Norway takes more from oil savings to get through economic slump

(Oilprice.com; May 12) - Norway is set to withdraw a record amount this year from its US$1 trillion oil fund — the world’s largest sovereign wealth fund — to counter the economic slump from the COVID-19 pandemic and low oil prices. The government of Western Europe’s largest oil producer, whose wealth fund has amassed savings from petroleum revenues over the decades, proposed on May 12 a revised national budget for 2020, calling for using 419 billion Norwegian krone ($41.1 billion) from the fund. That equates to almost 4.2% of the estimated value of the fund at the beginning of this year.

Norway has rarely used more than 3% a year of the Government Pension Fund Global, as its oil-savings fund is officially known. “Increased spending has been a necessity in the current situation — both to avoid an even sharper downturn and to help healthy companies through the crisis so they can create jobs and growth when normal circumstances return,” Finance Minister Jan Tore Sanner said in a prepared statement.

Norway’s economic activity has been hit by social-distancing measures like every other country in the world, while its oil-and-gas sector — a large contributor to the economy — is also suffering from low prices after oil demand crashed in the pandemic. In a bid to support OPEC+ efforts to prop up oil prices and ease the global glut, Norway agreed to cut its output by 250,000 barrels per day in June and then maintain a lower curtailment rate for the rest of 2020. It is the first time Norway has joined oil cutbacks since 2002.

Norway’s wealth fund drops Canadian oil sands producers

(The Wall Street Journal; May 13) - Norway’s sovereign wealth fund is blacklisting four of Canada’s largest oil sands producers from its trillion-dollar portfolio, citing the operations’ high carbon emissions. The decision delivered another blow to Canada’s oil industry, which is struggling with low oil prices and limited access to global markets. The fund also said it is excluding several coal companies, including Sasol and Glencore.

The Norwegian fund, which had more than $1.1 trillion in assets at the end of 2019, making it one of the world’s largest investors, excluded Canadian Natural Resources, Cenovus Energy, Suncor Energy and Exxon-owned Imperial Oil from its fund. “The Council of Ethics recommended to exclude the companies because of carbon emissions
from production of oil,” the fund said May 13. It was the first time the fund has used “unacceptable greenhouse gas emissions” as a reason for blacklisting companies.

Norway telegraphed its move away from oil and gas last year, partly as a way to shield the oil-rich nation from falling crude prices. The country built its wealth on crude through its massive North Sea fields, and the profits are managed by the sovereign-wealth fund. Norway’s pullout is not the first time Canada’s oil industry has been shunned by investors trying to curb their exposure to carbon-intensive businesses. In recent months, insurance company The Hartford has said it would no longer insure or invest in companies that get more than a quarter of their revenue from oil sands extraction.

Federal government overrules Washington state law on oil trains

(The Associated Press; May 11) - The Trump administration on May 11 moved to block a Washington state law that imposed safety restrictions on oil shipments by rail, which was implemented following a string of explosive accidents. The U.S. Department of Transportation determined federal law preempts the Washington state law adopted last year, which mandated that crude from oil fields of the Northern Plains have more of its volatile gases removed before being loaded onto rail cars that move through the state.

The volatility of oil train cargoes drew widespread public attention following several explosive derailments, including one in 2013 in Lac-Megantic, Quebec, that killed 47 people. Washington’s law was aimed at boosting safety for schools and homes that are near passing oil trains. With backing by the rail and oil industries, the attorneys general for Montana and North Dakota had argued the law effectively and unfairly banned crude from their states. In July they petitioned the Trump administration to overrule the law.

Federal officials said the removal of volatile gases was not a “statistically significant factor” in the severity of crashes. “A state cannot use safety as a pretext for inhibiting market growth or instituting a de facto ban on crude oil by rail within its borders,” wrote Paul Roberti, chief counsel of the Pipeline and Hazardous Materials Safety Administration. Of North Dakota’s 1.4 million barrels a day of production in February, about 300,000 barrels a day moved by rail, according to the state pipeline authority.

Analysts begin to talk about ‘worst is over’ for oil markets

(Bloomberg; May 12) - While the global oil market remains in a dire situation, it’s starting to look like the nightmare scenario envisioned for the past month might just be averted. The industry feared a flood of unwanted crude would overwhelm the world’s storage tanks as fuel demand was shattered by the coronavirus. Once that “storage wall” was
hit, producers would be forced into a chaotic wave of potentially damaging shut-ins at oil wells. In recent days, however, the alarm is starting to subside.

