Oil and Gas News Briefs
Compiled by Larry Persily
August 20, 2020

Nigerian legislation would reduce government take of oil revenues

(Reuters; Aug. 18) - Nigeria's oil ministry will present a long-awaited oil and gas reform bill to the president in the coming days aimed at boosting output and attracting foreign investment, three sources close to the negotiations told Reuters. The reforms, 20 years in the making, are particularly urgent this year as low oil prices and a shift toward renewable energy have made competition tougher to attract investment from oil majors.

Fiscal uncertainty has delayed a decision on a multibillion-dollar expansion by Shell and its partners, while Chevron, Total, and ExxonMobil are selling various Nigerian assets. A spokesman for the Petroleum Ministry, which led the bill's drafting, did not reply to a request for comment and the president's office declined to comment. Shell, the largest international operator in Nigeria, said a botched reform effort would be "putting at risk and making unviable most of the planned projects."

A draft summary included provisions that would streamline and reduce some oil and gas royalties. One of the sources described the government's reduced take of oil revenues, through taxes, royalties and other fees, as "aggressive" compared with other nations. Some African countries are trying to cut red tape and taxes in order to make developing their oil and gas reserves attractive to companies. The bill also proposes to boost the amount of money that companies pay to local communities and for environmental cleanups.

European oil producers start to act like power companies

(The New York Times; Aug. 17) - This may be the year that oil giants, especially in Europe, start looking more like electric companies. Late last month, Shell won a deal to build a vast wind farm offshore of the Netherlands. Earlier in the year, France's Total, which owns a battery maker, agreed to make several large investments in solar power in Spain and a wind farm offshore Scotland. Total also bought an electric and gas utility in Spain and is joining Shell and BP in expanding its electric vehicle charging business.

At the same time, the companies are ditching plans to drill more oil wells as they chop capital spending. Shell recently said it would delay new fields in the Gulf of Mexico and the North Sea, while BP has promised not to look for oil in any new countries. Prodded by governments and investors to address climate change, Europe's oil companies are accelerating their output of cleaner energy — usually electricity, sometimes hydrogen — and promoting natural gas, a cleaner transition fuel from coal and oil to renewables.

For some executives, the sudden plunge in demand for oil caused by the pandemic is another warning that unless they change the composition of their businesses, they risk being dinosaurs headed for extinction. “During the last six years, we had extreme volatility in oil commodities,” said Claudio Descalzi, 65, CEO of Eni, who has been with the Italian company nearly 40 years. He wants the business increasingly based on green energy rather than oil. “We want to stay away from the volatility and uncertainty.”

U.S. oil giants like have been slower than their European counterparts to commit to climate-related goals, analysts say, partly because they face less government and investor pressure — although the U.S. financial community is increasingly vocal.

Refinery closures coming worldwide as demand recovery looks weak

(Reuters; Aug. 16) - Oil refiners are permanently closing plants in Asia and North America and facilities in Europe could be next amid uncertain prospects for a recovery in fuel demand after the coronavirus pandemic has triggered financial losses at the companies. The pandemic initially cut global fuel demand 30% and refiners temporarily idled plants. But consumption has not returned to pre-pandemic levels and lower travel levels may be here to stay, leading to tough decisions for permanent refiner shutdowns.

Shell will permanently close its 110,000-barrel-per-day Tabangao facility in Philippines’ Batangas province, one of only two oil refineries in the country. Shell blamed a pandemic-led slump in margins for its decision to turn the plant into an import terminal. Marathon Petroleum, the largest U.S. refiner by volume, plans to permanently halt processing at refineries in Martinez, California, and Gallup, New Mexico. The larger plant in California will become an oil-storage facility and may convert to produce renewable diesel, a fuel made from industry waste and used cooking oil.

“Around 4 million barrels per day of (global) shutdowns will be necessary over the next few years to underpin a meaningful refinery margin recovery,” said Kostantsa Rangelova, head of downstream at JBC Energy. Plants in Japan, Australia, and New Zealand could be likely candidates for closure, said Mia Geng, at consultancy FGE. Refining NZ said in June it was considering shutting New Zealand’s only refinery and turning it into a fuel import terminal. Wood Mackenzie has estimated 1.4 million barrels per day, about 9%, of refining capacity in Europe is at risk of shutdowns by 2022-2023.

