Oil and Gas News Briefs
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Shell exec says long-term future of natural gas 'up for grabs'

(The Wall Street Journal; March 27) - Shell bet big on natural gas as the energy source of the future when it bought BG Group for $54 billion. Five years later it appears the gas era won't last long. Falling prices for wind and solar power, coupled with the latest green goals from governments and businesses, are accelerating a shift to cleaner energy and leaving gas — long seen as a bridge between fossil fuels and renewables — in the lurch. The fuel is also under growing scrutiny for methane leaks, leading some potential customers to skip gas and move ahead to lower-carbon alternatives.

That is a risk for Shell and rivals such as ExxonMobil and Total, which also invested in gas, given that gas projects typically cost billions of dollars up front and take decades to recoup. Shell last month halved its outlook for global gas demand growth to 1% a year, and said demand for the fuel could peak as soon as the 2030s. While burning gas emits less greenhouse gas than coal, environmental gains are lost if there is a leakage of methane, the main component of natural gas. Methane is more potent than carbon dioxide in contributing to climate change and has become a target of environmentalists.

"If you look at the global gas industry, its role in the energy transition and in the world energy mix decades from now is up for grabs," Maarten Wetselaar, who heads Shell's gas business, said at a conference last month, adding that more action to reduce methane leakage was needed. The company has also started selling carbon-neutral cargoes of liquefied natural gas, in which emissions can be offset with carbon credits, and is spending millions of dollars on projects to capture and store carbon.

The pressure on natural gas was apparent earlier this year when U.S. special envoy for climate John Kerry appeared at odds with Shell CEO Ben van Beurden over the future role of the fuel during a virtual Davos panel. Van Beurden defended the role of gas in the transition to lower-carbon energy, but Kerry said he favored minimizing its use.

Attacks prompt evacuation at Total's LNG project in Mozambique

(The Wall Street Journal; March 27) - French energy giant Total and contractors were scrambling to evacuate staff from a $20 billion liquefied natural gas project in northern Mozambique on March 27, security officials and analysts said, as a deadly attack by Islamic State-linked insurgents on a nearby town entered its fourth day. The siege on Palma, which serves as hub for the project, began on the day that Total said it would gradually restart work, citing Mozambican government efforts to increase security.

Total, which took over the project from Anadarko Petroleum in 2019, had pulled out nonessential staff in early January, following an attack that reached the gates of the LNG plant on the Afungi Peninsula. The plant and offshore gas fields, one of which is operated by ExxonMobil, are the largest foreign investment projects on the African continent. Construction has been delayed by the escalating insurgency. Some 2,600 people have been killed in the impoverished Cabo Delgado province since 2017.

Several hundred insurgents entered Palma early March 24, firing machine guns and rocket-propelled grenades at civilians and into homes, according to Human Rights Watch and Focus Group, a risk-management company that supports clients in the area. Hundreds of locals fled into the surrounding forest and inside the fenced-off LNG plant. The siege has struck at the heart of Mozambique's gas projects, which have attracted some $60 billion in investments, four times the country's annual economic output. Total's project is backed by $4.7 billion in funding from the U.S. Export-Import Bank.

Militant attacks in Mozambique could delay LNG investments

(Bloomberg; March 25) - An Islamic State-linked insurgency threatens to delay plans by energy majors to spend as much as $120 billion on Mozambique's natural gas industry, jeopardizing the viability of Africa's largest-ever private investment. Total halted work on its $20 billion project in the conflict-hit northern Cabo Delgado province at the start of the year and then, on March 24, a day after the company agreed to restart construction following government assurances of security, suspected militants attacked Palma, the closest town to the site. ExxonMobil delayed its adjacent project again this month.

Investor unease over the failure to contain the fighting is growing with yields on the nation's debt surging. Construction needs to get going urgently if the country is to cash in on some of Africa's biggest gas resources. Without a resolution soon, "prospective buyers of Mozambique LNG may start looking at alternative supply options," said Leslie Palti-Guzman, president of New York-based consultancy Gas Vista.

The stakes could hardly be higher for Mozambique, ranked by the World Bank as the sixth-poorest country. The government expects to earn $96 billion over 25 years from three liquefied natural gas plants. "It's going to be touch-and-go," said Anthony Simond, emerging-markets debt investment director at Aberdeen Standard Investments in London, one of the biggest owners of Mozambique debt until it sold most of its holdings in January, partly due to security concerns. "A bad situation in Mozambique will be a boon for rival (LNG) exporters such as Australia, Qatar, and Russia," Palti-Guzman said.

