State denies third key permit for Oregon LNG project

(Oregonian; Feb. 19) - Oregon’s Department of Land Conservation and Development said Feb. 19 that a proposed liquefied natural gas export terminal in Coos Bay would have significant adverse effects on the state’s coastal scenic and aesthetic resources, endangered species, critical habitat, fisheries, and commercial shipping. And it appears to be a rejection only a federal Cabinet member could reverse.

In a letter to Calgary-based Pembina Pipeline, developer of the Jordan Cove Energy Project, state land agency director Jim Rue said that neither the Federal Energy Regulatory Commission nor the Army Corps of Engineers “can grant a license or permit for this project unless the U.S. Secretary of Commerce overrides this objection on appeal.” The decision on one of the key state permits for the project is a stinging rebuke that comes the day before FERC is scheduled to issue a final environmental analysis on the project, approving or denying its primary federal license.

The $10 billion project has been denied all three of its primary state permits, including a water quality permit by the Department of Environmental Quality and a dredging permit by the Department of State Lands. It’s unclear how the latest rejection will affect FERC’s vote scheduled for Feb. 20. FERC issued a draft analysis last March, concluding that the project “would result in temporary, long-term and permanent impacts on the environment,” but that many of the impacts would not be significant or would be reduced to less than significant levels with proposed mitigation measures.

No resolution yet to anti-pipeline protests across Canada

(The Canadian Press; Feb. 17) – Canadian Prime Minister Justin Trudeau said his government is committed to finding a quick and peaceful resolution to the anti-pipeline blockades that have shut down swaths of the country’s train system and temporarily blocked bridges and highways. The comments came Feb. 17 as Trudeau emerged from a closed-door meeting with members of his Cabinet in Ottawa, where the government has been under growing pressure to end the blockades.

Trudeau, who said he had spoken to a number of provincial premiers and Indigenous leaders, did not offer any specifics on how his government plans to deal with the crisis. “I understand how worrisome this is for so many Canadians and difficult for many people and families across the country,” Trudeau said. “We’re going to continue to focus on resolving the situation quickly and peacefully.” The meeting in Ottawa followed
more than a week of protests against a gas pipeline that crosses Wet’suwet’en territory in northern British Columbia and is opposed by the First Nation’s hereditary chiefs.

The protests have manifested themselves as blockades on rail lines across the country, bringing large amounts of passenger and freight traffic to a halt. Meantime, there is mounting political pressure on Trudeau to find a way to put an end to the blockades. The Wet’suwet’en hereditary chiefs object to the route for the Coastal GasLink pipeline from northeastern B.C. to the Shell-led C$40 billion LNG Canada project under construction in Kitimat, B.C. The blockades are in support of the Wet’suwet’en.

**Canadian businesses warn of losses from anti-pipeline rail blockades**

(Financial Post; Canada; Feb. 18) - Businesses are warning of layoffs, lost revenue, and a hit to Canada’s reputation as rail disruptions drag on across the country. A coalition of 39 industry associations wrote a letter to Prime Minister Justin Trudeau on Feb. 18, calling on him to “work urgently” with First Nations and police to bring the blockade to a peaceful end. “The damage inflicted on the Canadian economy and on the welfare of all our citizens mounts with each hour that these illegal disruptions are allowed to continue,” said the coalition, which represents automotive, mining, and other industries.

The coalition shares Trudeau’s commitment to reconciliation with indigenous groups but said the blockades “inflict serious damage on the economy, leaving countless middle-class jobs at risk, many … in industries that must get their goods, parts and ingredients to and from market by rail.” The rail blockades sprung up Feb. 6 as indigenous groups and activists nationwide protested in solidarity with hereditary Wet’suwet’en chiefs that oppose the Coastal GasLink project in British Columbia. The chiefs oppose the pipeline through their traditional territory, though it’s been approved by elected band councils.

Meanwhile, the national chief of the Assembly of First Nations called for calm and constructive dialogue to ease tensions. Chief Perry Bellegarde said governments and industry need to give time and space to work with the Wet’suwet’en. The rail stoppages have forced Via Rail and Canadian National to halt passenger and freight operations for more than a week, bringing a key artery of Canadian transportation to a halt.

