Oil and Gas News Briefs
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Crude held in storage in China reenters the market

(Bloomberg; July 19) - Some oil from China's swelling storage tanks is finding its way into the international market as traders jump at the opportunity to source cheap crude for resale to regional refiners. The shipments in question, so far just 1 million barrels, have been procured by trading houses via the Shanghai futures exchange, and loaded from the exchange's numerous storage tanks that dot the country's eastern coast.

From these Chinese ports, the cargoes were shipped to international buyers that would have otherwise sourced such supplies from producers across the Mideast and Africa. While China will never compete with the likes of Saudi Arabia as a supplier in the long run, the trickle of crude out of the world's No. 1 importer underscores how fragile oil's recovery remains. China went on a record buying spree to fill its reserves with low-cost supplies, helping prices double from April lows. Now the purchases are slowing and some of those stockpiles are hitting the market just as OPEC+ prepares to raise output.

The oil is coming from the 14 depots designated as delivery and storage points for the Shanghai International Energy Exchange's oil futures trading contracts. The exchange had a total of 39 million barrels of medium-sour grades in storage as of this July 16, up more than 10-fold since April 20. Two South Korean refiners purchased about 500,000 barrels each of Oman crude from the depots in China with one of the cargoes already leaving port and headed toward Yeosu, according to people familiar with the matter.

After record June, China is importing less oil

(Bloomberg; July 16) - Is it a pause, or something more profound? Either way, China's crude purchases are stuttering, helping to put the global oil price rally on hold. At least for now. While the world's biggest importer took delivery of record amounts of crude in June, traders report that the country's buying interest has cooled notably in recent weeks, taking away a key support for a strengthening global market for crude.

To be clear, nobody is saying that China's rapid recovery in underlying oil demand is going into reverse, but a huge wave of purchasing in June had two effects. First, it swelled China's crude inventories and eased the pressure to buy now. Second, it resulted in a huge backlog of vessels waiting to unload — a logistical constraint that some traders say is curbing buying now.

“This could put pressure on oil prices in the upcoming months,” said Carsten Fritsch, an analyst at Germany’s Commerzbank. “The pace of Chinese crude buying was unsustainable. … Be prepared for lower figures in the upcoming months.” Based on tanker tracking and customs data from 27 producer countries, exporters loaded about 2.55 million barrels a day, or 22%, less crude for China last month than they did in May. The diminished June loadings are likely to show up in July and August imports data, and traders say buying has remained subdued into this month.

China’s flow of crude into storage likely at all-time high

(Reuters commentary; July 19) - China’s refineries imported and processed record amounts of crude oil in June, and while these are undoubtedly bullish economic signals, it’s worth noting that flows into storage tanks were also likely at an all-time high. The massive amount of crude being stored in China may end up weighing on oil imports from August onwards, even with the nation’s recovery in oil consumption.

China took advantage of low crude prices that prevailed earlier this year amid the global economic slowdown caused by the coronavirus pandemic and a price war between Saudi Arabia and Russia. When coronavirus lockdowns began across China, there were fears that crude imports would slump as consumption dropped. It didn’t happen, however, as Chinese refiners simply diverted crude they had ordered into storage.

When the price war broke out between OPEC and its allies, China decided to buy large volumes of crude at prices that were close to the lowest in two decades. The surge of imports in May and June, and that is likely to extend into July, is the result of this buying splurge. What happens next? It is possible China’s Strategic Petroleum Reserve is close to maximum capacity and that purchases for storage will slow over the rest of 2020.

With crude prices having staged a recovery from their April lows, China may also judge crude to no longer be the bargain it was, especially given the uncertainty over global demand amid the ongoing pandemic. The risk is that Chinese imports pull back somewhat from August onwards. And the risk is that Chinese refiners may have stored enough crude, and may struggle to sell excess refined fuels to regional markets.

Shell CEO says oil and gas demand recovery will take years

(Reuters; July 16) - The global economy will not achieve a V-shaped recovery after the coronavirus epidemic, which will curtail oil and gas demand for years, Shell’s CEO said. Ben van Beurden told IHS Markit Chairman Dan Yergin that it was too early to know if demand for oil had peaked. “Energy demand, and certainty mobility demand, will be lower even when this crisis is more or less behind us. Will it mean that it will never recover? It is probably too early to say, but it will have a permanent knock for years," he said. "It is most likely not going to be a V-shaped recovery."

