Oil and Gas News Briefs
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Platts forecasts spot LNG in Asia could dip below $3 this summer

(S&P Global Platts; Jan. 17) - The LNG spot price for delivery into North Asia is headed for a historic low in the coming months with the possibility of dropping below $3 per million Btu as rising supply outpaces weak winter demand, S&P Global Platts Analytics said in its weekly price forecast on Jan. 17. Record-low LNG spot prices will have major repercussions for the industry and will be a stress test for producers with exposure to spot indexes and buyers forced to pay high oil-linked prices under long-term contracts.

The Japan Korea Marker "is expected to fall close to $3 in the months ahead, which would leave the potential for sub-$3 assessments on select days this summer," the forecast report said. Platts attributed the price drop to relatively weak demand growth amid warmer-than-normal temperatures and weakening economic activity in Northeast Asia. Earlier on Friday China's gross domestic product growth came in at 6.1% for 2019, down from 6.6% in the previous year and its slowest growth rate in about 30 years.

The Platts price assessment for March, the new front month, was $4.275 on Jan. 17. New supplies coming to market means that 2020 is likely to be even weaker. However, "the cure for low prices, is low prices," and the potential for very low prices should start to incentivize demand, said Jeff Moore, Asia LNG analytics manager at S&P Global Platts. The low prices also could test short-run marginal costs of supply as producers struggle to cover their expenses. The Asian spot price for LNG peaked at $20 in 2014.

Sinopec negotiating with Cheniere for major U.S. LNG purchase

(Reuters; Jan. 17) - China's Sinopec, expected to be the next major Chinese buyer of U.S. liquefied natural gas, is planning to review terms of a potential $16 billion supply deal with Cheniere Energy after a sharp drop in LNG prices, industry officials said. Sinopec and Cheniere had been expected to sign the 20-year deal once a trade truce was reached between Beijing and Washington. Sinopec declined to comment, while Cheniere did not respond to a request for comment.

"(The deal) will be renegotiated ... over delivery terms and price," said an industry executive with knowledge of the matter, who declined to be named as the matter is not public. "It may not be tough but will take time." Another source familiar with the talks said many items needed to be reviewed as U.S. gas prices have more than halved since late 2018. "Sinopec is talking to several other U.S. suppliers," said the second source. "It's really not clear at this stage what will come out."

Sinopec, as one of China's few state buyers with appetite to sign new multi-year LNG supply deals, also needs to lobby Beijing to remove or rebate a 25% tariff that has made U.S. imports uneconomical, one of the sources said. Sinopec, which plans to more than double its LNG receiving capacity to 41 million tonnes a year by 2025, emerged last year as China's biggest spot buyer of LNG, as it is a much smaller purchaser under long-term deals than PetroChina or CNOOC. As they are already committed to other long-term contracts, those two are much less likely to seek new U.S. supply deals.

It will take a massive boost for China to fulfill U.S. energy purchases

(Reuters commentary; Jan. 15) – One question for energy markets is whether China can actually buy the amount of crude oil, coal, and liquefied natural gas it has apparently committed to under the trade truce with the United States. The terms of the deal imply an absolutely massive increase in Chinese imports of U.S. energy. China has agreed to buy at least $52.4 billion in energy over the next two years, from a baseline of $9.1 billion in 2017. It's worthwhile to put these figures in context.

For oil, the best-ever month for China's imports from the U.S. was June 2018, at 14 million barrels, according to Refinitiv data. If that record volume is annualized, it would mean that China would buy 170 million barrels, worth $9.8 billion at the current price.

For LNG, the record month for China's U.S. imports was January 2018, when 452,000 tonnes of the fuel arrived. If this top performance is annualized it would mean LNG imports of 5.42 million tonnes, which at the current spot price of $5.30 per million Btu equates to a value of about $1.54 billion. For coal, the record was February 2017, when imports from the U.S. were 957,000 tonnes. Annualized, that's a value of $1.77 billion.

Under this scenario, the combined value of the highest-volume years comes to $13.13 billion. This means that for China to reach the 2020 target of $27.6 billion in energy imports from the U.S., it would take more than a doubling of the record months achieved in the past. While this seems unlikely, it remains to be seen how China's existing suppliers would react to losing market share and what it would do to global prices.

U.S. oil and gas exporters face economic challenges selling to China

(Bloomberg commentary; Jan. 18) – Even with last week's trade deal, how U.S. oil and gas producers fare against other suppliers much closer on the map to China may depend as much on economics as on politics. China committed to massively increasing its purchases of U.S. crude oil, refined products, liquefied natural gas, and coal. But

U.S. exporters may not have an easy job in prying open the Chinese market, especially if China's import tariffs of 5% for U.S. oil and 25% for LNG and propane remain in effect.

