Oil and Gas News Briefs
Compiled by Larry Persily
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Exxon 'will have to transform to stay relevant'

(The New York Times; Dec. 10) - Over the past 135 years, ExxonMobil has survived hostile governments, ill-fated investments and the Exxon Valdez oil spill. Through it all, the oil company made bundles of money. But suddenly Exxon is slipping badly, its long latent vulnerabilities exposed by the coronavirus pandemic and technological shifts that promise to transform the energy world with growing concerns about climate change.

The company, for decades one of the most profitable and valuable U.S. businesses, lost $2.4 billion in the first nine months of the year, and its share price is down about 35% this year. In August, Exxon was tossed out of the Dow Jones Industrial Average, replaced by Salesforce, a software company. The change symbolized the passing of the baton from Big Oil to an increasingly dominant technology industry.

"Is Exxon a survivor?" said Jennifer Rowland, an energy analyst at Edward Jones. "Of course they are, with great global assets, great people, great technical know-how. But the question really is, can they thrive? There is a lot of skepticism about that right now." Exxon is under pressure from investors. New York state's $226 billion pension fund will sell shares in oil and gas companies that do not move fast enough to cut emissions.

But if this crisis is an existential threat, there has been no acknowledgment from Exxon's executive suite, still known in the company as the "God Pod." "Despite the current volatility and near-term uncertainty, the long-term fundamentals that drive our business remain strong and unchanged," Darren Woods, the company's chairman and chief executive since 2017, said at a recent shareholders meeting.

"Darren Woods has inherited a company that has made huge bets in recent years that were not successful," said Fadel Gheit, a retired Wall Street analyst who was an engineer in research and development at Mobil before its merger with Exxon in 1999. "ExxonMobil is like a big cruise ship," he added. "You can't change course overnight. They can weather the storm but not go far. They will have to transform to stay relevant."

Platts forecasts Brent will slip back into the low $40s

(S&P Global Platts; Dec. 11) - Oil demand will rise in 2021 but not enough to surpass 2019 as the pandemic continues to weigh on transportation fuel demand, especially jet fuel, according to S&P Global Platts Analytics. "Oil demand will rebound by more than 6 million barrels a day in 2021, but consumption is still expected to be more than 2 million below that of 2019's 101.9 million. Why? The global middle class — the real engine of oil demand — faces continued pressures from wealth inequality and the ongoing COVID-19 cloud," said Chris Midgley, global head of S&P Global Platts Analytics.

The outlook presumes a recovery in global gross domestic product, highlighted by an acceleration of growth in the second half of 2021. The rollout of coronavirus vaccines has "created a wave of optimism across commodity markets despite the fundamentals being unchanged," Midgley said Dec. 11. "While in the long-term we are more optimistic about a rebound of oil demand, causing us to upwardly revise our 2021 demand outlook, in the short term we expect things to worsen, with increased second-wave lockdowns in U.S. and Europe resulting in much weaker gasoline demand," he said.

Platts Analytics expects Dated Brent oil prices to soften in the short-term to the low $40s-per-barrel area, but move back toward $50 by the end of 2021. "We feel the current price of $50 is probably $10 higher than warranted. Oil prices are up right now but it's really on sentiment rather than fundamentals," Midgley said. "Refiners are going to continue to be squeezed. Demand is not growing fast enough to take up all the spare capacity in the market. And in addition, we are seeing more natural gas liquids and biofuels being produced, which basically substitutes the need for refined products."

Oil market recovery may be moving too soon, too quickly

(Bloomberg opinion; Dec. 12) - COVID-19 vaccines are raising hopes of a swift recovery in oil demand next year, but markets seem to have thrown caution to the wind. Brent crude hit $50 a barrel last week, its highest level since March, before the pandemic really began to tear a hole through people's lives and economic lockdowns hammered oil consumption. This looks like irrational exuberance, given that there is such a long way to go before crude oil markets get back to normal.

Recovery from the huge hit of the virus on economic activity won't happen overnight. Take for example commercial flights, which are stuck at about 60% of last year's levels after a rebound stalled in August. Hardest hit has been international travel, which accounts for almost all of the long-haul air traffic that's the biggest consumer of fuel.

