

Oil and Gas News Briefs

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Higher costs, export troubles cut into China's industrial gas demand

(Reuters; Nov. 20) - Industrial gas demand in North China is showing signs of a sharp slowdown as small manufacturers shut their doors or buy less gas, unable to cope with a drop-off in export orders for their goods and higher costs related to Beijing's pollution control measures. With orders from these gas customers drying up, many suppliers are trying to negotiate for lower volumes on existing liquefied natural gas contracts with top provider China National Offshore Oil Corp., several sources told Reuters.

The contract talks come only six months after the deals were done with CNOOC. The unexpected fall-off in demand from hundreds of small factories in a key industrial region could end up forcing Asian LNG spot prices even lower. "The manufacturing sector and other small industrial producers have shrunk after a year-long crusade targeting their emissions, as well as supply-side reform, leading to weakness in industrial consumption of gas," said Wang Haohao, an analyst at energy consultancy Longzhong.

A manager at one company that takes LNG from CNOOC's terminal in Tianjin said he booked less than half the gas to be delivered in October than he did in May because of weaker demand from customers. The dealer is likely to pay a hefty penalty at the end of the year for not taking agreed volumes from CNOOC, the manager said. A manager at a national gas dealer said his firm has been losing at least 100 yuan (almost \$15) per tonne of LNG sold into the spot market since Oct. 10, after agreeing in March to buy more than 200,000 tonnes from CNOOC a year at fixed monthly prices.

The drop-off in demand poses a potential headache for CNOOC, which operates a 2.2 million-tonnes-per-year LNG import facility at Tianjin.

South Korean shipyards dominate orders for new LNG carriers

(Reuters; Nov. 19) - South Korean shipyards have boxed out their Japanese rivals from the market for building large liquefied natural gas carriers, winning all of the orders for the next three years — worth more than \$9 billion. South Korean yards Daewoo Shipbuilding & Marine Engineering, Hyundai Heavy Industries, and Samsung Heavy Industries have won the more than 50 orders for large-scale LNG carriers for delivery in the next three years, according to data from the companies and two tanker brokers.

The bulging orderbook illustrates the dominance that South Korean yards have achieved over their competitors, especially in Japan. It is also a sign of how the

companies have rebounded from a sector-wide slump only two years ago and how they are positioned to command the sector in the future. “The demand for LNG carriers surged followed by increased global demand of LNG,” said Park Hyung-gun, vice president of Daewoo Shipbuilding. “There is a bright outlook ahead for LNG demand.”

This year’s orders will increase the global fleet by about 10 percent. Virtually all the LNG from new projects in the Russian Arctic, Papua New Guinea, Australia, the U.S., East Africa, and Qatar will be delivered on South Korean ships, and two-thirds of the LNG carriers in service today were built in South Korea. Price is a factor in South Korea’s success, with the country’s shipyards building LNG carriers for as low as \$175 million. Japanese-made ships are above \$200 million, according a ship broker in Asia and a European shipping manager. No Japanese shipyard has won an order since 2015.

Malaysia blends and resells U.S. ethanol to China to get around tariffs

(Bloomberg; Nov. 18) - A Southeast Asian nation that was a bit player in the biofuel market is suddenly buying and selling unprecedented supplies. The U.S.-China trade war may have something to do with it. Malaysia has emerged to displace the U.S. as the biggest supplier of ethanol to China in just two months. It’s the first time the Southeast Asian country is selling such significant volumes to the world’s top consumer. At the same time Malaysia is buying a record amount of the fuel from America.

The shift occurred after President Xi Jinping imposed tariffs on U.S. ethanol imports in retaliation for President Donald Trump’s duties on Chinese goods. While the two countries apply tit-for-tat levies, shipments from Malaysia to China are tax free. The dispute between the world’s two largest economies has roiled markets from consumer goods to soybeans, but rarely has a completely new player emerged to fill in a supply gap. The sudden spike in the flows in and out of Malaysia has taken traders by surprise.