Ship freed in Suez Canal, but markets focused on OPEC+ meeting

(Bloomberg; March 29) - Oil fell about 1% during choppy early trading as traders look ahead to an OPEC+ meeting this week, while navigation is set to resume in the Suez Canal after the giant vessel that had been blocking the waterway was freed and oil tanker traffic will restart. Prices have been volatile in recent days, as the market's focus remains on the impact that renewed coronavirus lockdowns could have on oil demand.

Supply curbs by the Organization of the Petroleum Exporting Countries and its allies, and optimism that global demand will expand as COVID-19 vaccines are administered, have helped boost prices this year. Despite that good news, there is speculation, that OPEC+ will continue its output curbs out of caution. "Recent price weakness has fueled speculation that the group of producers will refrain from unwinding their extraordinary production curtailment this week," TD Securities commodity strategists said in a note.

"OPEC is in a tight spot — a period of extreme supply management has successfully helped crude prices firm sharply, breathing life into non-conventional producers," which could challenge OPEC nations for market share, the TD Securities market note said.

LNG tankers face delays until Suez Canal reopens

(Reuters; March 25) - Dislodging a container ship blocking the Suez Canal, one the world's busiest trade routes, may delay delivery to Europe of about 1 million tonnes of liquefied natural gas on 10 vessels if the blockage lasts for two weeks, researcher Rystad Energy said. The canal is the main route for LNG cargoes heading from the Middle East to Europe and for some cargoes heading from the Mediterranean to Asia.

During 2020, close to 260 LNG cargoes were sent through the canal from Qatar, a major producer, to Europe, Rystad said. "Even if the route is liberated within one week, there is a large queue of cargoes lining up to cross the canal," said Carlos Torres Diaz, Rystad's head of gas and power markets. "The return to normal flow will take some time." There were three cargoes for early April delivery waiting March 24 to cross to the Mediterranean. At least two others were in the Arabian Sea, headed to the Suez Canal.

Shippers may have to reverse course and travel around the Cape of Good Hope at the southern end of Africa, or wait in the Red Sea and Mediterranean for the stranded container ship Ever Given to be refloated, consultancy Kpler said in a report March 24. The voyage from Suez to northwest Europe takes around nine days at average speeds, Rystad said. The trip from Qatar to northwest Europe takes around 17 days, but rerouting around the Cape of Good Hope would take more than 30 days.

[Tanker rates increase as canal is blocked]

(Reuters; March 26) - Reeling from the blockage in the Suez Canal, shipping rates for oil-product tankers have nearly doubled this week, and several vessels were diverted away from the vital waterway as a giant container ship remained wedged between both banks. The suspension of traffic through the narrow channel linking Europe and Asia has deepened problems for shipping lines that were already facing disruption and delays in supplying retail goods to consumers.

Analysts expect a larger impact on smaller tankers and oil products, in particular naphtha and fuel oil exports from Europe to Asia, if the canal remains shut for weeks. More than 30 oil tankers have been waiting at either side of the canal to pass through since March 23, shipping data on Refinitiv showed.

The impact of the shipping delays on energy markets is likely to be lessened by demand for crude oil and liquefied natural gas being in the low season, analysts said. "The seasonal nature of this flow means that we are unlikely to see pressure … as the longer and cheaper Cape routes (around Africa) are favored," data intelligence firm Kpler said.

[Nigeria says it cannot afford $315 million monthly fuel subsidies]

(Reuters; March 25) - Nigeria’s state oil firm is spending up to $315 million a month on consumer fuel subsidies, a burden that is becoming untenable, its head said March 25. Nigeria deregulated its downstream oil sector a year ago, after the COVID-19 pandemic triggered a collapse in the global price of oil, its main export. That ended a system of fuel subsidies that had helped keep the lid on social unrest for decades. The Nigerian National Petroleum Corp. later picked up the tab after the government stopped.

The company’s managing director, Mele Kyari, said NNPC was paying a market price of $2.30 a gallon for petrol and selling at a pump price of $1.62. That is costing the company between $262 million to $315 million a month. “NNPC may no longer be in a position to carry that burden because we cannot continue to carry it in our books,” Kyari told reporters in the capital Abuja.

Despite the cost to NNPC, pump prices have risen about 30% since last March, helping to drive rising social unrest in a country where jobs are scarce and attacks by a patchwork of militant groups have turned some regions into near-anarchy. Rising oil prices since last year have increased the cost of petroleum-product imports, Kyari said, stoking inflation and creating social unrest, issues under discussion with labor unions.

