will grow at slower pace

(S&P Global Platts; Sept. 23) - Over the next decade, natural gas demand globally will grow at a slower pace as the industry responds to emerging financial and policy pressures brought on by the coronavirus pandemic. That's the conclusion of a new cross-divisional energy transition report from S&P Global Platts Analytics and S&P Global Ratings. A broad slowdown in energy demand caused by the pandemic will bring about an earlier-than-anticipated reckoning for the fossil fuels industry, the authors said, with a bumpy road ahead predicted for gas — even more so than for other fuels.

Global demand for gas will continue growing over the next 10 to 20 years, according to the report, even outperforming the gains for other fossil fuels, thanks principally to demand growth from China, India, and the Middle East, which, taken together, should account for a majority of the global gain in gas demand to 2030. In Western Europe, gas demand will grow just 1.4% to 2030, as the EU's Green Deal shifts the continent away from reliance on carbon-intensive fuels, accelerating the phase-out of gas.

In North America, demand is actually forecast to contract by 2.5% over the next decade, as gains in efficiency, fuel substitution, and weaker power demand cut usage in the power generation and residential-commercial sectors. Modest growth in demand from North America's industrial sector, fueled by competitively low prices, should at least partially offset contracting demand in other sectors. "The road to growth is both narrowing and becoming shorter for gas. Both commercial and policy-driven forces are intervening," said Ira Joseph, head of Global Gas and Power at S&P Global Platts Analytics.

Wisconsin community residents object to LNG storage tank

(FOX6; Milwaukee; Sept. 23) - Several hundred Jefferson County, Wisconsin, residents want to stop We Energies from putting a liquefied natural gas production and storage facility in their community. "This is my wife's dream, to have a sustainable farm like this," said Tom Carey. It was the quiet lifestyle that drew Carey to Jefferson County two years ago. But a proposed LNG storage facility across the street could change all that. "They want to build a 160-foot-big container," Carey said.

We Energies selected the 165-acre site in Ixonia, Wisconsin, because of the available land and proximity to existing gas pipelines. "What we do is buy natural gas now when it's the cheapest, in the summertime," liquefy it and store it for when it's needed in the winter months, said Brendan Conway, a We Energies spokesperson. Holding the LNG for use during peak winter demand would result in cheaper gas for customers, he said. The Ixonia plant would be one of two the company proposes to build in Wisconsin, at a combined cost of about $370 million.

"We would rather you raise our taxes than to have to look at this eyesore and put our children in danger," Carey said. The project meets or exceeds all state and federal safety standards and would not create any harm to the environment, Conway said. "There has been a lot of misinformation and scare tactics by a group of people who do not support this project," he said.

Colorado Cattlemen’s Association criticizes well setback proposal

(Loveland Reporter-Herald; Colorado; Sept. 24) - The Colorado Cattlemen’s Association (CCA) attacked the state’s regulator of oil and gas operations on Sept. 23, saying a proposed 2,000-foot setback between new wells and human-occupied areas would severely impact their members’ revenue. In a call with reporters, CCA Executive Vice President Terry Fankhauser said ranchers and farmers in Colorado have long depended on royalties from oil production on their land as an additional source of income.

The setback proposals that were backed by the Colorado Oil and Gas Conservation Commission this month would threaten his members’ ability to enter into new agreements with drillers, he said. Fankhauser also noted that his group was not granted standing to present in front of the regulatory commission, despite a longstanding intertwinement between the ranching and energy industries.

“We do not directly represent the oil and gas industry, but we are mainly concerned about our private property rights and the royalty interests as it relates to agriculture. And we feel now is the time for us to stand up and let our voices be heard,” he said. The commission has directed its staff to draw up legal language for the setbacks but has yet to vote on enacting that policy or any other rules agreed upon during its ongoing revamp of state regulations under recent legislation.

China’s LNG imports expected to grow 10% this year

(Reuters; Sept. 24) - China’s imports of liquefied natural gas will likely grow 10% to new highs this year as companies scoop up cheap supplies to cover increasing industrial use and robust residential demand. With its total gas use likely expanding at 4% to 6% this year, China is the only major bright spot on the world gas market, where demand is set to fall by about 4% as the global economy contracts due to coronavirus lockdowns.

LNG imports are set to hit a record 65 million to 67 million tonnes this year, analysts and Chinese traders estimate, a tenth more than 2019’s total and at a growth rate that could see China overtake Japan as the world’s top buyer by 2022. “After taking a brief hit earlier this year due to the COVID-19 pandemic, China’s gas demand recovered faster than expected, driven mostly by the industrial sector that has recovered to 2019 levels since May,” said Alicia Wee, an analyst at FGE.

Companies booked more LNG from Qatar, Russia, and Australia, taking advantage of record-low prices earlier in the year as demand sagged elsewhere. To accommodate higher LNG imports, top gas importer PetroChina reduced costlier pipeline supplies from central Asia, mainly Kazakhstan, said a Beijing-based PetroChina official. In Guangdong, the top gas power generator by province and second-largest gas consumer after Jiangsu, added 3 gigawatts of capacity in the first eight months.

[Canada offers financial aid to cut emissions at offshore oil and gas]

(Calgary Herald; Sept. 25) - Work will not resume on a troubled Newfoundland and Labrador offshore oil project soon despite C$320 million in new industry aid from Ottawa. "Our offshore has been impacted by the double whammy of a global pandemic and an oil price war," Natural Resources Minister Seamus O'Regan said in St. John's on Sept. 25, as he announced the funding for Newfoundland and Labrador's offshore oil industry, which has been rocked by low prices and the threat of cancelled projects.

A joint task force will determine how to spend the funds to support the province's offshore oil and gas industry, but much of O'Regan's speech was focused on how the money would help oil companies reduce emissions at their offshore projects. The money, however, won't restart work on a stalled $1.2 billion offshore oil project called West White Rose this year or even next year, according to a key backer of the project.

"The funding announced today will not assist in moving West White Rose forward for the 2021 construction season," Husky Energy spokesperson Dawn Delaney said, adding that the company's review of the project and its Atlantic Canada operations are ongoing. Husky paused construction on the West White Rose project when the coronavirus pandemic hit and contributed to an oil-price collapse earlier this year. On Sept. 9, the Calgary-based company announced it would review and potentially pull out of the project without the provincial or federal government taking a stake in the venture.

[World's largest LNG-fueled container ship launches]

(American Shipper; Sept. 23) - The world's largest container ship powered by liquefied natural gas launched on its maiden voyage Sept. 23. The CMA CGM Jacques Saade is the first of the French shipping line's nine planned ships — each capable of carrying 23,000 20-foot units — powered by LNG. The 1,312-foot-long vessel is named in honor of the CMA CGM Group's founder, the late Jacques Saade.

CMA CGM said the ship will sail on its "most emblematic line," between Asia and northern Europe, launching in Pusan, South Korea, and continuing to Tianjin, Ningbo, Shanghai and Yantian, China; Singapore; Southampton, England; Dunkirk, France; Hamburg, Germany; Rotterdam, the Netherlands; Spain; and Malaysia.

CMA CGM said, "LNG is the most advanced solution when it comes to preserving air quality. It enables a 99% reduction in sulfur dioxide and fine particle emissions and an 85% reduction in nitrogen dioxide emissions, going well beyond existing regulation. LNG emits up to 20% less carbon dioxide compared to fuel oil." The vessels also feature redesigned straight bows, rudders, and propellers, all of which substantially improve hydrodynamics and thus reduce energy consumption, CMA CGM said.