“It shows some merchants are ... (adapting) to change in the international trading environment during this unusual trade war event,” said Heather Zhang, a Singapore-based analyst who follows the biofuel industry. There is no significant production or use of ethanol in Malaysia. However, China’s demand is growing after the world’s largest automobile market announced an ambitious plan to expand the use of ethanol gasoline by 2020. While a direct transfer of U.S. ethanol via Malaysia to China would be in breach of China’s tariff rules, the fuel can be labeled as originating in the Southeast Asia nation if it’s blended with at least 40 percent locally produced fuel before resale.

[Australian LNG project fights royalties in court](#)

(Australian Financial Review; Nov. 20) - The Australia Pacific LNG consortium is attempting to have the Queensland state government's determination of the amount of royalties it pays from its \$25 billion LNG export terminal at Gladstone declared invalid. In a decision that has big repercussions for the other two big projects in the Queensland state's \$80 billion LNG export industry, APLNG is seeking a judicial review of the treasurer's 2015 decision on the amount of royalties it pays into state coffers.

Under Queensland's system, royalties are payable at 10 percent of the wellhead value — what could reasonably be expected if the gas were sold on a commercial basis — less deductible costs, such as operational and capital costs. Allowable deductions and wellhead value often are contentious in royalty calculations. APLNG — a venture of Australia's Origin Energy (37.5 percent), ConocoPhillips (37.5 percent) and Sinopec (25 percent) — has asked the Supreme Court to throw out the royalty calculation.

A spokeswoman for APLNG said the consortium believes the netback method used by the Office of State Revenue is flawed but provided no details or numbers. "We will be making no further statement while the matter is before the courts." APLNG has been paying royalties since it started exports in January 2016, but it believes it got a worse deal than the Shell-led Queensland Curtis LNG project, which started exports a year earlier, though APLNG does not know exactly how much its rival pays in royalties.

[Argentina gas producer looks at getting into LNG export business](#)

(S&P Global Platts; Nov. 15) - Pan American Energy, Argentina's second-biggest oil and third-largest gas producer, is working with BP on potentially exporting LNG out of Chile, a project that could prove faster to get Vaca Muerta shale gas to market than building a liquefaction facility in Argentina. The project is in the conceptual phase and would involve delivering gas over an existing Argentina-Chile pipeline to the Quintero LNG import terminal in Chile, which would need to be expanded for exports.

The Quintero terminal "can be turned around so it can liquefy to export," Alejandro Lopez Angriman, vice president of reserves development at Pan American, said on the sidelines of an energy conference in Mendoza, Argentina. The pipeline is mostly running empty. It has been used over the past few winters to bring regasified LNG to Argentina from Chile.

BP — which owns 50 percent of Pan American alongside Bridas, itself 50 percent owned by China National Offshore Oil Corp. — is helping on the conceptual engineering for the project, Angriman said. Research into the project comes as gas production surges in Argentina, led by Vaca Muerta, one of the world's largest shale plays. The country's overall gas production has risen 14 percent to 4.6 billion cubic feet per day, allowing Argentina to restart exports by pipeline to Chile after an 11-year suspension.

CNOOC receives its first cargo of Yamal LNG

(Reuters; Nov. 20) - China National Offshore Oil Corp. (CNOOC) offloaded a liquefied natural gas cargo on Nov. 11 shipped from the Yamal project in the Russian Arctic, the first such delivery to CNOOC, the company said on its website Nov. 20. The cargo, purchased from Yamal LNG majority owner and operator Novatek, was delivered to CNOOC's receiving terminal in Putian in the southeastern province of Fujian.

In July, Novatek delivered the first Yamal LNG cargo to China via the Northern Sea Route following the Arctic coast. That initial shipment went to a China National Petroleum Corp. (CNPC) import terminal. CNPC holds a 20 percent stake in Yamal, with China's Silk Road Fund holding a 9.9 percent share. France's Total owns 20 percent. At full operations next year, the three-train Yamal liquefaction plant will have capacity to make 16.5 million tonnes per year of LNG.