Even when consumption of transport and industrial fuels starts to pick up, which it's expected to do next year, there's a long way to go before that drives a boost in crude oil demand. Huge stockpiles of refined products need to be drawn down first. At the end of September, they were up 9% year-on-year in developed countries, said the International Energy Agency. Crude stockpiles in developed countries are 14% higher than in 2018.

On the supply side, the OPEC+ group of oil producers will add 500,000 barrels a day to oil supply next month. That's less than initially planned, but could still be enough to tip an expected worldwide draw in oil inventories in the first half of 2021 into another build. While the new vaccines are a light at the end of the tunnel, there's still a long way to go before we emerge from the darkness. Oil markets are getting ahead of themselves.

Too much oil-price recovery could attract more production

(Bloomberg; Dec. 12) - Brent crude topped $50 a barrel last week for the first time since March, a milestone for an oil market that's been grinding its way back out of a deep slump for months. Things aren't back to normal yet, but the positive signals are proliferating. The enormous glut of fuel that accumulated this year on everything from tiny barges to giant supertankers is being steadily depleted.

While the pandemic is worse than ever in the U.S., demand in Europe is bouncing back as a second wave of lockdowns eases and Asia continues to pull in huge volumes of crude. But there's more to this than a realignment of supply and demand — huge financial flows are also driving the price rally. In a world that's expecting to see travel recover sharply next year, crude has become a hot COVID-vaccine trade for investors. "Right now oil has priced in that promising future," said Victor Shum, vice president of energy consulting at IHS Markit in Singapore.

But there also are reasons to think $50 could be oil's ceiling for now. The price could tempt producers from Baghdad to Oklahoma to increase production. There are already tensions within OPEC+, with some members chafing at the cartel's self-imposed supply limits. "A persistent rally could turn OPEC+ much less conservative, in turn driving a price pullback," said Citigroup analysts including Ed Morse.

Qatar expects $9.4 billion budget deficit next year

(Bloomberg; Dec. 10) - Qatar will run its largest budget deficit in four years in 2021 as it tries to shake off the impact of the coronavirus and the drag of lower energy prices on government revenue. The country will spend 34.6 billion riyals ($9.4 billion) more than it takes in next year, according to a Dec. 10 statement from the Finance Ministry. The projected shortfall for next year will be the largest since 2017, when countries including Saudi Arabia and the United Arab Emirates severed diplomatic ties with Qatar.

Qatar's deficit is expected to swell even though the world's largest natural gas exporter is planning to cut government spending 7.5% from 2020. The budget assumes oil prices will average $40 per barrel. Governments across the Persian Gulf have been forced to cut spending as receipts from energy sales dropped and non-hydrocarbon economic growth stalled. Qatar's Finance Ministry in June told government departments, institutions, and entities funded by the state to cut their payroll costs for foreign workers by 30%, allowing them to choose between cutting salaries or layoffs.

Refiners spend $2 billion to retool for renewable diesel

(The New York Times; Dec. 10) - Many businesses are betting that electric and hydrogen-powered cars and trucks will play a critical role in the fight against climate change. But some oil companies are hoping that so will smelly restaurant grease and slaughterhouse waste. Companies that refine crude into fuel are increasingly using such putrid scraps to make a renewable version of diesel that can reduce greenhouse gas emissions from vehicles and industrial equipment without requiring investment in expensive new vehicles.

Phillips 66, Marathon, HollyFrontier, and other U.S. refiners are spending about $2 billion to retool to produce the fuel over the next four years. Renewable diesel has been around for years, and its production, while tiny compared with its fossil fuel counterpart, has grown steadily because the federal government and California offer incentives for companies to make and sell it. That support has made the fuel even more attractive to oil refiners during the pandemic, when demand for regular fuel has plunged as people drive and travel less.

Production of renewable diesel is up roughly 7% this year. If trends continue, refineries could produce as much as 3.8 billion gallons of renewable diesel by 2025, or more than 5% of total diesel production last year, according to S&P Global Platts. "Renewable diesel is a golden nugget," said Corey Lavinsky, director for global biofuels at S&P Global Platts. Renewable diesel can be used in existing diesel engines without having to be blended with regular diesel — its biggest advantage over biodiesel and ethanol, which are also made from organic material but generally cannot be used without being mixed with petroleum products.