U.S. LNG exporters may find it particularly difficult. China imported 4.29 trillion cubic feet of gas in 2018, according to the BP Statistical Review of World Energy with about 60% of that as LNG and the rest delivered by pipeline from countries in Central Asia. China's biggest LNG suppliers — Australia, Qatar, Malaysia, and Indonesia — are all much closer than the U.S., which gives them significant shipping-cost advantages. U.S. gas feedstock prices will have to stay low enough to offset that cost disadvantage.

The list of other potential hurdles is long. There will be greater competition from pipeline gas supplies with the December 2019 start-up of the Power of Siberia link from Russia's East Siberia. And all gas suppliers will face the challenges of weaker Chinese demand growth as the country faces economic headwinds and a plethora of competitive supply options, according to consultancy group Wood Mackenzie. China's own gas production is projected to rise by 9% this year making a dent in its import needs.

Traders provisionally charter tankers to take U.S. oil to China

(Reuters; Jan. 15) - U.S. oil and gas exports should jump over the next two years if China fulfills its pledges to increase energy purchases under the trade deal signed on Jan. 15, executives and traders said. The accord did not specify quantities but commits China, the world's biggest oil importer and second-largest liquefied natural gas importer, to buy $52.4 billion of U.S. energy supplies over the next two years.

However, uncertainties about implementing the purchases remain and market reaction was mixed. China's commitments under the deal amount to an increase of $18.5 billion in 2020 and $33.9 billion in 2021 from a baseline of $9.1 billion in 2017. The deal, however, did not change China's 25% tariff on U.S. LNG. As for oil, traders including Vitol and Trafigura provisionally chartered four to eight supertankers to load U.S. crude for China this month and next, data from Refinitiv, Kpler, and Vortexa showed.

The agreement "is a step in the right direction that will hopefully restore the burgeoning U.S. LNG trade with China," said Jack Fusco, chief executive of Cheniere Energy, the largest exporter of U.S. LNG. "New long-term LNG deals need to be signed, on top of incremental short-term and spot trading, to achieve those ambitious numbers," said Li Yao, founder and chief executive of SIA Energy, a China-focused energy consulting firm. "Oil as well, as they are the biggest in value and quickest to execute."

China may have problems attracting foreign investment in oil and gas

(Bloomberg commentary; Jan. 12) - New horizons in previously closed markets are opening for the world's energy companies, but don't expect to see a land rush any time soon. China will allow large domestic and foreign companies to apply for oil and gas exploration licenses that were previously only open to state-owned enterprises. In India regulators will let private and international companies bid for a group of coal blocks at auction this month, chipping away at the near-monopoly of state-controlled Coal India.

A decade or so ago, such announcements might have caused international energy companies to salivate with excitement. How things have changed. For one thing, it's national governments rather than independent companies that are now worried about supply shortages. China's domestic oil production has fallen about 10% since peaking five years ago. India's coal output is still edging up, though not fast enough for demand. But the oil-and-gas geology of both countries is difficult, and return on investment weak.

Meanwhile, energy companies are awash with global supply. Oil and gas discoveries are booming, hitting a four-year high of 12.2 billion barrels of oil equivalent last year, reports consultancy Rystad Energy. As a result, the interests of producers and the energy-hungry governments seeking to attract them are fundamentally opposed: The companies don't necessarily need more supply, but the governments want more domestic supply and lower prices. It's fanciful to think this would tempt foreign investors.

Supreme Court of Canada rejects B.C. effort to stop oil pipeline

(Financial Post; Canada; Jan. 16) - The Supreme Court of Canada has unanimously rejected British Columbia's move to regulate the flow of heavy oil across its borders, resolving one of the last court challenges to the Trans Mountain pipeline expansion project. After all-day hearings Jan. 16, Supreme Court justices dismissed B.C.'s appeal of a lower court decision which found that interprovincial trade is federal jurisdiction and the flow of commodities such as oil should be overseen by federal regulators.

"We are all of the view to dismiss the appeal for the unanimous reasons of the Court of Appeal for British Columbia," Chief Justice of Canada Richard Wagner said from the bench after dozens of lawyers from across the country presented arguments. The B.C. Court of Appeal, the province's highest court, ruled in March 2019 that the province cannot restrict the flow of heavy oil from Alberta across its border.