China falling far short of buying U.S. oil, coal and LNG

(S&P Global Platts; Aug. 14) – June’s increase in Chinese purchases of U.S. LNG has offered a welcome development for U.S. exporters hit by a wave of cargo cancellations this summer, but it might not be enough as top Chinese and U.S. trade officials review their Phase 1 trade deal. China's imports of U.S. LNG totaled just $300 million during the first half of the year, according to recent data from Panjiva, a business line of S&P Global Market Intelligence that provides news and analysis about global supply chains.

As with Chinese purchases of U.S. coal and crude oil, the amount of LNG may be too little too late to maintain the trade deal. China has fallen almost $40 billion behind its commitments to buy U.S. goods under the January agreement amid coronavirus-linked supply chain disruptions and demand shocks. China agreed in January to more than double its imports of a basket of 548 U.S. products that would amount to an extra $200 billion in purchases through 2020 and 2021 compared to 2017 levels.

Purchases of U.S. energy goods January-June amounted to only about $2.9 billion, according to Panjiva. To meet the Phase 1 numbers, China needs to buy $52.4 billion of U.S. oil, coal, and liquefied natural gas in 2020 and 2021. "At the upcoming mid-year review, both the U.S. and Chinese administration should recognize that it is simply not going to be possible for China to meet its 2020 obligations," Robert Rennie, an analyst at Westpac Banking, wrote in a recent analysis. Instead, "discussions must start to turn to how to deal with a revision, to limit the risks of a collapse."

China's increase in U.S. oil purchases 'likely politically driven'

(Bloomberg; Aug. 17) - China, the world's biggest oil importer, has ramped up its purchases of U.S. crude in the lead-up to a highly anticipated review of the trade deal between the two economic powerhouses. As much as 14 million barrels — about a day and a half of U.S. production — will be loaded aboard tankers next month for delivery to China, according to estimates by Vortexa based on provisional ship bookings. If all those shipments make the trip, it will be more than double the volumes set for August.

The surge in bookings comes before a review of the Phase 1 trade deal, under which China pledged to boost purchases of U.S. energy products. The talks, which were planned for last weekend, have been delayed indefinitely, however, amid deteriorating relations between the two countries. Chinese imports of U.S. goods in the first six months of the year only reached about 23% of the target under the trade agreement for 2020, according to Bloomberg calculations based on China's official customs statistics.

"The rise in U.S. crude purchases is likely politically driven," said Serena Huang, a senior analyst at Vortexa, a market analytics firm. "China is still sitting on large stockpiles of oil, and current U.S. crude prices are not much more favorable than their Middle East competitors." Grades such as West Texas Intermediate Midland and Mars were among the types of American oil purchased by China, but they weren't always cheaper than alternative feedstock from other regions, according to traders.

[Russian mining company objects to $2.1 billion fine for fuel spill]

(Bloomberg; Aug. 17) - Norilsk Nickel's Vladimir Potanin said it's impossible to estimate the cost of damages from May's massive fuel spill in Russia's Arctic until the miner completes the cleanup, which may extend into next year. Nornickel has set aside $2.1 billion after Russia's ecological watchdog asked it to pay for damages caused by the spill of about 150,000 barrels of diesel from a storage tank into a river system.

The miner is challenging the size of the fine, saying the watchdog used the highest damage coefficient that assumes the company did nothing to mitigate the impact of the spill. "How much fuel actually is left in the rivers and how much the ecosystem can be restored — that still has to be assessed," billionaire CEO Potanin said in interview near Moscow. The $2.1 billion would represent the largest environmental fine in Russian history. The company said it has collected 90% of the spilled fuel and spent $140 million on the cleanup — it wants most of that credited against the fine.

Norilsk put absorbent material on river banks where there's still fuel and plans to collect it later. But ecologists said that would be bad for tundra and advised washing the diesel back into the water to collect it, a process the company has started and which will last until next year, Potanin said. The company also looking at whether fish and deer crucial to the indigenous population have been affected. Norilsk has blamed thawing permafrost for the accident — the shifting ground caused the fuel tank to collapse.