Outdoor clothing company refuses to put oil driller logo on jackets

(Financial Times; London; Dec. 12) - Companies giving holiday gifts to their employees is not usually fodder for broader cultural and economic fights. But when the CEO of a U.S. oil driller was told by The North Face that he could not put his company’s logo on their jackets, he took the fight public in a passionate open letter defending his industry. North Face refused an order from Innovex Downhole Solutions, a Houston oil field services group, for about 400 company-branded jackets it intended as gifts for staff.

Innovex CEO Adam Anderson was told by North Face that the order would compromise its image. It’s the latest outdoor brand to distance itself from the fossil fuel business. “They said we don’t meet their brand criteria,” said Anderson. Outraged by the decision, he penned a four-page open letter, complete with footnotes and graphics, laying out the positive case for fossil fuels, to the head of The North Face's parent company, VF Corp.

The letter decried the decision as "counterproductive virtue signaling," and argued that the oil and gas industry enabled a quality of life "unfathomable only a century ago." The industry has faced growing public backlash over concerns about climate change and environmental sustainability. North Face says promotion of renewable energy is part of its corporate mission and has publicly supported the Paris climate agreement. Eddie Bauer, Anderson said, accepted the order and the jackets should arrive by Christmas.

U.K. pledges end to its support for overseas oil and gas projects

(Reuters; Dec. 11) - British Prime Minister Boris Johnson will pledge to end direct government support for overseas fossil fuel projects at a U.N. summit on Dec. 12, aiming to spur similar moves by other countries to help tackle climate change, his office said. Britain, which is co-hosting the virtual summit ahead of climate negotiations in Glasgow next year, has faced accusations of hypocrisy from campaigners for continuing to finance climate-warming oil and gas projects abroad.

"By taking ambitious and decisive action today, we will create the jobs of the future, drive the recovery from coronavirus and protect our beautiful planet for generations to come," Johnson said in a statement. More than 70 world leaders from countries including China, India, Canada, and Japan are due to unveil more ambitious climate commitments at the summit. Britain would be the first major economy to commit to ending public finance for overseas fossil fuel projects.

The U.K. Export Finance agency has offered guarantees worth billions of dollars to help British oil and gas companies expand in countries such as Brazil, Iraq, Argentina, and Russia, said Louise Burrows, policy adviser with consultancy E3G. Johnson had faced particular criticism from campaigners for the finance agency's role in backing French major Total's $20 billion liquefied natural gas project under construction in Mozambique. The government said the new policy would come into effect "as soon as possible" and would mean no further state support for oil, gas, or coal projects overseas.

Oil and gas job losses in Texas totaled nearly 60,000

(Houston Chronicle; Dec. 10) - The oil and gas industry in Texas lost more jobs than reported after the federal government revised its employment estimates. Nearly 60,000 oil drilling, production and services workers lost their jobs between February and August, 20% higher than the 50,000 layoffs previously reported, according to a new report from the Texas Alliance of Energy Producers.

The new job analysis from the statewide trade group comes after the Federal Reserve Bank of Dallas revised its employment data, which showed that more jobs were cut in the oil-field services sector than previously thought. “The revised employment estimates clearly suggest that COVID-19 has cut into the upstream oil and gas sector to a deeper extent than previously thought — and those numbers were bad enough to begin with,” said Karr Ingham, petroleum economist for the Texas Alliance of Energy Producers.

The state’s oil and gas industry has lost nearly 30% of its jobs since the coronavirus pandemic plunged crude demand and prices, forcing companies to cut spending. There are an estimated 149,800 oil and gas workers in the state as of October, the Texas Alliance of Energy Producers said. Job losses appear to have hit bottom in August, with some gains by October. However, economists expect a slow recovery as coronavirus cases climb throughout the nation, depressing demand for gasoline and jet fuel.

Administration opens 200,000 acres of N.D. grasslands to drilling

(Grand Forks Herald; ND; Dec. 10) - A new Trump administration decision has cleared the way for oil and gas drilling on over 200,000 acres of the Little Missouri National Grasslands. The decision by the U.S. Forest Service was celebrated by members of North Dakota's congressional delegation in a joint statement this week as the latest step forward in President Donald Trump's advocacy for the state’s energy industry.

