Oil and Gas News Briefs
Compiled by Larry Persily
July 11, 2024

Growth in oil demand for petrochemicals a China story

(Financial Times; London; July 8) - Petrochemicals hold the hope of the oil industry. With the U.S. and Europe likely to have passed peak fossil fuel demand, owing partly to the rise of electric vehicles, oil and gas majors are preparing for a world in which transport fuels are no longer a big driver of growth. Petrochemicals, however, are woven through modern life, from packaging and detergents to medicines and fertilizers.

The International Energy Agency predicts that oil demand will grow to 105.45 million barrels per day in 2030, from 102.24 million last year. More than 85% of the overall increase in demand will come from petrochemicals, the IEA says. The explosion of demand for petrochemicals is overwhelmingly a China story, reflecting that country's industrial output. About 6.7 million barrels per day, or 6.5% of all global oil use, goes to supply China with petrochemicals, according to Ciarán Healy, an oil market analyst at the IEA, making this the single-largest contributor to oil demand growth in recent years.

Widely used synthetics such as polyester and nylon are derived from petroleum, and China's fast-fashion e-commerce retailers are strong drivers of demand. Petrochemicals may also be crucial for the green energy transition. Electric vehicles use more plastics, foams, fibers and rubber pads than internal-combustion engine vehicles, said David Yankovitz, the U.S. chemical practice leader at Deloitte. To make EVs more lightweight, carmakers substitute plastic resins for metal parts. About 75% of all emissions-reduction technologies require chemicals, most of which are oil-derived, he said.

From 2019 to the end of 2024, China will have built as much olefins production capacity — used in plastics — as exists in Europe, South Korea and Japan, the IEA has forecast.

BP forecasts global oil demand will peak in 2025

(Reuters; July 10) – BP expects world oil demand to peak next year, and wind and solar capacity to grow rapidly in both of the two main scenarios in its annual Energy Outlook, published July 10. Carbon emissions, caused predominantly by burning fossil fuels, also peak in the mid-2020s in both scenarios: One is based on climate policies and carbon reduction pledges already in place; and a net-zero scenario that assumes a significant tightening of climate policies aligned with the 2015 U.N.-backed climate agreement to cut the world's carbon emissions by about 95% by the middle of the century.

Oil demand is expected to peak by 2025 at around 102 million barrels per day under both scenarios. However, it declines at a different pace in the two outlooks to 2050, driven primarily by the pace of falling oil use in road transport. In the Current Trajectory scenario, consumption gradually declines over the second half of the outlook to around 75 million barrels per day in 2050. The drop in oil use is more pronounced in the Net-Zero scenario, with demand falling to 25 million to 30 million barrels per day by 2050.

The declining use of oil in road transport by 2035 is offset in the Current Trajectory by the increasing use of oil as a feedstock, especially petrochemicals, as rising prosperity boosts consumption of plastics, textiles and other oil-based materials. In the Current Trajectory scenario, gas demand continues to grow throughout the outlook, expanding by around a fifth by 2050. The trend is driven by more than 50% demand growth in emerging economies, excluding China, chiefly in the power and industrialized sectors.

China’s gas demand broadly plateaus in the 2040s and by 2050 is around a third higher than its 2022 level under the Current Trajectory scenario. Under the Net-Zero scenario, global gas demand peaks by about the middle of this decade and by 2050 is around half its 2022 level, driven by a rapid switch to alternative energies in developed economies.

IEA expects oil demand growth to slow as supply continues to expand

(Reuters; July 11) - Global oil demand growth will slow to just under a million barrels per day this year and next, the International Energy Agency said July 11, as Chinese consumption contracted in the second quarter due to economic problems. Overall global demand in the second quarter rose by 710,000 barrels per day year-on-year in its lowest quarterly increase in more then a year, the IEA, which advises industrialized countries, said in its monthly oil report.

"China's pre-eminence (is) fading. Last year the country accounted for 70% of global demand gains — this will decline to around 40% in 2024 and 2025," the IEA said. Oil forecasters are split more widely than usual on the strength of oil demand growth for this year and the medium term, partly due to differences over the pace of the world's transition to cleaner fuels. OPEC on July 10 maintained its much higher forecasts.

As the post-COVID economic rebound flattens out worldwide, the IEA said, lackluster economic growth, increased energy efficiency and the rise of electric vehicles will act as headwinds for growth this year and next. At the same time the IEA said oil supply growth will continue this year, boosting total supply to a record 103 million barrels per day, with even more next year. It expects the United States, Canada, Guyana and Brazil will lead the production gains.