[Insurgent violence adds to security risks in Mozambique]

(Bloomberg; Aug. 18) – Total and Eni are forging ahead with plans to tap huge gas deposits that were discovered off Mozambique's northern coast a decade ago. Their projects and one being considered by ExxonMobil could entail $60 billion in investment and have the potential to turn around the economy of one of the world's poorest countries. But the developments have coincided with a series of increasingly brazen attacks by Islamist insurgents in the African country. While the main project sites have been spared from the violence so far, the security risks are ratcheting up.

Most of the insurgents are poor, disenfranchised local youths, although some have come from Tanzania and other nearby nations. They started out as an Islamic sect in 2007 and refer to themselves as al-Shabaab, as do locals, but they don't have any known links to the Somali group that goes by that name and is allied to al-Qaeda. In 2018, they aligned themselves to Islamic State, which has claimed responsibility for dozens of attacks staged in the far northern Cabo Delgado province of Mozambique.

Several subcontractors on the gas projects have been killed while outside the perimeter of their sites. The bulk of the violence has been directed against remote villages, although three major towns have been temporarily captured, including a key logistics hub. The drilling sites, about 25 miles offshore, are relatively easy to protect and the onshore projects are well secured within a vast compound that has its own airport and dock access. Still, ongoing violence could result in logistical delays and the killing of workers may have a bearing on Exxon's final investment decision. Total is going ahead with its project with LNG production and deliveries scheduled to start in 2024.

[OPEC+ leaders remind members to follow production deal]

(S&P Global Platts; Aug. 19) - The oil market is on the path to rebalancing, but with uncertainties about how quickly the world can recover from the pandemic the Saudi and Russian co-chairs of a key OPEC+ committee urged their counterparts Aug. 19 to remain disciplined in adhering to their committed production cuts. "As we go forward, we should strive to achieve full adherence to our agreement," Saudi Energy Minister Prince Abdulaziz bin Salman said at the Joint Ministerial Monitoring Committee meeting.

"Not only does this accelerate the rebalancing of global oil markets, it also sends out a serious message that there is a new spirit of determination and discipline in our group." Russian Energy Minister Alexander Novak said the market was still "extremely fragile," and despite the 23-country OPEC+ coalition's 95% compliance level with its production cuts in July, members should remain cautious. "The market remains extremely volatile and we should keep 100% conformity of the deal," he said.

The alliance implemented the largest coordinated production cut in market history in May at 9.7 million barrels per day — about 10% of pre-pandemic demand — as prices plunged from the hit of COVID-19 on the global economy, as well as a short-lived price war in April after OPEC+ initially failed to agree on a supply deal. Prices have stabilized around $45 per barrel in recent weeks, and the coalition has eased its cuts to 7.7 million barrels per day from August to the end of the year, in anticipation of higher demand.

[OPEC+ wants violators to cut back to make up for exceeding targets]

(Reuters; Aug. 19) - OPEC and its allies pressed nations pumping above their output targets to cut more in August and September amid fears that the oil demand recovery was slow but that it could reach pre-pandemic levels by the year-end. The group, known as OPEC+, met Aug. 19 to review compliance and left production targets unchanged, though actual volumes could dip lower this month and next because Iraq, Nigeria, Angola, and Kazakhstan need to compensate the group for overproduction in May-July.

"Based on the average projections of various institutions, including OPEC, EIA and the IEA, it is estimated that the world will reach about 97% of pre-pandemic oil demand during the fourth quarter — which is a big recovery from the huge falls in April and May," said Saudi Energy Minister Prince Abdulaziz bin Salman.

OPEC+ eased its output cuts to 7.7 million barrels per day in August versus a record high 9.7 million barrels per day — or 10% of global supply — between May and July to more closely balance supply with collapsing demand. The virtual meeting Aug. 19 only discussed compliance by countries such as Iraq, Nigeria, Angola, and Kazakhstan. The countries + overproduced in May, June, and July and would compensate those volumes in August and September, OPEC+ said in a statement without disclosing exact figures. The next OPEC+ ministerial panel is scheduled for Sept. 17.