But local conservationists argue that the final decision, which opens up large, mostly undeveloped areas of the grasslands for drilling, includes major changes from previous drafts that they said they had minimal chance to contest. "The vast majority of the public is only becoming aware of it after the decision is made and after there is no opportunity for public comment," said Liz Loos, director of the Badlands Conservation Alliance.

The decision affecting some 216,000 acres of the grasslands has been on the table dating back to the George W. Bush presidency, but the final decision rewrote portions of the proposal that were publicly workshopped during an environmental review two years ago, according to the North Dakota Wildlife Federation. At about 1 million acres, the Little Missouri National Grasslands have become a battleground in North Dakota for companies looking to capitalize on oil and mineral-rich territory and for conservationists who see energy developments as destructive to one of the state's ecological treasures.

Tighter market will make it hard on new North American LNG projects

(S&P Global Platts; Dec. 10) - Who is in, who is out among North American liquefaction developers? That is perhaps the biggest unanswered question for the global market in

2021. Some projects may advance but some may get delayed further or get scrapped as long-term contracting has slowed to a crawl. Sempra's Energia Costa Azul export project in Baja California was the only LNG project in the U.S., Canada and Mexico to be sanctioned in 2020, a year that was supposed to have seen a wave of new projects.

Demand shocks from the coronavirus pandemic and continued commercial struggles are the main barriers. "It's going to be hard for a greenfield developer to compete with expansion projects at some of the existing facilities, which already have tanks and berths and power and all of the things that are required," Cheniere Energy CEO Jack Fusco told S&P Global Platts. Cheniere operates LNG terminals in Texas and Louisiana, with total production capacity approaching 30 million tonnes per year.

For most of the other dozen or so projects proposed in the U.S., Canada and Mexico, securing financing or investment partners will be critical. Sempra's Port Arthur LNG and NextDecade's Rio Grande LNG projects in Texas and Tellurian's Driftwood LNG and Energy Transfer's Lake Charles LNG projects in Louisiana remain in limbo. In Canada, the only major LNG export projects sanctioned in recent years are Shell-backed LNG Canada in Kitimat, British Columbia, and Woodfibre LNG in Squamish, B.C. Another half-dozen or so projects on Canada's East and West coasts have been proposed.

S&P Global Platts Analytics is tracking 17 liquefaction trains under construction in North America and scheduled to come online through the middle of the decade. Spread across the U.S. Gulf Coast, Mexico, and Western Canada, they will raise North American export capacity to 125 million tonnes per year by the middle of the decade.

Total buys equity stake in Baja California LNG export project

(LNG Global; Dec. 10) - Sempra Energy and its subsidiary IEnova announced Dec. 9 that their Energia Costa Azul Phase 1 LNG export joint venture has signed an equity investment agreement with Total. The French oil and gas major will acquire a 16.6% equity stake in the project in Baja California, Mexico. Sempra and IEnova will each retain 41.7% ownership stakes in Energia Costa Azul Phase 1.

A final investment decision was announced last month for construction of the $2 billion facility, which is the only LNG export project in the world to have reached FID this year. Earlier in the year, Total signed a 20-year sale-and-purchase agreement to take 1.7 million tonnes per year of LNG from the facility, about two-thirds of the plant’s initial capacity. The liquefaction plant will be built next to IEnova's existing Energia Costa Azul LNG import and regasification facility with start-up planned for 2024. The equity acquisition by Total does not include an equity interest in the regasification facility.

U.S. LNG traffic runs into delays through Panama Canal

(Natural Gas Intelligence; Dec. 9) - Liquefied natural gas carriers have been waiting longer to pass through the Panama Canal in recent weeks, tightening an already stretched shipping market and creating logistical issues for U.S. LNG exports at a time when global gas prices are moving higher. "There is no doubt that this has created some headaches in LNG trade," said Gonzalo De Arteaga, a senior LNG adviser at Norwegian shipbroker Fearnleys. He said wait times for LNG vessels going through the canal hit their highest point ever at nearly 15 days late last month.

A variety of factors have combined to create longer lines at the canal, a vital passage for LNG and other goods to make their way to Asia. Eero Vanaale, a London-based analyst at shipbroker Braemar ACM, said the delays are primarily related to LNG carriers that don't have a prebooked transit slot to pass through the canal. While overall ship traffic through the canal has not increased this year — due primarily to the pandemic's impact on the global economy — LNG traffic has risen.

