Oil and Gas News Briefs
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China's reliance on imported natural gas poses security risk

(Reuters commentary; March 12) - China has made significant progress building a gas distribution network to supply residents in major urban centers, helping provide cleaner and more convenient energy for heating and cooking while reducing air pollution. But burgeoning consumption has not been matched by an increase in domestic production, leaving the country ever more reliant on imports — a growing threat to national security.

The number of urban residents with access to gas reached almost 370 million in 2018, the latest data available, up from 83 million in 2006, according to the National Bureau of Statistics. The proportion of urban residents with some form of access to piped gas hit 44% in 2018, up from 14% in 2006. In practice, the availability of gas is much higher in the largest cities and the northern half of the country where winter demand is greatest.

The principal drawback is that rising gas consumption has far outstripped the country's ability to boost domestic gas production. In 2006, China was essentially self-sufficient in gas with production and consumption both running at around 2 trillion cubic feet per year. By 2018, production had increased to 5.65 tcf, but consumption had surged to almost 10 tcf, leaving the country relying on imports for more than 40% of its needs.

China sourced roughly a third of its imported gas as LNG from Australia. Slightly more gas was sourced in total by pipeline from Turkmenistan, Kazakhstan, and Uzbekistan in Central Asia. The rest comes in either as LNG (Qatar, Malaysia, Indonesia, Papua New Guinea, the U.S., and Russia) or pipeline gas (Myanmar and Russia). The increasing importance of imported gas to the country is a growing threat to national security.

CNOOC plans ambitious push to boost gas production

(Reuters analysis; March 11) - A rapid rise in offshore drilling and deepwater gas extraction may seem an unlikely path to lower emissions, but they are central planks of CNOOC's plan to help hit Beijing's climate goals. While global peers like BP and Shell have announced cuts in hydrocarbon output and huge renewable energy investments to cut emissions, China's third-largest oil and gas producer plans an ambitious gas-heavy overhaul of its production mix by 2035 as its way of helping meet carbon-cutting goals.

Beijing views gas as a vital "bridge fuel" to displace dirtier coal. The country aims to cap carbon dioxide emissions by 2030 and become carbon neutral by 2060. While many western economies are looking to abandon fossil fuels to fight climate change, China must first take an intermediate step of switching out coal for cleaner-burning gas. Twenty times more electricity was generated from coal than from gas in China in 2019, despite a 200% rise in gas-powered electricity since 2010, according to BP.

CNOOC plans to help close that gap by having gas make up half its portfolio by 2035, up from 21% currently. The company's strategy includes ramping up deep-sea drilling in the South China Sea and Bohai Bay areas, development of onshore unconventional gas resources, and "actively scouting for premium global assets." The firm produced about 700 billion cubic feet gas in 2019 — equal to 6% of China's consumption — including 390 bcf from domestic fields and the rest in North America, Australia, and Europe.

Readul Islam, a Rystad Energy analyst, said CNOOC needs to more than double its gas output to meet its 2035 goal. But the firm has never operated a deepwater project on its own and may be better served by acquiring gas assets from abroad.

OPEC+ supply decision creates risks for cartel

(Bloomberg; March 11) - When OPEC+ unveiled its bold move to tighten global crude markets last week, the oil world was united in surprise. But on the merits of the plan, the group is starkly divided. The shock decision, steered by Saudi Arabia, to again delay the restart of oil output halted during the pandemic is being lauded by many as a masterstroke of supply management — and criticized by others as misjudged.

Vitol Group, the world's biggest oil trader, said price indicators attest that OPEC+ has control of the market. Crude's rally to a 14-month high is shoring up revenues for the cartel, while spurring banks like Goldman Sachs and JPMorgan Chase to bolster their oil-price forecasts. But others warn that the cartel and its allies risks over-tightening markets by denying supplies just as demand recovers, sending prices too high.

It could also encourage a new tide of U.S. shale oil, Citigroup said, perhaps a counter-productive misstep, same as last year's price war. Or the squeeze could speed up efforts to find other energy sources, as in India, a critical customer. "Withholding barrels as a means of sustaining the price rally will work," said Bill Farren-Price, a director at research firm Enverus and veteran observer of the cartel. "But in doing so, the table is being laid for a feast at which the U.S. short-cycle operator will be the guest of honor."

"OPEC could kill the rally at any point" it chooses, said Neil Beveridge, a senior analyst at Sanford C. Bernstein in Hong Kong. "OPEC is now firmly in the driving seat."

