Oil and Gas News Briefs
Compiled by Larry Persily
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Russian paid a price for misjudging the market and Saudi Arabia

(Bloomberg; April 13) – Russian President Vladimir Putin's deal with OPEC to cut oil output and boost prices more than three years ago was a win for the leader, bolstering his clout on the global stage. But now he has had to make stinging concessions after President Donald Trump stepped in to help end an oil-price war. Amid relief in Moscow at the unprecedented deal with Saudi Arabia and other major producers April 12 to slash output, it marks a painful setback for Russia, said two people close to the Kremlin.

Putin three years ago catapulted Russia into a dominant role in global energy politics and drove a wedge between the U.S. and its Saudi ally. But he overplayed his hand in March when he refused Saudi demands to double output cuts. The Saudis then boosted their output in a price war that crashed the oil market just as the spread of coronavirus wrecked demand. With markets collapsing, Putin agreed to cut more than 2.5 million barrels a day of crude from the 11 million of combined crude and condensate Russia pumps each day, more than four times the reduction he turned down in early March.

The decision to take on Saudi Arabia was "a strategic mistake and now we're paying the price, a much higher price than we could have paid," said Andrey Kortunov, director of the Russian International Affairs Council. Russia did manage to hold onto a concession by keeping condensate, a light fuel of which it is a major producer, out of the quotas.

Russia failed to anticipate the devastating impact of the coronavirus pandemic on the economy when it walked away from the agreement with OPEC and other producers, said a senior Russian official. Holding that alliance together would have prevented the collapse in prices to an almost 20-year low. Now the Kremlin had to negotiate a new deal under highly unfavorable terms, the official said. "This is Russia's biggest defeat since the start of the 2000s," said Dmitry Perevalov, an oil trader and former industry executive. "We've lost our markets and it won't be easy to get them back."

Global oil deal will cost jobs as U.S. shale output declines

(Bloomberg; April 13) - President Donald Trump said the "big oil deal" sealed on April 12 will save hundreds of thousands of U.S. jobs. Rather than agree to any formal cuts, Trump is counting on market forces to trim 2 million barrels a day of overall U.S. output by the end of the year. But the deal he helped broker depends on a sharp downturn in U.S. shale oil production that will likely bring about a wave of bankruptcies and job cuts.

U.S.-focused producers have already hacked more than $27 billion from drilling budgets this year and are starting to shut in wells — which could be the end for shale explorers drowning in debt. "Trump's strategy seems to rely on the free market forcing production down and implicit in that is some companies going under," Dan Eberhart, CEO of drilling services company Canary Drilling Services, said. Trump was part of the talks between OPEC leader Saudi Arabia and Russia that could lead to slicing 15% from global oil production next month in an effort to boost falling crude prices.

Trump has pointed out that the U.S. oil can be pumped later. "Well, there's no real cost because we're agreeing to produce a little bit less," he said at a press conference April 10. "It's staying in the ground. … You have it for another day." After the compromise deal to curb production, Goldman Sachs analysts called it "too little, too late," and said they expect U.S. crude prices to decline further in the coming weeks as storage fills up.

Reduction in U.S. oil output likely would have happened anyway

(The Wall Street Journal commentary; April 12) - Donald Trump's legendary deal-making ability during his years as a real-estate mogul is more fantasy than reality, but the president outdid himself in this weekend's high-stakes oil diplomacy. After several near-collapses 23 countries, including the U.S., collectively pledged to curtail oil output by perhaps 15 million barrels a day. The most impressive aspect of the deal, from the U.S. perspective, is that Trump got something without promising hardly anything.

Much of the cutting will be done by OPEC and its nonmember allies, including Russia — some 9.7 million barrels a day. The remainder mostly seems to be output that would have been lost anyway from high-cost sources such as U.S. shale, Canada's oil sands, and offshore Brazil. In the short-term, the cuts won't be quite enough to soak up an unprecedented collapse in demand as a result of the coronavirus pandemic, but what the cuts can do is prevent an even worse collapse in oil prices and surge in inventories.