Though global LNG cargoes are still down from last winter, the U.S. is an exception, De Arteaga said. Braemar data shows that year-on-year U.S. loadings have increased by 29% through November. Transits through the canal are booked in advance by up to a year, and LNG carriers can book only one transit per day in each direction, which are "almost always taken up on the day they are offered," Richard Pratt, an LNG industry and shipping veteran, said recently in a blog post for RBN Energy.

Insurgency continues attacks near LNG project sites in Mozambique

(S&P Global Platts; Dec. 9) - Militants have attacked a village in northern Mozambique just 12 miles from the site of two major LNG project developments, according to local media reports, highlighting the continued security issues facing the southeast African country and its fledgling LNG industry. More than 30 million tonnes per year of liquefied natural gas production capacity is under development in Mozambique as the country looks to join the ranks of the world's biggest LNG exporters.

It emerged Dec. 8 that militants had attacked the village of Mute in the Palma district, which lies in a buffer zone between the Afungi Peninsula — where France's Total and ExxonMobil are developing LNG export facilities — and the militant-controlled port of Mocimboa da Praia. The port has been occupied since mid-August as part of the growing Islamist insurgency that began in October 2017. Total plans to produce the first LNG from its project in 2024. The final investment decision was taken in 2019.

ExxonMobil has deferred a final investment decision on its Rovuma LNG project until at least 2021. Italy's Eni remains on track to start up its Coral South floating LNG facility offshore Mozambique in 2022, at 3.4 million tonnes annual capacity. The insurgency — which also spread to offshore tourist islands in the autumn — prompted Total in late

August to agree a pact with the Mozambique government to provide security for its work in the country. The deal provides for the establishment of a joint task force in a bid to bolster security measures and create a safe operating environment.

Spot LNG prices in Asia highest in two years

(Reuters; Dec. 11) - Asian spot prices for liquefied natural gas rose this week to the highest since September 2018 due to high demand for heating, a supply crunch and increasing freight rates, trade sources said. The average LNG price for January delivery into northeast Asia was estimated at around $11.10 per million Btu, up $3 from the previous week, the sources said. Prices for February delivery were estimated at $10.50.

Weather in Beijing, Tokyo and Seoul is expected to be colder than average the next two weeks, data from Refinitiv Eikon showed, increasing gas demand for heating. The rise in imports in China, as the economy recovers, and the lack of ship availability is also helping to push up prices, sources said. “LNG imports by China hit a one-year high in November and are set to increase further,” a London-based trader said.

Production issues in Australia and Malaysia, two of the top four largest exporters, and delays in the Panama Canal, through which the U.S. ships much of its LNG, are adding to tighter supply. Prices are expected to stabilize in the second half of January with record volumes coming from the U.S, where gas prices are below $3, making exports profitable, traders said. LNG prices in Asia have increased by more than a five-fold since June, when lower demand due to the coronavirus pandemic drove them below $2.

Pakistan needs gas, but lack of bids and high prices disappoint

(Dawn newspaper; Pakistan; Dec. 11) - In a major setback to gas-starved consumers, Pakistan did not get a single bid for three liquefied natural gas cargoes sought for delivery in the first half of January, and attracted the highest price for the second half of the month mainly due in part to the short response time and rising international prices. Pakistan had issued tenders for six cargoes for delivery between Jan 8 and Feb 1. No supplier or trader bid for the first three slots between Jan 8 and Jan 18. This is the first time that the country did not get a bid since it entered the spot market five years ago.

For the Jan. 20-21 window, only two bids were received with potentially unviable prices. The low bid of 17.32% of Brent crude — about $8.60 per million Btu for LNG at current Brent prices — came from a surprise first-time bidder, Qatar Gas, which is not in the spot market. Qatar also was the only bidder for the cargo for Jan. 26-27 at the same price — 17.32% of Brent. The cargo for Jan. 29 - Feb. 1 received six bids. The lowest bid of 15.32% of Brent again came from Qatar while all others were well above 20%.

An LNG price above 17% of Brent is costlier than diesel, crude and furnace oil. Experts quoted three major reasons for poor response: A temporary shutdown at an Australian LNG project, increased demand for the fuel, and domestic controversies over gas pricing in Pakistan. The only solution for the Pakistani government now is to engage with Qatar at the highest level to fill the supply gap in January.