The rapid growth in consumption of natural gas and liquefied natural gas in recent years has also stalled, van Beurden said. The weaker demand outlook and subsequent drop in gas prices have meant that the likes of Shell and others had to reduce spending sharply and postpone large amounts of investment "for some time to come." Shell is the world's largest LNG trader and had planned to increase its output in the coming years, including in North America. But van Beurden said that major gas projects such as North American LNG plants no longer look as strong as they did previously.

Chevron pays $5 billion to take over Noble Energy

(S&P Global Platts; July 20) - Chevron is to buy Houston-based oil and gas producer Noble Energy in a $5 billion deal that marks its entry into the East Mediterranean gas sector as it becomes operator of Israel's Leviathan field, as well as giving it additional U.S. shale resources. The takeover "enhances Chevron's leading U.S. unconventional position with derisked acreage in the Denver-Julesburg Basin and 92,000 largely contiguous and adjacent acres in the Permian Basin," Chevron said in a statement.

Given Noble's sizable debt obligations, the "enterprise value" of the deal is $13 billion, Chevron said. "This is a cost-effective opportunity for Chevron to acquire additional proved reserves and resources," the company said. Chevron has a market value of about $163 billion. Noble launched gas production last year from Israel's Leviathan field — the region's largest field — and began exporting the Israeli gas to Egypt and Jordan in January in a deal that broke new ground for the Middle East energy sector.

Chevron added the deal will increase its oil and gas reserves by 18% compared with the year-end 2019 at an average cost of under $5 per barrel of oil equivalent. It said it would also gain 7 billion barrels of "risked resources," a secondary measure of oil and gas holdings, for $1.50 per barrel of oil equivalent.

Low oil prices eliminate new state aid for North Dakota cities

(The Dickinson Press; ND; July 15) - The North Dakota Legislature last year approved Operation Prairie Dog to provide up to $250 million from oil and gas tax revenue for funding infrastructure needs across the state, including $115 million to the Municipal Infrastructure Fund, $115 million to the County and Township Infrastructure Fund and $20 million to the Airport Infrastructure Fund. But that was before the price of oil fell and cut sharply into anticipated oil tax revenues, delaying the filling of those buckets.

City and town officials have put planning for infrastructure projects on hold. Blake Crosby, executive director of the North Dakota League of Cities, said city officials are being told not to expect any state funds from the Prairie Dog bill this year. Funds might be available for infrastructure projects in the second half of 2021. A lead sponsor of the bill, Rep. Mike Nathe, R-Bismarck, said the state aid is critical. “We have an aging infrastructure system in this country and in North Dakota.”

Mayor Tim Helbling of Mandan said he’s looking for help with important road projects. “It means a ton to the citizens of Mandan,” he said. “We have several street projects that we were trying to buy down with the Prairie Dog money. We knew all along that it wasn't sure, but we were banking on it." Valley City Mayor Dave Carlsrud City said projects there have been postponed. “The concept of the Prairie Dog bill is absolutely wonderful for our state. … We're just running out of money right now.”

North Dakota oil production at lowest level in 7 years

(Minneapolis Star Tribune; July 17) - With COVID-19 upending petroleum demand, North Dakota’s oil production fell 30% in May, hitting a monthly low not seen in seven years. “The second quarter of 2020 was a like a five-alarm fire for the North Dakota oil and gas industry,” said Lynn Helms, Mineral Resources Department director. Output has picked up since May, but it will take more than a year to return to pre-COVID levels — if ever, given potentially permanent changes in demand, Helms said. “I am not sure the world is ever going to return to pre-COVID demand numbers.”

North Dakota, the nation’s largest oil-producing state after Texas, churned out 858,400 barrels per day in May, down 30% from April, according to state data released July 17. Output hasn’t been that low since June 2013. The state’s natural gas production in May fell 29% from April, the largest month-to-month decline on record, Helms said. North Dakota oil production hit all-time highs in November of about 1.5 million barrels per day, before falling somewhat and then plummeting in April and May.