Saudi Aramco sees long future for internal-combustion engines

(Financial Times; London; July 8) - Saudi Aramco is betting the internal-combustion engine will be around for a “very, very long time.” The state-owned oil group, which collected $500 billion in revenues last year, mainly from producing and selling crude, last month took an $800 million, 10% stake in Horse Powertrain, a company dedicated to building fuel-based engines.

The calculation by Saudi Aramco and the other shareholders in Horse — Chinese carmaker Geely and its French peer Renault — is that as the industry stops designing and developing its own combustion engines, it will start buying them from third parties. “It will be incredibly expensive for the world to completely stamp out, or do without internal-combustion engines,” said Yasser Mufti, the executive vice president at Saudi Aramco responsible for the deal. “If you look at affordability and a lot of other factors, I do think they will be around for a very, very long time.”

Saudi Aramco has previously said it believes that even in 2050 more than half of all cars will run on some sort of fuel. In 2021, the demise of the internal-combustion engine seemed assured after carmakers including Ford, GM and Mercedes-Benz, and governments including the U.K., pledged to end sales of new petrol and diesel engines between 2035 and 2040. But with growth in electric vehicle sales slowing and trade protectionism rising, the future of internal-combustion engines is looking less bleak.

OPEC+ continues to have problems with members that overproduce

(Bloomberg; July 7) - In its effort to shore up global oil markets, OPEC+ is pushing members to atone for cheating on supply quotas. Yet there’s little indication that they’re repenting. Iraq and Kazakhstan — members of the OPEC+ coalition that is paring crude output to defend prices — have pledged extra curbs to make up for failing to cut enough initially. However, the latest production estimates show they haven’t even started yet.

Furthermore, internal OPEC+ documents compiled for the group’s monitoring committees, which were obtained by Bloomberg, show that members had a poor track record of compensating for overproduction in previous rounds of cuts in 2021. These failings represent a headwind for crude prices, which have climbed to a two-month high near $87 a barrel in London. The excess production may offer some relief for consumers, but if it were to suppress prices it would threaten vital revenue for producers in the Organization of the Petroleum Exporting Countries, which is led by Saudi Arabia.

Compensation cuts are a “significant component” of OPEC+ strategy, according to analysts at Standard Chartered bank. But since its introduction in 2020, the mechanism of compensation for overproduction has rarely been honored. OPEC 2021 data show that Iraq’s backlog of overdue curbs barely changed that year, while Gabon’s debt grew so much it would have needed to totally shut down output for two months to offset it.

By October 2021, the backlog of additional curbs owed by Iraq and Kazakhstan had swelled rather than diminished. If delinquent countries aren't willing to cut their output deeper, they might at least temper their production increases if OPEC+ goes ahead with its stated plans to begin reviving some supplies in the fourth quarter.

Strained electricity grid in China will get $800 billion investment

(Financial Times; London; July 8) - China's electricity grid is set for an unparalleled investment of more than $800 billion in the next six years to overcome strains on the energy system as the country makes a rapid shift from coal power to renewable sources. China's creaking grid represents a major constraint to progress on its green energy transition. During the first four months of this year alone, China invested $17 billion in its power grid projects, a 24.9% year-on-year increase.

That compares with the $3.5 billion announced last October by President Joe Biden's administration, covering 58 projects across 44 states. Despite China's huge spending program, there are signs of increasing pressure on the distribution and transmission of electricity. Over the past year, more than 100 counties and cities in five provinces have suspended new small-scale solar operations from connecting to distribution lines.

At least 12 of China's 34 province-level administrations have either encouraged or demanded solar operators use battery storage to ease the burden on the local grid, demonstrating that limits have been reached in many regions. Yunnan, the debt-ridden southwestern province, is facing a potential shortfall of about 10% in power supply this year despite doubling the installed capacity of renewable energy last year, according to local media reports. The situation is similar in Qinghai, in the country's northwest, where most of the power generated by the region's solar farms is wasted during the day.