Germany's nuclear shutdown could boost demand for Russian gas

(Bloomberg; Nov. 16) - In the shadows of a long-silent East German nuclear reactor on the Baltic Sea, pipeline engineers are drilling, dredging, and digging in a forest clearing. As workers shift contaminated concrete and other radioactive materials from the Soviet-era plant, a quarter-mile away Gazprom contractors are building the latest monument to Europe's growing dependence on Russia for energy: the controversial Nord Stream 2 gas pipeline. Germany could receive more Russian gas as soon as late next year.

The \$11 billion line is one of three giant projects helping the world's biggest producer strengthen its grip on Europe and Asia. Thousands of miles to the east, Gazprom's Power of Siberia pipeline will connect with China, and a project under the Black Sea will deliver gas to Turkey and southeast Europe. Russia met more than a third of Europe's gas demand last year. That could rise to 40 percent by 2025, said Jonathan Stern, a research fellow at the Oxford Institute for Energy Studies in the U.K. The decline of Groningen, the giant Dutch gas field, has also increased Europe's import demand.

Russian gas exports to Europe are having another banner year, after the country in 2017 shipped a record 6.8 trillion cubic feet. Demand could soar after Germany closes its last nuclear reactor by 2022 and retires more coal plants, said Ralf Bickel, an energy adviser at Nord Stream 2. "At some point, politicians need to say if they are concerned, but for us it's business," said Andree Stracke, chief commercial officer at the trading unit of German utility RWE. "Whoever wants to sell is welcome to sell their volumes."

Gazprom on track for 2019 start-up of new gas line to Europe

(Reuters; Nov. 19) - Construction of the offshore part of the TurkStream pipeline that will carry Russian natural gas across the Black Sea to Turkey has been completed, Russian gas producer Gazprom said Nov. 19. TurkStream is part of Moscow's efforts to bypass Ukraine as a gas transit route to Europe, which imports about a third of its gas needs from Gazprom. Construction costs are reported at \$7 billion. President Donald Trump has criticized the pipeline for increasing Europe's reliance on Russian gas.

"Projects of this kind and this project in particular are not directed against the interests of anyone. Projects of this kind are purely creative," Russian President Vladimir Putin said as he and Turkish President Tayyip Erdogan attended a ceremony in Istanbul. Work will now focus onshore and is on track for start-up by the end of 2019, Putin said. Gazprom is building the TurkStream in two lines, each with a capacity of 550 billion cubic feet of gas per year. The first will supply Turkey and the second southern Europe.

Finland joins nations looking to break dependence on Russian gas

(Reuters; Nov. 15) - Finland could in the future receive gas from Norway via a network of pipes being planned through the Baltic countries and Poland, as part of an effort to reduce its dependence on gas imports from Russia. Norway and the Baltic Sea country of Estonia are constructing a gas pipeline under the Gulf of Finland to Estonia, called Baltic Connector, with a capacity to transport 250 million cubic feet of gas per day.

Finland and eastern European countries have in recent years tried to reduce their dependence on Russian gas, partly over concerns that Moscow could use its gas monopoly for political influence, after a similar spat with Ukraine about a decade ago. Finland imports all its gas from Russia with gas accounting for five percent of its total energy needs. Baltic Connector's commercial start-up is planned for January 2020. "The plan is for Finland to get fully connected to the European gas network and access gas from other sources such as ... Norwegian gas," said Baltic Connector CEO Herkko Plit.

Proposed Browse gas project in Australia would be major polluter

(The West Australian; Nov. 19) - Environmental documents show Woodside's proposed Browse development would produce the same greenhouse gas emissions just to get its gas to shore as the entire Gorgon LNG project, one of the nation's biggest polluters. The proposed \$US20.5 billion Browse project would on average emit the equivalent of 4 million tonnes of carbon dioxide a year for 50 years with emissions peaking at 7 million tonnes a year. The Browse project is planned for an investment decision in 2020.