Opponents sue to stop federal LNG-by-rail regulations

(S&P Global Platts; Aug. 18) - Environmental groups are asking a federal appeals court to reject a final rule pushed by the Trump administration that would allow liquefied natural gas to be shipped more broadly across the country by rail. The rule is set to take effect Aug. 24. Advocates have hoped the rule would result in safer and less costly movement of the fuel in parts of the country where gas pipelines are not available.

During peak demand periods, markets in the Northeast sometimes import LNG because of limited gas pipeline capacity into the region and because LNG produced on the Gulf Coast can't reach them due to a 100-year-old federal law that requires U.S.-built and owned ships to move commodities between U.S. ports — there are no domestically flagged LNG carriers. Opponents of the LNG-by-rail rule worry about the damage a spill or an explosion could have on soils, waterways and wildlife.

The U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration rule amends hazardous materials regulations to allow for bulk transport of LNG in rail tank cars. The rail cars must have enhanced outer tanks that are subject to specific requirements and certain additional operational controls. Currently, a special permit is required. In an Aug. 18 petition to the U.S. Court of Appeals for the D.C. Circuit, environmental groups including the Sierra Club, Center for Biological Diversity, and Delaware Riverkeeper Network asked that the rule be reviewed and vacated.

Wisconsin town turns out against LNG plant to meet winter needs

(Greater Milwaukee Today; WI; Aug. 19) - Some residents in the Wisconsin town of Ixonia are upset at the idea of a liquefied natural gas storage facility being built in their community. The 25-acre project development is intended to save We Energies customers money by storing natural gas and reserving its use for the coldest days of winter. The facility would be within a mile radius of homes and a school.

The facility would pull gas from a pipeline during the summer months, when prices are lower, liquefy the gas and store it as LNG for regasification and delivery as demand peaks in the winter. The Ixonia facility would serve customers in the greater Milwaukee service area. The company has proposed two such LNG facilities in Wisconsin, called “peak-shaving plants,” at a total cost of $370 million. Ixonia, population 4,500, is about 35 miles northwest of Milwaukee.

About 40 people attended a town meeting Aug. 17 to discuss the project. Resident Tiffany Carey said her main objection is that the site is too close to homes and the school. “We know there is a low likelihood of explosion. But if there is an explosion or some sort of event did happen, the risks to our community would be catastrophic.” In July, the planning commission voted 3-2 to recommend that the town board deny a permit for the LNG facility. The next town board meeting will be Sept. 14.

India’s biggest gas importer walking back from U.S. LNG investment

(Free Press Journal; Mumbai; Aug. 19) - Petronet LNG, India's biggest natural gas importer, on Aug. 18 said it is looking to secure term LNG supplies at cheaper prices rather than exploring equity investments in liquefaction projects such as one by U.S. hopeful Tellurian. "We are exploring the market, but one thing is sure that investments as such are not looking lucrative at this point of time," CEO Prabhat Singh said in a post-first quarter earnings call with new media.

Petronet in September 2019 signed a memorandum of understanding to purchase up to 5 million tonnes per year of LNG from Tellurian's proposed Driftwood LNG terminal in Louisiana for 40 years. The deal was concurrent with Petronet making an equity investment of $2.5 billion for an 18% stake in Driftwood. But Petronet already has extended finalizing the deal twice. "All the options are being explored," the CEO said.

“We are exploring the market," Singh added. Term LNG supplies, he said, are available at lower prices without requiring an equity investment or 40-year commitment. "If you are getting a molecule floating on the water which is very cheap, which we are getting at this point of time, then those are the options which are on top priority today and we are working around that," he said. Petronet currently is evaluating supply offers for 1 million tonnes per year for 10 years, tied to the spot-market to take advantage of low prices.

Wood Mackenzie says 4.5% drop in LNG demand possible in 2020

(Kallanish Energy; Aug. 19) - A second wave of the COVID-19 pandemic and fresh lockdown measures could reduce global gas demand by 4.5% year-on-year in 2020, Wood Mackenzie said Aug. 18. The consulting firm said global gas demand has proved to be “relatively resilient” this year, with consumption gradually increasing as lockdowns began to ease. But a second wave and new restrictions would cut into the recovery. A 4.5% demand loss would equal production of one large or two mid-size LNG plants.