"At the end of the day, the (National Energy Board) is the body entrusted with regulating the flow of energy resources across Canada to export markets," Justice Mary Newbury wrote in her decision, which also noted, "the project is not only a 'British Columbia project'." The case was widely seen as an attempt by B.C. Premier John Horgan to stop the project. The court decision is a major positive for the 590,000-barrels-per-day project, which is under construction between Edmonton and Vancouver. Opponents say it presents environmental risks, particularly tanker spills in coastal waters.

California sues to block BLM plan to open 1 million acres for drilling

(Reuters; Jan. 17) - California on Jan. 17 sued the Trump administration over its plan to open up more than a million acres of public lands in the Golden State to oil and gas drilling. The lawsuit, California's 36th challenge to the administration's environmental policies, alleges the U.S. Bureau of Land Management failed to adequately consider the adverse effects drilling would have on the people and environment in eight Central California counties. BLM officials did not immediately provide comment.

The state's lawsuit comes two days after eight environmental groups filed a similar suit challenging BLM's conclusion in December that opening the lands to oil and gas development presents no health risks from hydraulic fracturing. BLM was required to do that analysis as part of a 2016 legal challenge to its oil and gas drilling plan. BLM had agreed not to hold any oil and gas lease sales within the Bakersfield area until the analysis was completed. BLM has not held a lease sale in California since 2013.

"They short-changed the people, they short-changed the law, they short-changed the science when it came to their analysis," Attorney General Xavier Becerra said at a press conference in Sacramento that was streamed on the internet. "They didn't do what the court told them to do several years ago. Look at the hard evidence. They never took a hard look." The administration's plan covers lands in Fresno, Kern, Kings, Madera, San Luis Obispo, Santa Barbara, Tulare, and Ventura counties.

Florida will buy land in Everglades to protect it from oil drilling

(Miami Herald; Jan. 15) - A swath of land in the Florida Everglades at the center of a fight between a family determined to drill for oil and a constellation of parties urging them not to drill might finally have a new future. The state intends to buy the 20,000-acre tract outright and halt the threat of oil drilling on the protected lands near Broward County's western suburbs, Gov. Ron DeSantis announced Jan. 16.

The seller, a Miami family who made its fortune in real estate, won the right to drill for oil on its land last year, despite opposition from the state. "This will permanently save the land from oil production," DeSantis said. "With this acquisition, there will be nearly 600,000 acres of wetlands in Water Conservation Area Three that will be protected by public ownership for recreation and restoration." The family agreed to sell the land for $16.5 million, but that goes up to $18 million if the deal doesn't close by June 30.

The Kanter family originally purchased the land more than 50 years ago with plans to build a new city in the Everglades. In 2015 they asked the state for a permit to hunt for oil on their land. The state's Department of Environmental Protection turned them down, but the Florida Court of Appeal reversed the decision in February. According to testimony in the case, there is only a 23% chance of finding oil on the site, but if it were discovered, it could produce 180,000 to 10 million barrels if oil were at $50 per barrel.

Study adds up emissions from U.S. Gulf Coast oil and gas expansion

(Bloomberg; Jan. 14) - Access to cheap natural gas has helped displace coal and cut greenhouse gas emissions. But it's also prompted a massive buildout of fossil fuel infrastructure along the U.S. Gulf Coast that one study says could increase carbon emissions by half a billion tonnes a year. A long list of petrochemical plants, liquefied natural gas terminals and other facilities have been proposed or permitted on the Texas and Louisiana coasts as companies seek to tap cheap shale gas from nearby oil fields.

If all of them are built, they could add more than 500 million tonnes of carbon emissions annually by 2030, according to a study published in Environmental Research Letters. That's equal to about 10% of current U.S. emissions, or the equivalent of 131 power plants burning coal. The new study from the University of Texas at Austin finds that as much as 70% of all emissions from oil and gas buildout could come from midstream (pipelines) and downstream (petrochemical and LNG plant) emissions.

Gas is frequently lauded as a "bridge fuel" — a substitute for coal and other dirtier fuel until cheap energy storage makes solar and wind power as flexible a source of energy as fossil fuels. But many environmentalists and some policymakers argue that building costly new infrastructure further commits the U.S. to fossil fuel dependence at a time when climate change requires a dramatic move toward lower-carbon energy sources.

Declining solar power costs could put cap on oil prices

(CNBC; Jan. 16) – The cost of producing electricity from solar energy has in the past two years been lower than that of fossil fuels — and that "permanent change" will limit how high oil prices can climb, according to Citi. That shift is coming at a time when global oil supply is running ahead of demand, which is already weighing down on energy prices, David Bailin, chief investment officer at Citi Private Bank, said Jan. 16.