The human toll — in lost jobs — continued in May, too. The oil and gas industry had recorded 10,250 layoffs as of last week, meaning an estimated unemployment rate of 20%, Helms said. For the second straight month, there was just one fracking crew working in North Dakota in May, down from 25 in March before the COVID crisis hit.

California’s biggest oil producer files for bankruptcy

(Bloomberg; July 15) - California Resources, the state’s biggest crude producer, filed for bankruptcy on July 15, kicking off what could turn into the next wave of collapses among oil drillers and the businesses that depend on them. The company joins more than 200 U.S. oil explorers that have filed for court protection since 2015, and more may be coming in a matter of weeks. With oil prices hovering around $40 a barrel, the industry simply isn't able to support debts taken on when prices were near peak levels.

California Resources has been weighed down by massive borrowings since its spinoff from Occidental in late 2014, right at the start of the previous downturn in the oil market. The company said it owed more than 50,000 creditors about $6.1 billion, according to a Chapter 11 petition filed in federal court. The bankruptcy is designed to reduce debt and other obligations by more than $5 billion, the company said in a statement.

The company produced an average 128,000 barrels of oil equivalent per day in 2019, of which 80,000 barrels were crude and the rest natural gas. It had more than 2,400 employees and contractors in Kern County in May, according to news reports.

Court ruling on tribal land creates uncertainty for oil industry

(Washington Post; July 17) - A crash in prices. A round of bankruptcies. And waves of layoffs. On top of all the turmoil Oklahoma oil producers have had to deal with since the start of the coronavirus pandemic, the U.S. Supreme Court has added another item to that list: A landmark decision declaring nearly half of eastern Oklahoma to be Native American land. Oil and gas drillers in the nation's fourth largest oil-producing state now find themselves operating within the Muscogee Nation and four other tribal reservations.

About a quarter of Oklahoma's recent oil and gas wells and around 60% of its refinery capacity now lie within the territory of the Cherokee, Chickasaw, Choctaw, Creek, and Seminole. Instead of dealing with business-friendly state regulators, oil producers may soon have to contend with both tribes and the federal government. In a teleconference organized by the Petroleum Alliance of Oklahoma soon after the July 9 decision, Oklahoma Attorney General Mike Hunter reassured producers that their business wouldn't be upended and the state would keep their interests in mind.

On July 16, Hunter and the tribes came to an agreement for a proposal to Congress that would give the Native American groups the right to collect taxes and grant them some authority over anything deemed to threaten the "welfare" of a tribe — a potential, though not certain, opening for environmental regulations. Elizabeth Kronk Warner, director of the University of Utah's Tribal Law and Government Center, said a major consequence for oil producers on the reservation may be two layers of taxes — one from the state and another from the tribes. "The biggest impact there would likely be taxation."

LNG traders likely to store cargoes at sea and play the market

(Bloomberg; July 20) - Liquefied natural gas traders are expected to take a page from the oil market playbook: Storing the fuel at sea while prices languish near historic lows in a bet they can profit from higher prices when demand peaks this winter. The amount of LNG in storage aboard tankers, already at a seasonal high, is expected to expand further as firms take advantage of ample supply, cheap freight and a potentially lucrative pricing structure known as "contango," according to analysts, traders, and brokers.

"When you look in September, October, November, we definitely see opportunities for price arbitrage," said Paul Wogan, CEO of GasLog, a ship owner. The trading strategy, used frequently in the oil market, tries to cash in on the contango structure, which arises when expected prices for the fuel months into the future are higher than now. In the Asian LNG market, benchmark futures for November delivery are trading 80% above current rates, which have wallowed near historic lows as the COVID-19 crisis slashes demand. Low freight rates are also helping traders to buy now and sell later.

At least 27 loaded LNG carriers globally were identified as floating storage as of July 15, a summer record and a 50% jump from a week ago, according to Rebecca Chia, an analyst at commodities research firm Kpler. As many as 50 cargoes could be floating by late-October, said James Waddell, a senior global gas analyst at Energy Aspects. Floating storage for LNG typically tends to be limited to about three months in order to avoid degrading the super-chilled cargo and maintaining its quality specifications, said Oystein Kalleklev, CEO of Flex LNG, another shipowner.