Abu Dhabi confirms international majors to take stakes in LNG project

(Bloomberg; July 10) - Four international companies signed up to invest in Abu Dhabi National Oil Co.'s next liquefied natural gas export project on a bet that demand for the fuel will continue to climb. Shell, TotalEnergies, BP and Mitsui will each take 10% stakes in the Ruwais LNG plant, ADNOC said. Financial terms haven't been disclosed. The United Arab Emirates is among countries — including Qatar — adding LNG production capacity on the expectation that demand will grow even as the energy shift accelerates.

State-controlled ADNOC decided to proceed with the Ruwais project last month and signed a $5.5 billion contract for its construction. The plant is slated to come online in 2028, Shell said separately. The oil major will receive 1 million tonnes of LNG a year

from Ruwais, while Mitsui will take 600,000 tons a year, according to ADNOC. TotalEnergies and BP have not announced their offtake intentions.

ADNOC now has buyers lined up for 70% of the plant's annual production capacity of 9.6 million tonnes, it said, without specifying whether the agreements are binding. The company has ambitions to expand in the global LNG market, recently signing deals to invest in similar projects in the U.S. and Mozambique. Gas is one of several areas it's focusing on as part of a deal-making spree.

Ship with Chinese-built LNG plant modules turns away from Russia

(gCaptain; July 8) - After a three-month odyssey aboard Chinese heavy-lift vessel Wei Xiao Tian Shi, two Russia-bound LNG modules are headed back to China. Two weeks after Wison New Energies announced a halt to all work with Russia, two modules for Novatek's Arctic LNG 2 project are set to return to China just days before arriving in Russia, a source at Wison's Zhoushan yard confirmed to gCaptain on condition of anonymity as they were not authorized to comment on the matter.

The threat of U.S. sanctions appears to now affect Chinese business decisions related to Russian energy projects. It was not immediately apparent if the decision to recall the modules to China originated with the manufacturer, Wison New Energies, or with the vessel's owner, Hainan Smiling Angel Shipping. U.S sanctions have recently targeted Chinese construction yards and operators of heavy-lift vessels. The Arctic LNG 2 project, led by Russian gas producer Novatek, is struggling to finish construction and installation of the second and third liquefaction lines at the export terminal.

Wison last month announced it would cease all business with Russia and would sell its Zhoushan construction yard. The yard has assembled a dozen key modules for all three liquefaction trains of Arctic LNG 2. The company's decision came just days after another Chinese yard producing modules for Novatek, PengLai Jutal Offshore Engineering Heavy Industries, was sanctioned by the U.S., highlighting the potential risk Wison would take if it were to continue delivering modules to Russia. The Wison-build modules left Zhoushan in March, turning away from Russia after reaching the Norwegian Sea.

Layoffs continue as bankrupt contractor negotiates over LNG project

(Houston Chronicle; July 5) - Zachry's formal exit from the Golden Pass LNG export project it was building for ExxonMobil and QatarEnergy is likely imminent, the San Antonio-based construction firm said in its latest filing to the Texas Workforce Commission. Zachry filed updated layoff notices this week affecting about 120 additional jobs, with some layoffs beginning June 30 and others effective in late August. They join more than 4,400 layoff notices already issued to its workforce on the $10 billion project.

The latest filing followed a court hearing last week that marked a turning point in the legal dispute playing out after Zachry filed for bankruptcy in May, blaming its financial struggles on payment and cost overrun disputes with the Golden Pass partners. Attorneys for Zachry and Golden Pass told the bankruptcy court judge during a June 27 hearing that they were exchanging proposals that could resolve the dispute. In a letter to the Texas Workforce Commission, Zachry said its departure from the project would be the “most likely outcome” of the discussions.

“Golden Pass LNG has made it clear that it wants to replace Zachry and end its role in the project,” Zachry said in the June 27 letter. The bankruptcy filing bars Golden Pass from terminating the construction contract. The project and its owners have argued that Zachry failed to fulfill its obligations and should be forced by the court to exit the project so that work may proceed. Exxon has said it remains committed to finishing the project.

FERC upholds completion extension for Louisiana LNG project

(Reuters; July 9) - Federal regulators on July 9 upheld an earlier decision to allow liquefied natural gas project developer Tellurian a three-year extension to construct its Driftwood LNG plant on the west bank of the Calcasieu River, near Lake Charles, Louisiana. The U.S. is the world's largest exporter of LNG, and Tellurian is one of multiple U.S. companies trying to develop LNG export facilities.