Dulles Wang, director for Americas gas research at Wood Mackenzie, said a new wave of outbreaks would put further pressure on Europe to absorb any LNG oversupply and would cause further delays to export projects under construction. “Pre-final investment decision projects could become even more challenged as the need for new LNG supply could be stalled,” Wang said. “In North America, LNG under-utilizations could become a recurring theme, with full utilization not expected until the end of 2020s.”

A study published by the International Gas Union, Bloomberg New Energy Finance and Italian infrastructure firm Snam earlier this month forecast global gas demand to decline 4% this year, compared to an increase of more than 2% in 2019.

Australia businesses pay more for gas than LNG export buyers

(Reuters; Aug. 17) - Australian businesses are paying about 50% more for domestically produced natural gas than export customers are, and the country’s competition watchdog said Aug. 17 that the government should step up pressure on producers to close the gap. The warning comes as the Australian government is counting on cheap gas to fuel a manufacturing recovery from the coronavirus pandemic.

The Australian Competition and Consumer Commission said supply offers to local gas users had fallen by early 2020 to around US$5.50 to $7.50 per million Btu, but that was far above the netback price of under $4.50 earned for the country’s liquefied natural gas exports. The netback price is the spot-market LNG price in Japan, minus pipeline costs for the feed gas to reach Queensland LNG export terminals and tanker costs to Japan.

“The ACCC is very concerned with the widening gap between domestic and export parity prices, which will have an inevitable impact on Australia’s industrial sector during what is already a difficult economic period,” ACCC Chairman Rod Sims said. The ACCC has monitored gas prices since 2017 amid worries about a supply crunch in eastern Australia after three plants run by ConocoPhillips, Shell, and Santos started exporting LNG from Queensland. The concerns led the government to threaten export curbs on gas producers, which then agreed to boost supply to the domestic market.

Norwegian wealth fund official warns of market disconnect

(Financial Times; UK; Aug. 18) - The world’s largest sovereign wealth fund has warned of the disconnection between financial markets and the real economy as U.S. stocks set a new intraday record on Aug. 18. Buoyed by record-low interest rates, equity markets have staged a fierce rebound since hitting lows in March when governments across the world imposed lockdowns to curb the spread of coronavirus. The recovery in equities helped Norway’s $1 trillion oil fund, the world’s largest sovereign wealth fund, to the second-best quarter in its history, returning 13.1% in the three months ending in June.

Trond Grande, deputy chief executive of Norges Bank Investment Management, which manages the fund, said Aug. 18: "We've seen an unexpectedly sharp recovery in the financial markets but maybe we haven't seen the full effect (of the pandemic) on the real economy." The caution from the fund, set up almost 25 years ago to help manage the income from Norway's oil and gas industry, came as a widely watched survey showed global investors are increasingly anxious that the sharp rally in equities, bonds and gold since the darkest days of the coronavirus crisis has left assets overvalued.

Despite that, the latest Bank of America survey found that investors remained upbeat on global markets, as almost 80% expect economic growth to improve. Grande said the value of the wealth fund continued recovering this summer and is now flat or slightly up for the year as a whole. "We often see disconnects between the two (markets and the economy). At some stage, and in the long run, you would expect them to be equalized."

Both partners in 50-year Australian oil and gas venture want out

(Reuters; Aug. 17) - BHP Group said Aug. 18 it plans to sell its 50% stake in the Australian Bass Strait oil and gas venture as it seeks to focus on its higher-value petroleum assets. The Bass Strait joint venture is co-owned and operated by ExxonMobil, which has also put its 50% stake up for sale. Analysts have estimated a 50% stake could fetch up to $3 billion.

The Bass Strait oil and gas fields off Australia's southeastern coast have produced more than 4 billion barrels of crude oil and about 8 trillion cubic feet of gas over the past 50 years and now face a steep decline. Analysts said BHP might be able to sell its stake ahead of Exxon as the Anglo-Australian company's interest might attract more bidders as it is not the operator of the field.

However, Wood Mackenzie analyst Daniel Toleman said not knowing who the operator is going to be is a major risk. "The main impediment to this deal is the abandonment liabilities, which are significant," Toleman said, referring to the costs of decommissioning offshore oil and gas platforms. He did not give an estimate.