OPEC expects stronger demand second half of the year

(Reuters; March 11) - OPEC said March 11 that a recovery in global oil demand will be focused on the second half of the year as the impact of the pandemic lingers as a headwind for the group and its allies in supporting the market. In a monthly report, the Organization of the Petroleum Exporting Countries said demand will rise by 5.89 million barrels per day in 2021, or 6.5%, up slightly from last month. But the group cut its forecasts for the first half of the year.

"Total oil demand is foreseen to reach 96.3 million barrels per day with most consumption appearing in the second half," OPEC said in the report. "This year's demand growth will not be able to compensate for the major shortfall from 2020 as mobility is forecast to remain impaired throughout 2021." The latest forecasts could bolster cautious views among OPEC and its allies on how quickly to unwind more of last year's record oil output cuts. OPEC+ last week decided to extend its curbs into April.

OPEC+ cut supply by a record 9.7 million barrels per day last year to support the market as demand collapsed. Before the pandemic hit global oil demand, daily production was nearly 100 million barrels. The producers as of February were still withholding about 8.1 million barrels per day.

Higher prices don't solve all OPEC members' revenue needs

(Bloomberg opinion; March 11) - Oil prices are rebounding thanks to an extended OPEC+ production cut, a surge in demand as economies recover from the coronavirus pandemic, and the beginning of a supply reaction from a year of both diminished oil production and inventory drawdowns. This is good news for the oil producers of the Gulf Cooperation Council. But even at $70 a barrel, current prices do not meet fiscal break-even thresholds for many Gulf Arab states and their spending habits.

The gap between revenue and fiscal expenditure has been so wide since 2015 that the rebound will not alter the basic fact that governments need to find new sources of revenue. The future of the Gulf Cooperation Council is still one in which oil revenues fail to meet growth goals of governments, with a knock-on effect on job expectations of their citizens. Meanwhile, Saudi Arabia is betting that competition from U.S. shale will not reignite, allowing the Saudis to focus on market share and relationship-building with key Asian customers without fear of resurgent American production knocking down prices.

If OPEC+ holds its nerve and Saudi Arabia carries the lion's share of the production cuts, oil prices at $70 a barrel through 2021 will create a much-improved growth outlook for the Gulf states. But even if there is an oil-revenue boom this year, it may well be the last for cartel members. In the short-term, it will be instructive to see how those nations use this last oil boom to pursue policy goals.

Dakota producers cautious about price, unlikely to drill new wells

(Inforum; Fargo, ND; March 11) - North Dakota's oil output took a 4% dip in January to 1.1 million barrels per day, and even though prices have been gradually climbing in the months since, many producers are choosing moderation for the time being. A small drop in production at the beginning of this year was expected, the state's top oil regulator Lynn Helms said March 11, but the hit was larger than officials had predicted due to powerful winds that interrupted production in the Bakken in January.

And even though U.S. oil prices have been inching upward again — climbing to $66 a barrel on March 11, a jump of close to $20 over the past three months — Helms said North Dakota producers aren't planning to bring more drilling rigs online this year. That's largely because most companies aren't expecting these favorable prices to hold. The industry sees the recent windfall as more likely "a short-term peak," Helms said, expecting that prices will dwindle into the upper $50s a barrel over the next year or two.

While producers are likely to scale up production — some by completing unfinished wells and increasing output from existing wells — the price forecasts aren't enough for companies to drill new wells anytime soon. Meanwhile, producers are bracing for potentially drastic news on operations of the Dakota Access Pipeline next month. The administration of President Joe Biden is scheduled to present in court its plans for the controversial pipeline, which two federal courts have ruled is lacking a key legal permit.

Opponents sue California oil country over blanket permit approval

(The Associated Press; March 11) - Environmental and community groups have sued a California county after the prime oil-drilling region approved a plan to fast-track thousands of new wells in a state that has positioned itself as a leader in combating climate change. The Kern County Board of Supervisors on March 8 approved a revised ordinance that could lead to approval of more than 40,000 new oil and gas wells over roughly 15 years.

The Sierra Club and other groups asked a court March 10 to order county leaders to set aside the ordinance and bar them from approving any drilling permits. The county is about 100 miles north of Los Angeles, and has been an oil producer since the first wells about 125 years ago. Kern is the state's leading fossil fuel producer and also a major agricultural area. It accounts for about 80% of all oil and gas production in California.

A state appeals court ruled last year that a 2015 Kern ordinance violated the California Environmental Quality Act by not fully evaluating or disclosing environmental damage that could occur from drilling. New permits were not issued while the county returned to the drawing board. The revised ordinance would allow the county to use a blanket environmental impact report when considering as many as 2,700 new wells a year.