Oil-producing nations at risk in transition to green energy

(Reuters; March 25) - The transition toward green energy imperils oil-producing nations that have lagged in diversifying their economies, U.K.-based risk consultancy Verisk Maplecroft warned in a report on March 25. "Algeria, Iraq and Nigeria will be among the first casualties of a slow-motion wave of political instability that will engulf an array of oil-producing countries over the next three to 20 years as the energy transition takes hold," the report said.

Other nations facing the greatest risk include Angola, Gabon and Kazakhstan, it added. "With the move away from fossil fuels accelerating, and COVID-19 leveling out any gains oil made over recent years ... time is running out for a number of countries that have failed to diversify their economies away from exporting fossil fuels." The outlook for oil prices by mid-century is deeply uncertain, the report said, and could lie within a broad range between $48 and $95 a barrel.

Though low-cost Gulf Arab oil producers are best placed to capture market share, they will not be immune from future shocks. A prolonged downturn in prices could eat into foreign exchange reserves and domestic spending, undermining stability, the report said. "Even diversification could come with its own political risks by challenging traditional petro-state social contracts, legitimacy to rule in return for hydrocarbon largesse," said James Lockhart Smith, Verisk Maplecroft's head of market risk.

U.S. relies on gas exports as output grows faster than consumption

(Reuters; March 26) - U.S. gas producers have become increasingly reliant on liquefied natural gas exports to Europe and Asia to absorb their growing output and prevent domestic prices from plunging as a result of oversupply. Between 2015 and 2020, U.S. gas production grew roughly twice as fast (4.3% per year on average) as consumption (2.3% per year), according to data from the U.S. Energy Information Administration.

Some of the excess has been used to replace imports from Canada, but the rest has been exported by pipeline, or as LNG to markets in the Americas, Europe, the Middle East, and Asia. LNG exports surged to almost 2.4 trillion cubic feet in 2020, up from less than 184 bcf in 2016, and were rapidly catching up with pipeline exports to Canada and Mexico. Outbound LNG shipments accounted for more than 7% of all domestic gas production last year, and by the end of the year had reached 10% for the first time.

The fastest growth for U.S. LNG has been to markets in Europe and Asia, with smaller increases to the Americas and the Middle East. In international markets, U.S. gas competes with LNG from Qatar, Australia, and Russia; pipeline gas from Russia and Central Asia to Europe and East Asia; and coal and other fuels used for power generation and heating.

Cheniere gets OK to put third LNG train into production in Texas

(Reuters; March 25) - The U.S. Federal Energy Regulatory Commission on March 25 approved Cheniere Energy's request to put the third liquefaction train at the company's Corpus Christi liquefied natural gas export plant in Texas into service. The train has already been operating for months in test mode. With the new train in service, the terminal will have capacity to produce up to 15 million tonnes per year of LNG.

As more units under construction enter service, U.S. LNG export capacity is expected to rise to almost 12 billion cubic feet per day in 2022 (91 million tonnes per year) from 10.5 bcf per day now, with seven terminals in operation. By the mid-2020s, when an eighth terminal goes into production, analysts expect the United States will briefly become the biggest LNG exporter in the world, ahead of current global leaders Qatar and Australia, though Qatar's massive expansion plan will allow it to restore the title by 2025.

LNG developer strikes deal to sequester the project's carbon dioxide

(Reuters; March 25) - U.S. liquefied natural gas developer NextDecade said a subsidiary of Occidental Petroleum will take and store carbon dioxide from the proposed Rio Grande LNG export plant in Brownsville, Texas. Rio Grande is one of the 14 North American projects awaiting a final investment in 2021, most of them delayed from 2020.

Oxy Low Carbon Ventures will move CO2 from the Rio Grande LNG project and permanently sequester it in an underground geologic formation in the Rio Grande Valley, the companies said March 25. NextDecade has said it anticipates reaching FID on a minimum of two liquefaction trains at Rio Grande LNG in 2021, with the go-ahead for the carbon storage project soon after that. The developer has a $7 billion contract with Bechtel for construction of the first two liquefaction trains and marine terminal.

FERC allows $6 billion mid-Atlantic gas line to resume construction

(Natural Gas Intelligence; March 25) - A split FERC on March 24 upheld a recent decision to allow Mountain Valley Pipeline to partially resume construction near national forest lands in West Virginia and Virginia, denying a stay request filed by a coalition of environmental groups. Divided 3-to-2 along party lines, the Federal Energy Regulatory Commission rebuffed efforts to overturn a December order allowing developers of the 303-mile, $6 billion line to resume work in an area near the Jefferson National Forest.