As evidence of the limited upside in oil prices, Bailin pointed to last year's drones attack on the world's largest oil processing facility in Saudi Arabia. The attack on two Saudi Aramco facilities cut Saudi oil production by half and the world's daily output by 5%. "We saw an 11-day impact in the markets: The initial spike of as much as 8% in oil prices, and then it was 4% and then ultimately down to zero," Bailin said.

"It's going to take something much bigger to make a permanent impact on oil prices and have them sustainably higher," he added. A shift from oil, gas, and coal to solar power in electricity generation will be "the ultimate cap" on prices of fossil fuels, said the CIO. "We believe that's a permanent change. In fact, our clients were investing in that as an unstoppable trend because now you can identify that cost point, it's a great opportunity."

Arctic cold freezes oil sands crude, making it difficult to move

(Bloomberg; Jan. 15) - An Arctic blast sweeping across Western Canada is weighing on the price of heavy crude. Readings of minus 22 Fahrenheit and lower have descended on Alberta and Saskatchewan — cold enough to render the region's viscous oil rock solid. To transport it, producers must blend in more of a lighter crude called condensate, reducing the volume of heavy crude that can be shipped by pipeline and increasing transport costs, said Kevin Birn, IHS Markit's director of North American oil markets.

At the same time, trains that are shipping crude out of the pipeline-bottlenecked region must move slower in the frigid weather. Oil sands benchmark Western Canadian Select's discount to West Texas Intermediate futures was at $24.50 a barrel on Jan. 15, the widest loss for Canadian producers in more than a year.

In addition, natural gas supplies to parts of the oil sands-producing region, where the gas is burned to make steam for loosening bitumen so it can be extracted, were disrupted on the NOVA Gas Transmission system. "Extreme cold weather has resulted in reduced receipts, high demand and unplanned outages," according to a notice from system operator TC Energy. "As a result, some central and northeast Alberta industrial customers are affected by lower-than-usual gas pressures," TC Energy said in an email.

Schlumberger will cut back U.S. operations as shale work slows

(Wall Street Journal; Jan. 16) - The world's largest oil-field services company, Schlumberger, is pulling back from the U.S. and focusing on international projects as a slowdown in shale drilling reverberates through the industry. CEO Olivier Le Peuch said Jan. 17 that diminishing U.S. shale production growth will create greater market reliance on production outside the U.S. The company is positioning itself, he said, restructuring its business and reducing its U.S. fracking fleet by 50% while diverting spending abroad.

The company reported a more than $10 billion net loss for 2019 due to more than $12 billion in write-downs, most of them related to U.S. assets. Meanwhile, prospects abroad have grown brighter for the company. International revenue grew 7%, compared with a 10% decline in North America. Investors have cut off cash infusions to shale producers, after frackers have largely failed to turn a profit for years.

Meanwhile, technology gains in the shale patch have slowed as drillers struggle to wring more oil from each well. Those factors have forced austerity on shale producers, whose dwindling budgets have had a severe impact on the service companies that drill and frack their wells. Going forward, Schlumberger will reduce its operating locations by 25%, focusing on only three hubs near the largest U.S. shale basins. In addition, the company has laid off more than 1,400 employees in North America.

German government pledges $56 billion to phase out coal power

(Wall Street Journal; Jan. 17) - A top German utility said it would cut thousands of jobs tied to the country's phase-out of coal, as the government pledged nearly €50 billion in aid to German regions, moves reflecting the country's struggle to transition to cleaner power sources. RWE said Jan. 16 the country's planned exit from coal would lead to some 6,000 job cuts by 2030, more than 25% of its total workforce. The government pledged the aid, worth about $56 billion, to regions and workers affected by the plan.

Germany's coal phase-out plan marks a milestone in its transition to renewable energy. A government panel a year ago recommended to stop coal burning to create electricity by 2038 at the latest. But Berlin and regional leaders struggled to find a compromise on how to compensate coal-mining regions and power-plant operators. Germany is the only country in the world that is phasing out coal and nuclear energy simultaneously.

Critics have said the climate strategy is failing because it has given Germany some of the highest electricity prices in Europe while failing to deliver promised emission cuts. Germany aims to generate 65% of its electricity from renewables by 2030, up from 42% today. The coal exit plan mandates €40 billion in compensation for the states of Saxony, Saxony-Anhalt, North-Rhine-Westphalia, and Brandenburg. RWE will receive €2.6 billion from the government for starting to shut down its coal mines at the end of this year and €1.75 billion will go to LEAG, eastern Germany's largest energy and mining company.