**China will accept applications for waiver of tariff on U.S. LNG**

(S&P Global Platts; Feb. 18) - China on Feb. 18 said it will start accepting applications for tariff exemptions on 696 U.S.-origin goods, including crude oil, liquefied natural gas, and refined products in a move that could allow it to meet purchase targets under the recent U.S.-China trade deal. The exemptions will enable Chinese companies to avoid tariffs on U.S. imports that were imposed by Beijing in 2018 and 2019 in retaliation for U.S. tariffs on Chinese goods in the ongoing trade dispute between the two countries.
Other commodities that will be eligible for the waivers are petrochemicals, agricultural products, coal, and metals, according to a statement on the Ministry of Finance website. The exemptions will last for one year, starting from the date of approval. The ministry said the annual limit will remain fixed, although monthly imports may fluctuate.

The news was welcomed by Chinese refiners and traders, but they said it would take time for purchases to begin due to the coronavirus outbreak that has hit economic activity and depressed oil and gas demand in China. The finance ministry said tariff exemptions would only be given for purchases that are economically and commercially viable, indicating that U.S. commodity imports would still be subject to market factors.

Market constraints are likely to limit U.S. LNG sales in Asia, as prices are so low in the oversupplied market that U.S. exporters and Chinese buyers are hard-pressed to make money. State-owned CNOOC, China's top importer, is likely to apply for tariff waivers but hasn't done so yet, a company source said. CNOOC, which has term contracts for U.S. LNG, has been forced to swap U.S. gas for non-U.S. gas to avoid the 25% tariffs.

**Virus may relieve China of unachievable U.S. energy purchases**

(Financial Times commentary; London; Feb. 17) - Leaders in Beijing probably let out a sigh of relief when the U.S.-China Phase 1 trade deal was signed in mid-January. Even though China had committed to buying astronomical volumes of U.S. commodities, it was a small price to pay. Not because this would fix China's deteriorating ties with the U.S., but because it would give Beijing time to focus on shoring up its flailing economy.

But then the coronavirus hit. Quarantines, industrial shutdowns and travel restrictions ensued. Now even though the country is returning to work gradually, many office buildings remain unoccupied and the country's usually congested roads are eerily empty. As the Chinese economy came to a virtual standstill just weeks after the ink on the deal had dried, its commodity demand has also taken a hit. China's oil demand is estimated to have fallen by about a third. Chinese gas demand has plummeted, too.

It is hard to see how China can scale up its purchases of U.S. energy products in line with the trade deal it signed with Washington. And even if gas demand growth recovers this year, domestic production is increasing and China now has pipeline gas coming in from Russia. The coronavirus — as distressing as it is — could be China's get-out-of-jail card. Beijing made it clear in the trade deal that purchases will be based on economics and market demand. If market demand isn't there, neither is the buying binge.
LNG market could get worse before it gets better, warns analyst

(Australian Financial Review; Feb. 19) - The "mess" of the liquefied natural gas market with force majeure declarations, rejected and redirected cargoes, and pricing disputes amid a supply glut is much worse than expected, but offers hope for a sharp rebound, said energy consultant Fereidun Fesharaki. The collapse in LNG spot prices to US$2.50 to US$3 per million Btu due to the impact of the coronavirus on China’s demand shows there’s a lot more pain to come, said Fesharaki, chairman of FACTS Global Energy.

He pointed to the likely shut-in of some LNG export capacity, delays to proposed new projects and mounting losses for buyers forced to resell expensive gas they do not need among the consequences. “Every LNG importer is facing substantial losses” on their oil-indexed contract purchases, which are well out of the money compared to ultra-low spot-market prices, Fesharaki said. But those low spot prices are burning suppliers.

FGE estimates importers buying contracted cargoes are suffering losses of 50% to 70% on excess LNG they are forced to resell on the spot market. Kyushu Electric reported losses from the resale of LNG at $243 million for the first nine months of its fiscal year.

Fesharaki said there’s a 40% chance of a further slump in spot prices to below US$2.50 or even below US$2, but that would trigger a sharp upturn in demand at the same time as some exporters shut down capacity or extend maintenance. "Many buyers, new and old, will see this as a golden opportunity to increase gas consumption at lower prices, resulting in higher levels of demand than we have all assumed.” Fesharaki said that could lead to prices rebounding to US$4 to US$6 even before the winter of 2020-21.