Without an agreement some North American barrels were headed for low-single-digit prices. But Trump overpromised his domestic audience by claiming that the deal would "save hundreds of thousands of energy jobs in the U.S." If lockdowns remain in place, then it won't, as prices will remain too low for investment in new shale production. And if the world starts to get back to normal later this year, then U.S. oil jobs probably won't be saved either, as Saudi Arabia, Russia, and others can more easily restore output.

North American producers start shutting down wells

(The Wall Street Journal; April 13) - Canceled orders were mounting when Texland Petroleum recently decided to shut in each of its 1,211 oil wells to cease production by

May. “We’ve never done this before,” said Jim Wilkes, president of the 7,000-barrel-a-day Fort Worth, Texas, firm, which has survived oil busts since 1973. “We’ve always been able to sell the oil, even at a crappy price.” Now there are no buyers for the crude coming from its wells and no choice but to shut them in.

From the West Texas desert, where oil is blasted from deep shale formations to the wilds of western Canada, where multibillion-dollar steam plants bubble thick crude from the Earth’s crust, producers are resorting to the desperate measure of shutting in wells. The sharp drop in fuel demand caused by the coronavirus pandemic and exacerbated by the feud between the world’s largest producers has limited options for North American oil companies. Pipelines, refiners and storage facilities are filling up. Even when there is somewhere to send oil, low prices mean that many barrels lose money.

The world could run out of places to put oil in about 60 days, analysts with Houston’s Simmons Energy estimate. Others think the world’s storage caverns, refineries, tank farms, pipelines, and ships will fill even faster. “We‘ve been told by two of my markets they won’t take my production in May because there’s nowhere to put it,” said Russell Gordy, a Texas oil man with wells in his home state Colorado, Wyoming, and the Gulf of Mexico. “We won’t have to shut in everything, but we’ll have to shut in most (of it).”

Railroads object to crude storage in tank cars, cite safety concerns

(Reuters; April 13) - Railroads are clamping down on rising demand from oil companies to store crude in rail cars due to safety concerns, sources said, even as the number of places available to stockpile oil is rapidly dwindling. Global oil demand is expected to drop by roughly 30% this month due to the worsening coronavirus pandemic at the same time as supplies increased with Saudi Arabia, Russia, and others overproducing in a price war. U.S. storage is filling rapidly as refiners cut back and U.S. oil exports fall.

Globally, storage space for crude could run out by mid-2020, according to IHS Markit, and most U.S. onshore storage capacity is expected to fill by May, traders and analysts said. However, railroads including Union Pacific and BNSF are telling shippers that they do not want them to move loaded crude trains to private rail car storage facilities on their tracks due to safety concerns, three sources in the crude-by-rail industry said.

The railroads are telling clients that tank cars are not a prudent long-term storage mechanism for a hazardous commodity such as crude, and do not want to put a loaded crude oil unit train in a private facility and potentially create a safety hazard, they said. Federal rules typically only allow crude in rail cars to be stored on private tracks. Nearly 142 million barrels of crude moved via rail in the U.S. in 2019, representing about 10% of what was transported through pipelines, according to the U.S. Energy Department.

Saudis offer crude in Asia at deep discount for May

(Bloomberg; April 13) - Saudi Arabia cut most of its crude pricing as the coronavirus hammers oil demand — a clear sign that the kingdom still seeks to keep its barrels competitive after producers agreed to coordinate global cuts in output. State-run Saudi Aramco reduced official selling prices for May exports to Asia and the Mediterranean region, according to a price list seen by Bloomberg. The world's biggest exporter raised pricing to the U.S. and trimmed discounts for some barrels to northwest Europe.

Lockdowns and stay-at-home orders are choking demand for fuel amid efforts to stop the pandemic. Led by Saudi Arabia, OPEC+ producers agreed April 12 to slash oil output by nearly 10% to help remove excess supply. Yet even this historic global intervention will only partly offset the estimated loss in crude demand. By decreasing its official selling prices to Asia for a second consecutive month, Aramco is discounting its oil to some of the lowest levels in at least two decades, indicating that the producer is seeking to defend its market share in the region even as it trims output.