In a filing with the Federal Environment Department, Woodside said most of the carbon dioxide would come from gas burned to power two floating production vessels and to pump the gas 580 miles to the North West Shelf's existing Karratha liquefaction plant. In addition, 10 percent of gas from the offshore project's reservoirs is carbon dioxide, which would be vented to the atmosphere, according to the filing. The Browse project is forecast to produce 10 million tonnes of LNG a year at the North West Shelf LNG plant.

Chevron's Gorgon, Australia's costliest LNG project, was expected to emit 6.1 million tonnes of greenhouse gases a year in its production of 15.6 million tonnes of LNG. Gorgon intends to inject underground 80 percent of the carbon dioxide from its reservoir gas, as required by Chevron's agreement with the state government. But technical problems have hampered the injection system since the first LNG cargo in 2016. A major difference between the two projects is that pressure in the reservoir is sufficient to drive gas to the Gorgon plant while powerful compressors are needed for Browse gas.

Australia closer to getting its first gas-based fertilizer plant

(The West Australian; Nov. 19) – Australia could get its first urea fertilizer export project. A \$4.5 billion fertilizer plant in the Pilbara that would create more than 2,000 construction jobs moved closer to reality Nov. 19 with Perdaman signing up for 20 years of gas from Woodside Petroleum, the country's largest oil and gas producer. For the project to go-ahead, Perdaman must finalize agreements with customers for the 2 million tonnes of urea that would be produced each year at the plant.

The Perth-based industrial conglomerate, which has already spent \$240 million on the project, needs to bring partners into the venture, finish financing arrangements and gain government approvals. Subject to approvals, work could start the first quarter of 2020, Perdaman chairman Vikas Rambal said in May. Construction would take three years. The deal with Woodside follows a preliminary agreement signed in April for about 120 million cubic feet of gas per day. The gas would be combined with nitrogen from the air to manufacture urea.

Bangladesh says no more floating LNG import terminals

(Reuters; Nov. 20) - Bangladesh will scrap plans to build additional floating liquefied natural gas import terminals in favor of land-based stations, a senior government official said. Frequent rough weather is making it difficult to operate the country's sole floating storage and regasification unit and, hence, Bangladesh does not plan to build any more such projects, said Mohammad Quamruzzaman, managing director of the Rupantarita Prakritik Gas Co. that is in charge of LNG imports at state-owned oil firm Petrobangla.

Bangladesh began importing Qatari LNG on a regular basis in September through the country's first floating terminal, operated by privately owned U.S. company Excelerate. Start-up was delayed by several months due to technical problems and bad weather. A second project is expected to start operations in March next year, doubling the country's import capacity to 7.5 million tonnes a year.

Rupantarita Prakritik has shortlisted five companies for a proposed land-based terminal that could import 7.5 million tonnes per year of LNG, including Japan's Mitsui, Osaka Gas, JERA, and two Korean companies, Quamruzzaman said. Developing countries that have sought LNG supplies have adopted floating terminals since they are typically about half the cost of land-based terminals, come online faster and can move to other destinations when they are no longer needed. But while upfront capital costs for onshore terminals are more expensive, operating costs for floating terminals are higher.

Shell's British Columbia LNG project will lead to surge in home prices

(Bloomberg; Nov. 20) - Forget Vancouver, British Columbia's housing boom is set to shift to the province's rugged north as Shell's C\$40 billion liquefied natural gas project sparks an economic boost in the remote region. The North Coast — a lightly populated region usually synonymous with untamed wilderness, bears and glacial fjords — is set for a turnaround as Shell and its partners ramp up activity on Canada's largest energy project ever, said Bryan Yu, deputy chief economist at Central 1 Credit Union.

Residential home prices in the North Coast are set to surge faster than any other region in the province through 2020 as the project in Kitimat prepares to employ as many as 7,500 people at its peak, according to forecasts from Yu. In addition to the LNG project announced last month, the North Coast region is also benefiting from firmer demand for wood products and a booming port in nearby Prince Rupert, according to Central 1.

"The tide has turned for the area's economic future," the credit union economist said. "The construction of the Shell-led LNG Canada project plant in Kitimat is set to positively transform the regional economy for years to come."