Thinning northern sea ice a boost for Russian LNG shipping

(Bloomberg; Dec. 11) - Thinning ice in the Arctic Ocean made this year's navigation season for liquefied natural gas tankers the longest on record, the latest sign that the pace of climate change is accelerating in the Earth's northernmost latitudes. The Northern Sea Route, stretching more than 3,000 nautical miles between the Barents Sea west of Russia and the Bering Strait across from Alaska, traditionally opens from June through October, when higher temperatures break up ice. This year, voyages started a month early and will continue until at least the end of December.

"This year could potentially become a turning point for the Arctic," said Samantha Burgess, deputy director at Europe's Copernicus Climate Change Service. "The warmer-than-average condition was incredibly persistent throughout the whole year." The length of the shipping season is one of the most tangible signs that the region is warming more than twice as fast as the rest of the world. In a year that's likely to rank among the three warmest on record — if not the hottest ever — the Arctic registered the most notable increases in what is emerging as an enormous climate-related disaster.

What's bad for the planet is an opportunity for the $100 billion-a-year liquefied natural gas industry, the quickest growing part of the fossil fuel business. The longer the sea route stays open, the more Russian LNG cargoes can head directly to Asia, where it is consumed by industry and power plants in China, Japan, and South Korea. Russia and the LNG industry are working to extend that shipping season, deploying the world's biggest icebreaker starting in October to escort tankers for more months of the year.

The nuclear-powered Arktika is capable of breaking through ice just under 10 feet thick. This year's extraordinary climate conditions have already allowed for a record number of LNG cargoes to Asia through the Northern Sea Route. About 30 will be made this season, compared with 17 in 2019 and four in 2018.

China must phase out coal by 2040s to reach carbon-neutral goal

(Reuters; Dec. 10) - China should phase out all conventional coal-fired power plants without carbon-capture technology by 2040-2045 if it is to achieve its ambition to become carbon neutral by 2060, according to new research published Dec. 10.

Chinese President Xi Jinping in September announced that China would bring its greenhouse gas emissions to a peak before 2030 and become carbon neutral by 2060.

The pledge has put the spotlight on China's heavily coal-dependent energy sector with policymakers now under pressure to think of ways to accelerate the transition toward clean and green alternative fuels. Researchers commissioned by the Chinese office of the U.S.-based Energy Foundation think tank said China must accelerate the elimination from its entire economic system of coal burning that does not deploy carbon capture, utilization, and storage technology if the country is to achieve its goals.

"Emissions from the electricity sector must peak and start to decline immediately, and reach zero or negative by 2050," said Leon Clarke, an author of the report. Core steps in the near term, starting next year, include dismantling small-scale coal-fired industrial kilns and boilers and ending the use of coal in rural heating and cooking, researchers said. The last step on the road to carbon neutrality would be the phasing out of coal in industrial sectors like steel, where decarbonization is the most challenging, they said.

Mexico close to wrapping up 2021 oil-price hedging contracts

(Reuters; Dec. 11) - Mexico is wrapping up purchases for the 2021 edition of an oil-hedging program that insures its revenues from low oil prices, sources familiar with the legendarily opaque trade said, following a particularly challenging year. Negotiations to purchase the bulk of the financial contracts that protect Mexico against low prices have now been concluded or are nearing conclusion, sources with direct knowledge of the matter and market sources who follow volumes and flows of such contracts closely said.

The hedge is crucial for Latin America's second-largest economy which is at risk of a credit rating downgrade. With oil prices below the hedged level for most of this year, Mexico's investment is almost certainly set to give a sizable 2020 payout — a lifeline for a country in deep recession. However, exceptional market volatility has complicated the delicate negotiations with Wall Street banks and oil majors and increased the price for the options the country is purchasing to protect 2021 oil export income.

"The oil hedging program is necessary. It offers stability amid public finance and budget challenges. It's expensive but has generated benefits, it prevents the country losing its investment-grade rating and guarantees solvency," said Raul Gonzalez, who worked in the Mexican finance ministry in the early months of the current administration and now lectures economics at Tec de Monterrey university. Mexico has in recent years shelled out more than $1 billion a year on the program, but does not disclose any specifics.