Republican Commissioners James Danly, Neil Chatterjee and Mark Christie approved the order over the dissent of FERC's two Democrats, Chairman Richard Glick and Commissioner Allison Clements. The debate centered on whether allowing MVP to partially resume construction violates a condition of the line's FERC certificate, which stipulates that MVP must have all federal permits before starting construction of the line to carry 2 billion cubic feet per day of Appalachia gas to the mid-Atlantic states.

In a joint dissenting statement, Glick and Clements argued that construction should not move forward at all while MVP still lacks permits needed to perform hundreds of planned waterbody crossings — a result of adverse court rulings vacating the nationwide permit approvals previously issued to the project. The majority, however, argued that the requirements of the environmental condition were met when FERC initially authorized MVP to start construction, regardless of subsequent court rulings. MVP is still seeking new waterbody-crossing permits needed to complete construction.

LNG developers work to bridge gap between buyers and sellers

(S&P Global Platts; March 25) – It is increasingly difficult to add new LNG supplies to a tight global market, infrastructure investment experts said March 25 during S&P Global Platts' LNG Virtual Conference. And yet the dearth of newly sanctioned export projects in 2020 and so far in 2021 — especially in North America, which has been responsible for the majority of new LNG supply globally over the past five years — is a worrisome sign that could lead to more price volatility in the future, the officials said.

Greater flexibility in supply-contract terms, mutual willingness to take on risk, and finding additional ways of delivering LNG to end-users in emerging markets are key to bridging the gap between buyers and sellers, they said. In North America, there was only one new liquefaction project sanctioned last year — Sempra Energy's Energia Costa Azul project on Mexico's Pacific Coast. More than a dozen other developers in the U.S., Canada, and Mexico are actively pursuing projects of their own, although the field is dwindling as developers give up amid ongoing contracting and financing challenges.

Analysts expect more U.S. greenfield projects to drop off the board. While the first wave of U.S. liquefaction terminals was supported by large, traditional foundation customers in Europe and Asia, the second wave is facing a different group of prospective buyers, some of whom are less experienced in LNG and are not able to predict the amount of LNG they will need on a long-term basis. "It's a lot harder the second wave," said Vivek Chandra, CEO of Glenfarne Group's proposed Texas LNG export project in Brownsville.

Australia producer moves closer to $3.6 billion gas project

(Australian Financial Review; March 24) – Santos has awarded the biggest contract connected with its US$3.6 billion Barossa gas project off the coast of northern Australia, giving a firm signal that a final go-ahead for the project is near. The contract for construction and operation of a production ship is subject to final investment decision on the project, which is intended to supply replacement gas for the Darwin LNG plant, which has been operating for 15 years at 3 million tonnes annual capacity.

Santos, which owns 62.5% of the Barossa venture — which was put on ice last year after the oil-price crash — said a final investment decision is "anticipated in the coming weeks," with production start-up targeted for the first half of 2025. The contract to BW Offshore involves an upfront prepayment and an option to buy the production vessel, and achieves an overall reduction in the capital costs of about US$1 billion, Santos said March 24. BW Offshore is an Oslo-based provider of offshore production ships.

RBC Capital Markets analyst Gordon Ramsay estimates the cost of LNG supplied from Barossa gas at about US$5.50 per million Btu, making it the lowest-cost new supply of LNG in the region. The floating production, storage and offloading vessel will be built in South Korea and Singapore before being towed to the field about 200 miles north of Darwin. It will be connected to Darwin through a new undersea pipeline that will link to the existing line from the Bayu-Undan field, the current source of gas for Darwin LNG.

Kuwait plans to borrow $20 billion to cover revenue shortfall

(Bloomberg; March 25) – Kuwait's state oil company plans to borrow as much as $20 billion over the next five years to make up for an expected revenue shortfall, a person familiar with the matter said. Kuwait Petroleum will need the cash to maintain its oil-production levels, said the person, who asked not to be named because the information is private. The borrowing plan underscores how badly Persian Gulf countries were hit by the drop in prices last year as the pandemic spread and energy demand plunged.

The company remits almost everything it generates from crude sales to the OPEC member's government. It then gets reimbursed in installments to fund capital expenditure, mainly for upstream operations and investments in oil fields. The firm may face a deficit of 6 billion dinars ($19.9 billion) over five years, though it hopes to minimize the gap by becoming more efficient, the person said.

Kuwait Petroleum plans to cover the shortfall by issuing debt, including on international markets. The situation will be reviewed every six months to assess the company's needs and borrowing costs, the person said. Oil accounts for about 90% of Kuwait's revenue. The nation pumps about 2.4 million barrels of crude a day, making it the fourth-biggest member of the Organization of the Petroleum Exporting Countries. Meanwhile, Kuwait is trying to cut spending to contain the country's economic slump.