Australia's producers hit by weak demand for LNG

(Sydney Morning Herald; July 16) - One in three tankers loaded with Australian liquefied natural gas last month is either anchored at sea or taking a longer-than-usual journey to its destination as weak demand prompts buyers to delay deliveries. Australia's LNG producers have been hit hard by the pandemic, which has gutted global demand for fuel and sent prices crashing to multi-year lows. Leading producers including Woodside, Origin Energy and Oil Search announced severe write-downs this week, slashing the value of their assets and warning investors that the effects could last for years.

In the latest sign of increasing pain, energy consultancy EnergyQuest said 33 LNG cargoes were either anchored offshore, sailing around in circles or traveling at slower speeds while awaiting destination instructions. The decline in the number of cargoes from Australia last month contributed to a 23% drop in LNG export revenue from $3.74 billion in May to $2.87 billion. Lower prices have severe implications for Australia, which has become one of the world's biggest LNG exporters, second only to Qatar. Australia's LNG exports were worth $50 billion in 2019, up from $9.4 billion in 2010.

Buffet’s investment shows long-term faith in gas pipelines

(Bloomberg; July 16) - Warren Buffett’s $9.7 billion bet on natural gas looks even more contrarian today. As Democrat Joe Biden unveils a staggering $2 trillion clean-energy plan — the most ambitious climate package ever offered by a presumptive presidential nominee — Buffett’s deal to buy Dominion Energy’s natural gas assets is a stark sign that he is expecting the market shift away from fossil fuels won’t happen overnight.

The deal is “a bet that the future doesn’t come as fast as some people think,” said Jim Shanahan, an Edward Jones analyst who covers Buffett’s Berkshire Hathaway. On its face, Berkshire’s deal last week to buy gas assets including some 7,700 miles of pipelines seems risky even for a contrarian like Buffett. The energy industry is under increasing pressure from public officials and investors to abandon coal and gas.

The use of gas for power generation, once hailed as a cleaner, cheaper alternative to coal, is now projected to drop to 36% in 2021 from 41% this year. In the past decade, prices for solar and onshore wind power have plummeted 90% and 70% respectively per megawatt-hour, according to BloombergNEF. Renewables now supply 20% of Americans’ power needs, up from 13% five years ago, according to federal data.

But despite, or, more likely, because of those trends, Buffett is following his well-worn investing path — buying assets cheap in a buyers’ market. The deal also reinforces the idea that Berkshire isn't a friend to environmentalists, who want a quicker shift to renewables. Berkshire routinely faces criticism for the company’s ties to fossil fuels.

Major oil producers set goals to cut greenhouse gas emissions

(Reuters; July 15) - A group of the world’s top oil companies, including Saudi Aramco, China National Petroleum Corp. and ExxonMobil, have for the first time set goals to cut their greenhouse gas emissions as a proportion of output as pressure on the sector’s climate stance grows. But the target, set by the 12 members of the Oil and Gas Climate Initiative (OGCI), means absolute emissions can rise as production increases.

The goals are eclipsed by more ambitious plans set individually by the consortium’s European members, including Shell, BP and Total. “It is not the end of the work, it is a near-term target ... and we’ll keep calibrating as we go forward,” OGCI Chairman and former BP CEO Bob Dudley said. OGCI members agreed to reduce the average carbon intensity of their aggregated upstream oil and gas operations to between 44 and 46 pounds of carbon dioxide equivalent per barrel of oil equivalent by 2025, from a collective baseline of almost 51 pounds in 2017, the OGCI said in a statement.

The OGCI includes BP, Chevron, CNPC, Eni, Equinor, Exxon, Occidental Petroleum, Petrobras, Repsol, Saudi Aramco, Shell, and Total, which together account for over 30% of the world’s oil and gas production. The members agreed on a common methodology to calculate carbon intensity and the targets could be extended to other sectors, such as liquefied natural gas and refining in the future, Dudley said. The announcement marks an important change for Exxon, which has resisted investor pressure to improve the disclosure of its environmental impact. It did not report its carbon emissions in 2019.

Payments for Kurdistan crude run through Lebanese account

(Bloomberg; July 16) - The wire transfer was just one of millions that zip through the global financial system every day. Starting at the Zurich branch of a Russian state bank, $800 million went through Citigroup in New York before landing in a bank in Lebanon. It came from Russian oil giant Rosneft –- a loan to the cash-strapped government of the breakaway region of Kurdistan in northern Iraq that would be repaid with crude.