Supervisors argued that the fossil fuel industry provides good jobs and that production under local requirements would be more environmentally sound than importing oil.

Japan’s 2011 nuclear disaster affected LNG markets longer term

(S&P Global Platts; March 11) - Japan's Fukushima crisis was a decisive moment in the commoditization of liquefied natural gas. When cargoes from around the world were diverted to Japan to fill the void left by nuclear energy, it put the spotlight on the short-term LNG market's potential. Japan's preoccupation with energy security gave way to supply diversification and market flexibility, leading to its advocacy against restrictions on LNG cargo resales, a topic it would have never breached pre-Fukushima.

The shuttering of Japan's nuclear fleet and global backlash against nuclear energy allowed natural gas and LNG to expand its role in the energy mix, especially in Asia, at a critical time when the U.S. shale boom and the first wave of U.S. LNG export projects were looking for a reason to exist. Traders and portfolio players emerged over the years, along with investment in the LNG supply chain such as oceangoing carriers.

A top Japanese policymaker said at a government-backed LNG conference several years ago that had it not been for Japan's post-Fukushima reliance on LNG, many current LNG market mechanisms would either not exist or have taken many more years to develop. One of those market mechanisms is spot and short-term LNG trade, which greatly accelerated and now equates to about 30% of global LNG. Platts Japan-Korea Marker, the LNG benchmark widely used in Northeast Asia, was just 2 years old when the nuclear disaster hit, and has since evolved to be the cornerstone of this market.

LNG prices in Europe increasingly connected to Asia demand

(Bloomberg; March 11) - Asia’s emergence as global natural gas trading superpower will increasingly dictate market rates in Europe for a once-localized commodity that was simply linked to the price of a barrel of oil. The change was highlighted this winter, when freezing temperatures in the Northern Hemisphere meant liquefied natural gas tankers went to Asia, the biggest consumer of the fuel and where sellers could get record-high rates. That pushed up market rates in Europe and, conversely, is now acting as a price brake as winter ends and LNG supplies return to the region.

“Over the next couple of years European gas prices will become less and less Europe-centric, and more and more globally influenced,” said Andy Sommer, team leader for fundamental analysis and modeling at Swiss trader Axpo Solutions. Even with its numerous pipeline-supply options, Europe’s import dependency is rising amid falling domestic production due to aging fields in the North Sea. At the same time, trade in LNG in oceangoing carriers is expanding faster, driven mainly by demand in Asia.

In coming years, Europe will have to compete for LNG with consumers in China, India, Pakistan, and Bangladesh. In addition, new markets will open as some Asian nations are just starting to use gas in power generation instead of more polluting coal and fuel oil. “The susceptibility of U.K. and European gas markets to global LNG prices may be set to increase,” according to energy consultant Cornwall Insight. “With no concrete plans for new long-term storage facilities in the U.K. and declining U.K. Continental Shelf (production), it could point to a greater LNG dependency in the coming years.”

China’s recovering economy adds to greenhouse gas emissions

(Bloomberg; March 12) - China’s economy has roared back from the pandemic on a plume of greenhouse gas emissions, raising questions over how the nation will balance new growth targets with its climate change goals. Carbon dioxide emissions rose 4% in the second half of 2020, largely as a result of a heavy-industry led recovery that saw steel and cement production surge and a jump in the nation’s consumption of fossil fuels, according to the Centre for Research on Energy and Clean Air, or CREA.

Beijing registered the worst air quality in over a year as its top leaders gathered in the capital for annual legislative meetings this month, prompting the local government to issue an alert for heavy air pollution starting March 10. “It’s an important reminder to China,” said Ma Jun, director at the Institute of Public & Environmental Affairs. “It shows that some regions haven’t really made enough effort to reduce emissions. Energy-intensive, highly polluting projects are still being approved and constructed.”

Efforts to meet a growth target of over 6% set out last week by Premier Li Keqiang will likely keep an emphasis on polluting industries at least in the short-term, complicating the task of hitting objectives to reach peak emissions by 2030 and reach carbon neutrality by 2060, said Yan Qin, carbon analyst at Refinitiv Carbon. “Keeping economic growth and stable employment as a priority in the short term will mean further growth in emissions,” she said. One risk is that local governments or state-owned enterprises could use short-term lenience to usher through carbon-intensive projects, Qin said.

Russia’s Novatek joins producers marketing clean LNG

(Bloomberg; March 10) - Russia’s biggest liquefied natural gas producer has joined the race to make sales of the fastest-growing fossil fuel as clean as possible. Buyers from Singapore to Europe are increasingly demanding to know exactly how dirty the gas is and the scale of the emissions it produces on its journey from wells to the end user. There is also mounting pressure from investors concerned by a lack of progress among the world’s biggest energy companies to curb pollution.