Russia approves new airport for Arctic LNG-2

(Barents Observer; Norway; Jan. 14) - Russian government consultants have approved a natural gas company's plans for an airport in the Gydan Peninsula, on the tundra on the eastern side of the Gulf of Ob. The airport will serve the Arctic LNG-2 project, currently under development by Novatek which already operates the Yamal LNG terminal nearby. The Yamal project airport includes an 8,800-foot runway.

Glavgosekspertiza, the Russian federal institution authorized to conduct official examinations of documentation for construction projects, approved the airport on Dec. 27. It will be built in two phases, the first of which will include the runway, taxiways, navigational equipment, and passenger and service personnel buildings. Communications, connecting roads, electricity, and gas-supply infrastructure will be included in the development. The second phase will include a commuter hotel and technical buildings.

Pakistan would like to take advantage of low LNG prices

(S&P Global Platts; Jan. 16) - Pakistan may take advantage of low spot prices and boost its liquefied natural gas imports in 2020 to meet the country's growing demand for fuel amid declining natural gas production at home, but infrastructure constraints mean the country will only post a modest growth in inflows, analysts told S&P Global Platts.

With Pakistan turning out to be one of the fastest growing LNG markets since it first started importing in 2015 — imports rose to 8.4 million tonnes in 2019 from 6.8 million in 2018 — there was an urgent need to speed up import capacity expansions, the analysts said. "Pakistan represents a market that could take advantage of the low spot-price environment and import more LNG to feed its growing natural gas demand," said Jeff Moore, manager, Asian LNG Analytics, at Platts Analytics.

The benchmark for spot Asian LNG prices has fallen more than 40% from the beginning of 2019 to about $5.20 per million Btu by the end of the year due to a wave of new supply from Australia and the U.S. and slowing demand growth in China. Platts Analytics forecasts Pakistan’s LNG imports to pick up to 12.4 million tonnes in 2021 if the country can bring in another floating storage and regasification unit relatively quickly, with imports expected to exceed 17 million tonnes by 2025.

Opponents say they will refuse pipeline workers access to land

(Reuters; Jan. 16) - An Indigenous group that opposes construction of the Coastal GasLink pipeline in British Columbia will refuse workers access to their land, but in peaceful fashion, according to one of its chiefs. The statement comes after Royal Canadian Mounted Police established a checkpoint on Jan. 13 for access to a remote, forested area along Coastal GasLink’s route, aiming to avoid a repeat of protests a year ago that resulted in arrests.

Police last week launched a criminal investigation after finding trees partly cut and ready to fall, and stacks of tires with jugs of accelerant and fuel-soaked rags at a location on the pipeline route. The C$6.6 billion pipeline, to be operated by TC Energy (formerly known as TransCanada), would transport gas from near Dawson Creek in northeastern

B.C. to Kitimat, B.C., for the country's first large-scale liquefied natural gas export terminal, the Shell-led LNG Canada project, which is under construction.

Coastal has the support of all First Nations along the route, but hereditary chiefs of the Wet'suwet'en Nation, through which 28% of the route passes, oppose it. Chief Na'moks of Wet'suwet'en's Beaver Clan said the chiefs will never support the pipeline on their land. "We'll maintain our stance of absolute opposition as well as remaining peaceful," Na'moks said. "We're not letting them have access." The route runs near rivers that provide salmon for Wet'suwet'en and through pristine forest, Na'moks said.

Opponents pledge to step up fight against LNG in Australia

(Sydney Morning Herald; Jan. 17) - The message from Western Australia's LNG sector that they are part of the climate change solution isn't mollifying environmental groups that have flagged legal challenges and further protests to keep Australia's biggest polluters in check. Australia is now the world's biggest liquified natural gas producer and promotes itself as the perfect stopgap between current energy sources and whatever comes next as gas produces about 40 percent less carbon dioxide than coal power.

However, this argument hasn't convinced the Western Australia Conservation Council. The transition-fuel argument was one of convenience and the industry backlash against a move by the state's environmental regulator last year to enforce net-zero emissions proved they were blockers of any real climate action, said Piers Verstegen head of the council. He warned that not only would protests become more frequent, but developers trying to raise cash for new or expanded LNG projects would be targeted.

He said the council was exploring legal options to "delay or block" new developments. "We're scrutinizing the nature of the approvals that have been given already ... we are already very concerned that they're not properly taking into consideration climate change and carbon risk," he said. "Certainly, we'll be seeking opportunities to challenge those in the courts if there are approvals that are given that don't properly consider those kinds of impacts."