The Saudi state producer cut its official selling price for flagship Arab Light crude to buyers in Asia by $4.20 a barrel to a discount of $7.30 from the Mideast benchmark price. That is deeper than eight traders and refiners in a Bloomberg survey in late March expected, predicting a median reduction of about $3.60. "Aramco is still prepared to fight for its market share," said Ole Hansen, head of commodity strategy at Saxo Bank.

Norway will announce oil production decision soon

(Reuters; April 13) - Norway, western Europe's largest oil producer, will announce its decision on whether to slash crude output soon, potentially adding its weight to a global push to shore up prices, the energy minister said April 13. "The agreement among the OPEC+ producer nations is very positive," Minister of Petroleum and Energy Tina Bru said, adding that Norway will draw its own conclusion on cuts "in the near future."

The OPEC+ group, comprising the Organization of the Petroleum Exporting Countries, Russia and other countries, agreed to cut output by 9.7 million barrels per day in May and June, about 10% of global supply. OPEC+ has said it wants producers outside the group — such as the U.S., Canada, Brazil, and Norway — to cut a further 5 million barrels per day. Norway has said it would consider an output cut in support of the deal, but has not said how big its potential reduction could be. Norway's output stood at 1.75 million barrels per day in February, up 26% from a year ago. Including condensate and natural gas liquids, its liquids production was 2.1 million barrels, 2% of global output.

Barents Sea drilling proves disappointing for Norway

(The Barents Observer; Norway; April 1) - On March 30, as crude oil dropped below $20 for a short while, the Norwegian ministry of oil and energy proposed to include 36 new blocks in this year's exploration licensing round. Surprisingly, though, none of the blocks are in the Barents Sea, a move unseen from the ministry since the times before Norway and Russia in 2010 signed the maritime delimitation treaty for the Barents Sea.

A year ago Norway's oil major Equinor admitted that its drilling near the maritime border with Russia in the Barents Sea ended without any finds. The Gjøkåsen Deep was believed to hold a significant hydrocarbon potential. This January, Swedish-based Lundin said its drillings at Alta and Gohta fields in the western part of the Barents Sea showed the blocks were no longer considered to hold commercially viable resources.

Deep-diving oil prices and the global economic meltdown amid the coronavirus outbreak are adding to the disappointing drilling results. Last week Equinor said its plans for drilling and field work in the Barents Sea are facing delays and postponements. Aker BP faces similar problems. It said its planned drilling at Stangnestind, located immediately adjacent to the maritime border with Russia in the Barents Sea, will be postponed.

Baker Hughes cuts spending 20% amid weak oil-field services market

(Houston Chronicle; April 13) – Global oil-field service company Baker Hughes plans to write down the value of its assets by $15 billion and cut capital spending by more than 20% from 2019 levels as market conditions worsen for the oil and gas industry. A 20% cut would mean leave the company with a 2020 net capital expenditure budget of $780 million, down from the $976 million spent last year. Baker Hughes joins Schlumberger, the world's largest oil-field service company, in slashing capital spending. Schlumberger on March 24 said it would cut its budget by up to 30% as oil companies cut spending.

The economic fallout from the coronavirus pandemic continues to crush global oil demand even as a price war came to an end over the weekend as countries agreed to cut production. "Uncertainty related to oil demand continues to have a significant impact on the investment and operating plans of our primary customers," Baker Hughes said.

Exxon pilot project targets better detection of methane leaks

(Reuters; April 9) - ExxonMobil said April 9 it is conducting field trials of eight methane detection technologies, including satellite monitoring, to cut down on greenhouse gas emissions. The company said the pilot project is being carried out at nearly 1,000 sites in Texas and New Mexico using drones, planes, helicopters, ground-based mobile devices, and fixed-position sensors.

“We are applying scientific rigor and taking aggressive steps to find commercially scalable and affordable solutions for all operators,” said Staale Gjervik, senior vice president at ExxonMobil Upstream Oil and Gas. The technologies and deployment methods will be used to detect leaks and identify solutions that can be shared with other oil and gas operators, the company said.

Last month several oil and gas companies and trade associations in Texas, the biggest oil-producing state, formed a coalition to develop and recommend solutions to minimize flaring and methane emissions. ExxonMobil has called for tighter regulation of methane.