Novatek plans to clean up its LNG production along with tripling output by 2030. That includes installing carbon capture and storage at one of its arctic fields and exploring hydrogen opportunities. Showing its intent, the company bid, but lost out on price, in a landmark tender by Singapore's Pavilion Energy, where each cargo had to detail its emissions. The winners in last year's Pavilion's tender were Qatar and Chevron.

"The trend toward 'green LNG' may be seen as a premium product and as a way for LNG suppliers to differentiate themselves," Novatek Chief Financial Officer Mark Gyetvay said. Detailing the pollution that comes with cargoes is very recent. Commodity trader Vitol began offering carbon offsets for LNG earlier this year. Russia's biggest gas producer, Gazprom, this week supplied Shell with the first carbon-neutral LNG cargo in Europe, sourced from Novatek's Yamal plant. Even if gas is sold with carbon offsets, the fuel will still be responsible for a considerable volume of emissions. Every stage of the process, from production to transport and consumption, adds to the pollution.

Shell charters 10 more dual-fuel oil tankers to run on LNG

(MarineLog; March 11) - Shell signed agreements on March 11 to charter ten new crude tankers powered by dual-fuel liquefied natural gas engines. Four of the very large crude carriers have been chartered from Switzerland-based Advantage Tankers, three from Singapore-based AET and three from New York City-headquartered International Seaways. All ten ships will be built at Daewoo Shipbuilding in South Korea. The first tanker is set to start work in 2022 and will be on charter to Shell for seven years.

Shell said the engines and vessel design will mean the tankers will have the lowest possible methane emissions and highest fuel efficiency, on average 20% less fuel consumption compared to eco-VLCC vessels now on the water. Shell said it continues to significantly invest in LNG-fueled tankers for its long-term charter fleet, with 14 in service by the end of 2021 plus the new orders to start service 2022-2023.

China's biggest refiner wants tax-evasion clampdown on rivals

(Argus Media; March 11) - China's biggest refiner, state-controlled Sinopec, is continuing to lobby the government for reforms to the country's oil-product taxes, but the prospect of any imminent changes appears limited. Sinopec delegates to China's annual political meetings in Beijing have reiterated their concerns about constraints on profits from China's tax system, as well as tax evasion by some of the company's smaller rivals. Taxes represent as much as 40% of the retail price of road fuels in China.

Sinopec called for measures including a clampdown on illegal or tax-free product sales to create what it described as "a fair competitive environment for the refined product market." This includes the "transfer, transportation, storage, and sales of refined oil that have not obtained retail business licenses," it said. "Refined oil smuggling and market chaos still need to be rectified," Huang He, general manager of Sinopec's Hunan sales branch, told the meetings.

Sinopec is calling for a consumption tax on imports of diluted bitumen, as well as light-cycle oil and mixed aromatics, which are used for diesel and gasoline blending, respectively. Imports of the products are currently exempt from the hefty consumption taxes on road transportation fuels, reducing the competitiveness of domestic refinery output. But Sinopec may not get its way, market participants said. "The viability of imposing consumption tax on blending components … is doubtful," a trader said.

Platts delays inclusion of U.S. crude prices in global benchmark

(Reuters; March 10) - Commodities and energy pricing agency S&P Global Platts will defer changes to its core dated Brent oil benchmark after industry pressure, it said March 10. The company said it has opened further consultation with the market on the benchmark transition. The changes, among which was inclusion of U.S. crude West Texas Intermediate Midland in the Brent assessment, were announced on Feb. 22 and were due to take effect in July 2022.

The European Brent benchmark is crucial to the global oil system because it is used to price more than half the world's physical crude trades. Currently, the benchmark is based on the value of five North Sea grades: Forties, Brent, Oseberg, Ekofisk, and Troll. Platts said it does not have a fixed timeline to discuss alternatives, such as one put forward by global commodity trader Trafigura, however the reform is needed urgently.

"Next year, we see North Sea production falling below one cargo per day in the benchmark grades," said Jonty Rushforth, a senior director at Platts. Global trader Trafigura has proposed using its Corpus Christi terminal, along with others in Texas, as a load-point for pricing. A move to include WTI in the benchmark was widely expected, but a proposal to change shipping standards for the index has raised concerns. "There is not agreement on how it (shipping costs) would be fully reflected into the wider Brent complex," Vera Blei, head of oil markets price reporting at Platts, said in a statement.