It was the opening tranche of a $6 billion torrent of cash that made a similar journey over the next two years. But the account didn't belong to the Kurdish government. The cash flowed to a company registered in the tax haven of Belize with a mailing address in Cyprus and controlled by Pakistani-born businessman Murtaza Lakhani. A veteran of the oil industry's most challenging jurisdictions, Lakhani was using his account at Lebanon's BankMed as the clearing house for Kurdistan's new-found oil wealth.

Disclosed as part of a lawsuit, the billions of dollars that flowed in and out of the account offer a window into the inner workings of the global oil trade. It's a tale of petrodollars and power in the Middle East, linking the world's largest commodity traders with local politicians, the Kremlin, and even the family of Lebanon's former prime minister. The lawsuit between Lakhani's company and BankMed provides payment-by-payment insight into the heart of one of the hottest oil trades in years: selling Kurdish crude.

Lakhani's relationship with the Kurdish government was extraordinary. He handled payments from Rosneft and oil traders like Trafigura and Vitol; he made payments for foreign companies to which the Kurdistan Regional Government owed money; and he transferred hundreds of millions of dollars to the Kurdish finance ministry itself. The set-up may spur campaigners to amplify calls for greater transparency in the oil industry.

U.N. warns decaying tanker off Yemen could spill 1.1 million barrels

(CNN; July 17) - Time is running out to prevent a decaying tanker off the coast of Yemen from dumping its load of 1.1 million barrels of oil into the Red Sea, sparking an environmental catastrophe, the United Nations has warned. Concerns are growing over the condition of the tanker, which has been stranded off the Yemeni port of Ras Isa since 2015. The aging tanker had been converted into a floating storage platform before the war in Yemen started.

"Time is running out for us to act in a coordinated manner to prevent a looming environmental, economic and humanitarian catastrophe," Inger Andersen told the U.N. Security Council on July 15. Seawater flooded the aging tanker's engine room in late May and is threatening to destabilize the ship, according to the U.N. Andersen. In the longer term, she added, the best option is for the oil to be offloaded from the ship, which would then be towed to a safe location for inspection and dismantling.

Neither war-torn Yemen nor its neighbors have the capacity to manage the damages of such a large spill, Andersen said, which would wreck the biodiversity of the Red Sea and affect the livelihoods of 28 million people. Yemen has been embroiled in a years-long civil war that has pitted the Iran-backed Houthi rebels against a coalition backed by Saudi Arabia and the United Arab Emirates. The rebels, who control the area where the ship is located, have given the green light for a U.N. team to assess the ship's condition and make initial repairs, the spokesman for the U.N. Secretary-General said July 13. But it is uncertain whether the Houthis will allow the mission to go ahead.

State wants Enbridge to pledge more assets in case of pipeline spill

(The Associated Press; July 17) - Michigan sought a pledge July 17 from Enbridge to cover costs that would arise if oil were to leak from its dual pipelines that extend beneath a channel linking two of the Great Lakes. State Department of Natural Resources Director Dan Eichinger asked the Canadian pipeline company to carry $900 million of liability insurance and set aside about $1.88 billion in additional assets if needed in the event of a catastrophic spill.

The twin pipes run along the bottom of the 4-mile-long Straits of Mackinac, which connects Lake Huron and Lake Michigan. They comprise one segment of Enbridge’s Line 5, which carries oil and liquids used in propane between Superior, Wisconsin, and Sarnia, Ontario. Enbridge said the underwater section, laid in 1953, is in good condition and has never leaked. Environmental groups and Democratic officials including Michigan Gov. Gretchen Whitmer contend it is a hazard that should be shut down, which Attorney General Dana Nessel is seeking in a lawsuit pending in state court.

Enbridge negotiated a deal with former Republican Gov. Rick Snyder’s administration in 2018 to decommission the twin pipes after replacing them with a new pipe that would be housed in a tunnel to be drilled beneath the straits. The company plans to begin construction next year and is seeking state and federal permits. But in a letter to the company, Michigan said Enbridge doesn’t have the resources to cover costs of a major spill — and the state wants the extra assurances with insurance and additional assets.