Tellurian has struggled and has spent years and hundreds of millions of dollars trying to finance and build the terminal, at 27.6 million tonnes per year capacity, and only recently sold its upstream gas assets to help pay off long-term debt. It faced a 2026 deadline from the Federal Energy Regulatory Commission to complete construction; the extension gives Tellurian until 2029. The company has been unable to line up all of the financing and customers needed for the large-volume project.

FERC denied the Sierra Club's request for a rehearing of the extension approval, saying it was not revisiting the authorization, only changing the applicable deadline. The commission said good reasons exist for Driftwood's construction extension request.

Shell to develop gas field offshore Trinidad for LNG, petrochemicals

(Reuters; July 9) – Shell has taken a final investment decision to develop its Manatee natural gas field offshore Trinidad, at 2.7 trillion cubic feet, the company announced on July 9. Manatee will produce at its peak over 600 million cubic feet of gas per day, which will be processed into liquefied natural gas and petrochemicals, Shell said. Trinidad is the largest exporter of LNG in Latin America, the second-largest exporter of methanol and ammonia in the world, and the largest exporter of urea to the United States.

The Caribbean country has for the past decade suffered from reduced output of both LNG and petrochemicals due to a shortage of natural gas. Shell owns 45% of Atlantic LNG, which has a capacity to produce 15 million tonnes per year. Manatee is part of the 10 tcf Loran/Manatee gas field that extends across the Trinidad/Venezuela border, with 2.7 tcf on the Trinidad side of the divide. First gas is expected in 2027, Shell said.

In 2019, the governments of Trinidad and Tobago and Venezuela agreed to allow each country to independently develop its respective share of the Loran-Manatee field, as they tried to avoid U.S. sanctions on the Maduro regime. Both countries have recently again raised the possibility of the entire 10 tcf going to Trinidad for LNG export.

Environmentalists critical of Canada's oil and gas industry water use

(The Canadian Press; July 7) - Oil and gas companies in British Columbia used record amounts of fresh water for their operations in 2023, according to new data published by the BC Energy Regulator. Companies used 16% more water from rivers and lakes than in 2022 for a total of more than 1.5 billion gallons, despite the Peace and Fort Nelson districts currently experiencing a multi-year drought, said Stand.earth's Canadian oil and gas program director Sven Biggs in an interview with Canada's National Observer.

Almost all the water licenses are in northeastern B.C., where oil and gas production is located. Other industrial water users in the province — like farmers and pulp mills, for example — bear the cost of treating the water they use so it can be returned to the water cycle, but the water used by oil and gas is so toxic it has to be stored in wells below the water table to avoid contamination, Biggs said. Oil and gas companies paid only about $13,000 last year for access to fresh water for their operations, he said.

A June 25 report commissioned by the David Suzuki Foundation predicts water use will skyrocket in coming years as fracking increases in the Montney gas field in British Columbia and Alberta. Stand.earth recommends the provincial government charge fracking companies a high enough price to encourage the conservation of fresh water. Requiring companies to treat wastewater and reuse it in fracking operations would also help reduce the amount of fresh water contaminated by the industry, the report noted.

Shipping costs for Russian crude drop, despite sanctions

(Bloomberg; July 8) - Group of Seven sanctions aimed at depriving Russia of petrodollars are failing in one of their key objectives: To drive up the cost of delivering Russian oil. The price of delivering the nation's flagship Urals crude to customers in Asia from Russia's Black Sea port of Novorossiysk has tumbled to the lowest since

October, according to data from Argus Media. Shippers and customers have adjusted to the sanctions, allowing for lower transport rates.

The slump allows Russian firms to grab a bigger slice of the revenue from every barrel of oil that they sell to customers in China and India, now by far the nation's biggest markets since Europeans stopped buying to pressure Moscow over the war in Ukraine. The weakness may disappoint Western policymakers, given that dozens of tankers previously engaged in the Russian oil trade have ground to a halt in the wake of sanctions imposed on the vessels by G7 nations and their allies since October.

It now costs $7.2 million to deliver a million-barrel Russian Urals oil cargo to north China from Novorrossiysk, down $3.2 million since early April, Argus data show. The cost directly attributable to sanctions has slumped to $2.8 million, a plunge of $4 million over the same time span. Since October, there have been a steady stream of sanctions on vessels tied to Russia, including on Russia's state-owned shipping company Sovcomflot and more recently on vessels that are part of a so-called dark fleet. For vessels hauling crude from the Baltic to India, the premium was $7.40 a barrel in April and is $4 today.