China’s natural gas consumption slipped 1% in January

(Reuters; Feb. 17) - China’s natural gas consumption in January saw its first year-on-year contraction in at least two years, data compiled by Chongqing Petroleum and Gas Exchange, a government-backed energy trading platform, showed Feb. 17. Last month the country consumed 1.115 trillion cubic feet of gas, down 1% from a year earlier. The decline was stoked by a 14% fall in demand from industrial users and a 10% drop from power utilities, offsetting an increase from city gas users and chemical producers.

Several analysts have cut their forecasts for gas demand in China, the world’s top gas importer, as the coronavirus outbreak in the country is expected to depress industrial, commercial, and transportation appetite for the fuel over the next few months.
Russian gas line to China could be a loss-leader

(South China Morning Post commentary; Feb. 16) – Loss-leader pricing is selling a product below cost to get customers through the door to buy more profitable items. Add Russia’s Gazprom to the list using that tactic. The US$55 billion Power of Siberia gas line is Gazprom’s most expensive project, with cost recovery estimated at 10-15 years. But with oil prices — to which gas prices are indexed — about 40% lower than in 2014 when the deal was signed, the pipeline will be either borderline profitable or a loss.

The pipeline is often regarded as Russia’s blowback against sanctions imposed by Europe and the U.S. following its annexation of part of Ukraine; a way for Russia to play off Europe’s gas demand against China’s; and a reminder that China, a major market for U.S. LNG, has alternatives. But that last one is not quite accurate. Northeastern China — the area supplied by the line’s first phase — lies outside the target customer base for U.S. LNG deliveries. Moreover, gas from the pipeline is meant to displace the heavy use of coal in the region, rather than compete with other gas sources such as U.S. LNG.

Yes, the pipeline may increase China’s dependence on Russian gas from almost zero to one-sixth of China’s import requirements and 9.5% of its total gas consumption. But given that China has a well-diversified base of gas suppliers and supply routes, the new dedicated pipeline to China may leave Russia with increased dependence on Chinese sales instead. All of this suggests that the line makes sense only as a loss leader to entice China to sign off on a broader range of energy and other projects with Russia.

European utilities look to bail out on LNG trading

(Bloomberg; Feb. 17) - A plunge in prices is shaking some of the more marginal players out of the liquefied natural gas market, chilling what until recently was the hottest part of the energy industry. Major utilities from Orsted in Denmark to Iberdrola in Spain are exiting the trading business. Spain’s gas and electric company Naturgy Energy Group has made no secret it isn’t comfortable with the volatility of LNG and was reportedly considering an exit. Vattenfall of Sweden won’t even think about entering the trade.

The moves drain momentum from a push by companies in almost every corner of the energy industry to start trading LNG. Over the past decade, commodity trading houses and oil majors have joined other utilities such as Germany’s RWE electric utility in building their trading desks and investing in new facilities to handle the fuel. “Now it is a pretty painful moment for the LNG market with such low prices,” said Frank van Doorn, Vattenfall’s head of trading. Asian spot prices have fallen below $3 per million Btu.

New export projects from Australia to the U.S. have flooded the market with supplies at the moment that warmer weather and the coronavirus in China curbed demand. The result is full storage tanks in Europe and prices for the fuel testing record lows. Lower
prices are putting some LNG exporters in a tough situation where they must decide whether to shut in production or accept losses in delivering cargoes at prices that won’t cover their costs, said Domenico De Luca, head trading at Swiss energy utility Axpo.

**LNG project developers face big challenges in Mozambique**

(The Globe and Mail; Canada; Feb. 16) - A remote parcel of land in northern Mozambique is attracting US$55 billion in planned investment by multinational companies in an emerging gas boom of extraordinary proportions. The site is the Afungi Peninsula, on the Indian Ocean coast near Tanzania. Companies such as ExxonMobil and Total are pouring billions of dollars into offshore gas projects around the peninsula. A city of 150,000 is being planned on a site where just a few thousand now live.

The boom will transform the economy of one of Africa’s poorest countries. Standard Bank, a South African bank and a major financier in the projects, said the projects could turn Mozambique into the world’s fourth- or fifth-largest LNG producer. The International Monetary Fund said the projects “could lift millions of people out of poverty.”