Alberta premier says oil discount costs Canada \$80 million a day

(The Canadian Press; Nov. 19) - Alberta Premier Rachel Notley has appointed three experts to work with the energy industry to find ways to close an oil price gap that she said is costing the Canadian economy \$80 million a day. Notley said the Canadian economy is losing out because oil from Alberta is selling about \$45 a barrel less than West Texas Intermediate in the United States.

“We will lose that \$80 million tomorrow and the day after and the day after, as long as this price differential remains in place,” she told lawmakers Nov. 19. “Make no mistake, this price gap is a real and present danger to the Canadian economy.” The differential is due to a lack of pipelines to move a growing glut of Alberta oil to markets. “We should be shipping our oil through pipelines to new markets around the world,” getting better prices, she said. “Owing to decades of failure by successive Canadian governments, Canada is holding its own economy hostage and holding Alberta’s economy hostage.”

The premier is traveling to Ottawa next week to make her case. Meanwhile, she has asked Robert Skinner of the University of Calgary’s School of Public Policy, deputy energy minister Coleen Volk and her former chief of staff Brian Topp to suggest answers. Notley is giving them four weeks to report back. Last week Cenovus Energy and Canadian Natural Resources called for government-imposed temporary cuts until the oil glut clears up, but Suncor Energy and Husky Energy have rejected the idea.

[Canadian oil producers don’t agree on path to boost prices](#)

(Bloomberg; Nov. 20) - Amid the worst crude-price environment in its history, the Canadian oil industry is being hamstrung by internal divisions that are making it harder to rally around potential solutions. Most notable is the split between Canada’s pure producers, which are being devastated by plummeting prices for their output, and the large, integrated energy companies (with refineries) that have been mostly unscathed.

There’s also a rift between oil sands producers — the target of climate-change activists — and the frackers and conventional drillers that suffer from a shortage of new pipeline construction due in part to those same environmental opponents. Reflecting these divisions is the industry’s two main lobbying groups: the Canadian Association of Petroleum Producers, dominated by the giant oil sands producers, and the Explorers & Producers Association of Canada, consisting mainly of smaller firms. That split is hampering the sector’s ability to lobby the government with a consistent message.

Executives from 15 top oil producers met with Alberta Premier Rachel Notley last month and instead of presenting a unified front they reportedly argued with each other in front of her. At issue was whether to press her government to force industry-wide production cuts that might help clear the province’s glut of oil. Companies that focus mostly or solely on production favor a mandated cut spread among all producers. But companies that have refineries and are benefiting from the cheaper crude prices opposed the push, saying that companies have to live with the investment decisions they’ve made. The internal industry split has allowed the government to remain noncommittal on solutions.

Norwegian cruise operator converts ships to run on LNG and biogas

(The Telegraph; UK; Nov. 19) - How many uses are there for rotten fish? Powering cruise ships might not immediately spring to mind, but that's exactly what Hurtigruten, the world's largest expedition cruise line, has planned. By 2021 the Norwegian cruise operator will run at least six of its ships on a mixture of biogas, liquefied natural gas, and large battery packs. Liquefied biogas is a renewable gas produced from dead fish and other organic waste — among the most eco-friendly fuels available.

“By introducing biogas as fuel for cruise ships, Hurtigruten will be the first cruise company to power ships with [fossil]-free fuel,” said Hurtigruten CEO Daniel Skjeldam. Hurtigruten offers cruises to some of the world's most remote areas from the Norwegian coast to South America. Skjeldam said the ultimate goal is to operate its ships completely emission free. It will retrofit at least six of its existing vessels, replacing diesel propulsion with large battery packs and an engine that can run on LNG or biogas.

In addition, the company next year will launch the Roald Amundsen, the world's first battery-hybrid powered cruise ship. With near-silent engines, it will avoid disturbing wildlife. Two other battery-hybrid powered ships are under construction in Norway's Kleven shipyard, due to launch in 2020 and 2021. The hybrid ships will not be powered by biogas or LNG as they will be operating in areas where these fuels are not widely available. Instead, they will combine clean-burning engines with large battery packs.