India unhappy with higher oil prices; tells it to Saudi Arabia

(Reuters; March 25) - Tensions this month between India and Saudi Arabia over rising oil prices have underscored the growing importance of the bilateral relationship and its potential to generate conflict as well as cooperation. The decision by OPEC+, the Organization of the Petroleum Exporting Countries and its allies, at the start of this month to leave output unchanged despite a near doubling of oil prices since the start of November sparked an angry exchange of words between the two countries.

"The decision by OPEC+ has saddened us. It is not good news for India, China, Japan, Korea, and other consuming nations," India's minister for petroleum told Reuters earlier in March. "We have asked companies to aggressively look for diversification. We cannot be held hostage to the arbitrary decision of Middle East producers," an Indian government source said. In response, Saudi Arabia's energy minister said India should first use the stocks of crude it bought cheaply during the oil-price slump in 2020.

In practice, there is too much at stake for both countries to permit the disagreement to poison the overall relationship. Saudi Aramco has reportedly maintained supplies to India's refiners for April, even as it cut loadings for other parts of Asia, a sign the kingdom is keen to dial down the disagreement. But the dispute underscores how dependent both countries have become on each other in petroleum trade, and the increasing potential for disagreements about what constitutes a fair price.

Buyers are taking cheaper oil out of storage

(Reuters; March 25) - Crude oil producers from Europe, Africa, and the United States face difficulties selling to Asia, especially China, as buyers take cheaper oil from storage while refinery maintenance has reduced demand, industry sources said on March 25. China's independent refiners, which account for a fifth of the country's imports, have slowed imports in the second quarter because of refinery maintenance, strong Brent prices and a large influx of supplies, including Iranian oil, in the first quarter.

Buyers and others in Asia are lapping up cheap oil offered by traders under pressure to clear storage after crude flipped into backwardation with prices for prompt delivery higher than those for future months, traders said. As a result, traders were forced to reduce prices sharply for spot cargoes loading in April and May from Europe, Africa, and the U.S. for delivery to Asia. Lockdowns in Europe have also cut demand, they said.

"Barrels are struggling to find homes in the export market as Asia still isn't buying and Europe is struggling as well," said Scott Shelton, energy specialist at United ICAP. "China's demand for (Russian) Urals, West African, CPC Blend (grades of crude) just evaporated. Buying from stock is much more interesting for them now," said a source with a western trading house. “There’s just too much supply — so buyers want to see cheap cargoes,” a Singapore-based trader said.

PetroChina plans to boost capital spending this year

(Bloomberg; March 26) - China’s fear of dependence on foreign suppliers means its biggest oil company plans to be the world’s top-spending driller this year, even as it says the nation’s demand for crude is plateauing. PetroChina plans 239 billion yuan ($37 billion) in annual capital spending, the company said March 25 in its annual results. That’s more than majors including Saudi Arabian Oil Co., ExxonMobil, and Shell, which are trimming spending as they handle the fallout of the pandemic on fuel demand.

China’s quick recovery from COVID-19 means that its demand for oil and gas has fully recovered from the pandemic-induced swoon of early 2020, and President Xi Jinping continues to make energy security a top priority. The government earlier this month called for increased domestic production of coal, oil, and gas over the next five years, an effort that is ostensibly at odds with Xi’s long-term plan to decarbonize the economy.

The nation’s demand for crude has already reached a plateau, and refined product consumption will peak and begin to decline in the next decade, Duan Liangwei, PetroChina’s outgoing president, said on a conference call March 25. Demand for natural gas, one of the cleaner fossil fuels, is still expected to grow, and PetroChina is focusing its upstream operations there. Still, PetroChina’s world-leading capex plan doesn’t compare to pre-pandemic levels. The firm had intended to spend even more last year before lockdowns beginning in January crippled the economy.

Sinopec plans big boost in capital spending, including shale gas

(Reuters; March 28) - China Petroleum & Chemical Corp., better known as Sinopec, plans a 23.8% increase in capital spending to 167.2 billion yuan in 2021 following recovery of oil prices and energy demand as the COVID-19 epidemic further subsides. Sinopec expects to spend 66.8 billion yuan (US$10.2 billion) on upstream exploration focusing on shale gas development in southwest China and construction of liquefied natural gas terminals in coastal areas, up from 56.4 billion ($8.6 billion) yuan last year.

“China’s economy is recovering and is expected to achieve relatively good growth. Demand for refined oil products is expected to recover strongly and demand for natural gas and petrochemical products will continue to grow,” the company said in a statement filed with the Shanghai Stocks Exchange on March 28.