But the projects face some big challenges: a raging Islamist insurgency in northern Mozambique; the threat of pirate attacks on supply ships; angry protests over jobs going to outsiders; and an economy plagued by gross inequality and state corruption. Total and ExxonMobil this month reportedly asked the government to send military personnel to guard their operations in the northern province where an insurgency has killed more than 500 people and forced 100,000 to flee their homes over the past two years.

In addition, hundreds of people are being resettled to make room for onshore plant construction, adding to the unrest. Mozambique could begin exporting gas as early as 2022. The government’s strategy is to generate enough income from the projects to benefit low-income people across the country. But this will take careful planning.

**Texas wells flared $1.3 million of gas a day in 2018**

(Houston Chronicle; Feb. 19) - Burning surplus gas from oil wells, or flaring, has reached levels not seen in Texas since the 1950s, said a report released Feb. 18 by Texas Railroad Commissioner Ryan Sitton. In 1953, with an oil boom producing more gas than companies could sell, a record 815 million cubic feet per day of gas was flared. Today, wells across the state — particularly at fracking sites in West Texas — again are producing more gas than pipelines can move, raising flaring volumes to an estimated 650 million cubic feet a day in 2018 — more than twice the 268 million a year earlier.
At current market prices, the 2018 flared gas would have generated $1.3 million of revenue per day. Sitton, one of three elected commissioners who oversee the state’s oil and gas industry, said he released the report to provide more data about the issue and to help environmentalists, companies, regulators, and landowners develop solutions.

Options include building more pipelines and gas-processing plants, halting production at wells with the worst flaring rates, and setting flaring goals for companies. Using publicly available data on the agency’s website, Sitton compared the amount of gas a company flared to the amount of oil produced from November 2018 to October 2019. Oklahoma City-based Continental Trend Resources was the most flaring-intensive company operating in Texas, according to the index. Continental produced 62 barrels of crude per day from its Texas Panhandle wells and burned 181,000 cubic feet of gas per day.

Idled, bankrupt pipeline forces Utah to approve gas flaring

(Salt Lake Tribune; Feb. 16) - Millions of cubic feet of gas are being wasted in a ball of flame while Utah regulators and a bankruptcy court determine the fate of an idled pipeline. The Paradox pipeline connects to a major interstate line, passing oil-producer Wesco Operating's Blue Hills plant that processes gas coming from its 18 oil wells in a popular recreation area northwest of Moab. Without access to the Paradox line, which regulators have designated as “hazardous” because its operator has long ignored safety standards, Wesco has been flaring much of its gas since June with no end in sight.

The Utah Division of Public Utilities wants the line shut down to protect public safety, while the Division of Oil, Gas and Mining is seeking ways to keep it in service so that Wesco can get its gas to market instead of burning it, resulting in wasted resources, lost revenue, and pollution. Faced with only bad options, a state board last month chose to deactivate the line and authorize Wesco to torch up to 300,000 cubic feet of gas a day.

The board could have asked Wesco to choke back production at its wells, but the state feared that such a move could damage the reservoir and strand vast amounts of oil and gas underground. The board did not have much choice. Wesco would have been within its rights to flare gas at all of its 18 wellheads. Board members agreed it was better to allow one flare at the plant rather than see 18 separate flares.

Bankrupt Pacific Energy and Mining had been operating the Paradox pipeline until last year, when the state lost patience with the company’s failure to adhere to various safety and bookkeeping requirements. The state has proposed putting the pipeline in receivership so it could be returned to service in the hands of a “prudent” operator.
Saudi energy minister voices concerns over oil markets

(Bloomberg; Feb. 19) - Saudi Arabia has given the clearest signal yet of its concerns about the impact of the coronavirus on oil markets and prices, comparing the situation to a blaze that needs the fire brigade. In his first public comments on the virus since January — when he said the epidemic would have a “very limited impact” on oil demand — Saudi Energy Minister Prince Abdulaziz bin Salman described more urgent circumstances to an audience in Riyadh on Feb. 19.

The prince equated the impact of the coronavirus on oil markets with a burning house, according to people who heard the comments but asked not to be named because the event was closed to the press. You can either treat it with a garden hose and risk losing the building, or call the fire brigade, he said. Some would say that calling the fire brigade projects panic and could damage the furniture, the prince said. But doing so would simply be acting responsibly, and you would save the house, he said.

The prince’s statements offer an explanation of why, behind closed doors, Saudi Arabia has been an advocate for an emergency meeting of OPEC to deepen members’ production cuts and help boost prices. Despite those efforts, the group seems to have abandoned tentative plans for talks in February after the kingdom failed to persuade Russia. The global benchmark Brent crude started the year at almost $69 a barrel before falling to $53 last week. It has since recovered a bit, reaching $59 on Feb. 19.

Oil traders rent storage, waiting for demand in Asia to recover

(Reuters; Feb. 16) - Top oil traders have rented millions of barrels of crude storage in South Korea this month to hold excess supplies, betting on a demand spike after China recovers from the effects of the coronavirus outbreak, trading sources said. Supplies in the region are piling up after refineries in China, the world's largest crude importer, cut their output by about 1.5 million barrels per day over just the past two weeks.

Trading firms Trafigura, Glencore and Mercuria as well as the trading division of French oil major Total have rented close to 15 million barrels of storage tanks from South Korea’s state oil firm Korea National Oil Corp., they said. The traders took on the new leases for three or six months, with a contango market structure in which longer-dated oil futures trade at a premium, providing a profit to defray some of the storage costs while they wait for demand to rebound after China recovers from the outbreak.

The virus has severely hit prompt demand, causing a build-up of crude intended for sale to Chinese refiners after the Lunar New Year holidays, traders said. Traders are betting on a buying spike once the virus is contained and China's major refiners ramp up operations, the sources said. Trading firms have also been booking some short-term floating storage.
New Kuwait/Saudi output could hit 550,000 barrels a day by year-end

(S&P Global Platts; Feb. 17) - Crude oil production from the neutral zone where Saudi Arabia and Kuwait share output equally will reach 550,000 barrels per day by the end of the year after a pumping trial from the region started on Feb. 16, according to a new estimate from Kuwait’s oil minister. Saudi Arabia and Kuwait will gradually ramp up production from the offshore al-Khafji field and the onshore Wafr field, Khaled al-Fadhel said, Kuwait’s state-run KUNA news agency reported.

Al-Khafji is owned by Saudi Arabia’s Aramco Gulf Operations Co. and Kuwait Gulf Oil Co. (KGOC), a unit of state-run Kuwait Petroleum Corp. Wafr is operated by KGOC and Saudi Arabian Chevron. Saudi Arabia and Kuwait signed agreements in December to restart production from the neutral zone which has been shut in for more than four years. Oil ministers in both countries have said that resumption of output from the fields would not override their commitments to adhere to OPEC+ production cuts.

OPEC+ is in the midst of trimming 1.7 million barrels per day from global oil markets through the end of March to soak up an expected supply surplus. The coalition, which deepened cuts from 1.2 million barrels a day implemented in 2019, is mulling shaving an additional 600,000 barrels per day of output to deal with the impact on global oil demand from the deadly coronavirus. The agreements also include a provision to start studies on developing the Dorra gas field in the neutral zone, al-Fadhel said.

S&P warns $40 oil would hurt credit ratings of Gulf nations

(Reuters; Feb. 16) - A sustained drop in oil prices to $40 a barrel as the world weans itself of fossil fuels would cut Persian Gulf exporters’ sovereign ratings by two notches over time, leaving the average credit score just above junk status, S&P Global said Feb. 16. A report by the agency said a “hypothetical long-run stress test” where oil prices fell to below $40 by 2040 suggested the average rating of Gulf sovereigns could fall by two notches from BBB+ to BBB-.

Hydrocarbons contribute, on average, 81% of central government revenues for Gulf sovereigns — the countries of the Gulf Cooperation Council plus Iraq — and the pace of economic diversification is expected to remain gradual. Brent crude prices fell to almost $53 last week but have been averaging just over $60 since tumbling down from over $115 a barrel in 2014.

By 2027, the S&P paper estimated a deterioration in countries’ fiscal positions would push the average rating of Gulf sovereigns down to BBB from BBB+. As it got closer to 2040, they would fall again, dropping the average down to BBB-, the last rung of the coveted investment grade bracket that tends to lower a country’s borrowing costs. Below that level, ratings move into junk or non-investment grade territory, which some large pension funds and asset managers are not permitted to invest in.