After the brutal price crash, producers have cut output on a historic scale, including unprecedented reductions by the OPEC+ alliance. Now demand is starting to creep higher as governments ease lockdowns, letting drivers back on the roads. Though a substantial oil surplus remains, the threat of a storage blow-out has receded. “It looks like price signals” have “worked their magic and the market has managed to rebalance and avert the worst,” said Antoine Halff, chief analyst at energy data provider Kayrros.

The quick accumulation of oil inventories around the world is slowing down and may be about to drop for the first time since January, Kayrros estimated. Crude stockpiles grew by 4 million barrels a day in the week to May 3, compared with a peak surge of 10 million a day in April. China, which drove the massive build-up, has already swung to a “steep draw.” International oil prices have rebounded by about 50% the past two weeks and now trade near $30 a barrel in London as demand and supply tighten up.

“The fears about an overflowing oil market and exhausted storage are beginning to calm,” said Norbert Ruecker, head of economics at Julius Baer Group in Zurich. Goldman Sachs Group, which warned in late April that global storage capacity would be maxed out within weeks, now says the worst of this cycle is effectively over.

**Return of oil demand will depend on how people get to work**

(Bloomberg commentary; May 10) - There’s one hope for oil market bulls looking into the abyss of the demand slump from the spread of COVID-19: The aftermath will see a renaissance in driving. “People will use public transport less” because of fears about getting infected on crowded trains and buses, Cuneyt Kazokoglu, head of oil demand analysis at energy consultancy FGE, wrote in the Financial Times this month.

There’s an intuitive logic to that proposition, and even signs that it might be backed up by data. Chinese cities are already seeing traffic jams on a par with pre-coronavirus times, according to data. With the pandemic still raging, the U.S. Energy Information Administration’s weekly petroleum status report has been showing a pickup in gasoline consumption since last month, though it’s still running 40% below a year ago.

Unfortunately for oil bulls, there have been plenty of other incidents in recent decades which might have made people give up public transport for cars — and in every case, the impact has been brief and limited. Riders returned to public transit after the severe acute respiratory syndrome swept through Hong Kong, and after terrorist attacks on rush-hour public transport in Madrid in 2003 and London two years later.

That shouldn’t be very surprising. People don’t pack themselves into crowded commuter trains for the pleasure of it. They do so because it’s by far the most
convenient way of getting around most cities. To the extent that personal work habits change at all, it’s far more likely that the millions currently working from home will find ways to avoid rush-hour travel altogether, including driving. That should be troubling for oil producers.

**Companies get creative in finding ways to store oil**

(The Wall Street Journal; May 11) - Rhett Kenagy and a high school pal recently came up with a plan to rent hundreds of school-bus-size metal tanks and fill them with some 270,000 barrels of oil. The two are among the entrepreneurially minded individuals who hope to turn a buck from the crash in oil prices. With demand way down and companies running out of places to store it, these people are floating schemes to sock it away until prices rebound wherever they can: in caves, abandoned rock mines, even giant pools.

Kenagy’s plan involved trucking in his haul from shale fields and parking the tanks outside of Houston and in West Texas. He said he has been able to buy oil for as low as $1.18 a barrel recently, cheaper than a gallon of gasoline in most of the U.S. “There’s nowhere else to put the stuff,” said Kenagy, the 44-year-old managing director of fuel blending and storage companies. “You show up with a bucket … they’ll sell it to you.”

Demand for oil storage is so fierce that water companies are expanding into crude storage, using large cylinders that resemble big aboveground swimming pools. Cooley Group Holdings, a textile-manufacturing company in Rhode Island, is churning out tens of thousands of pounds of polymer-coated fabric to line cylinders that another company, Well Water Solutions and Rentals, has begun installing in West Texas. Each cylinder is about 190 feet in diameter and can hold roughly 50,000 barrels of crude.

**Narrowing spread on crude futures a good sign for recovery**

(Reuters commentary; May 12) - Crude oil traders expect the market to move closer to balance in the next few months as production cuts are implemented and the global transportation system emerges from a coronavirus lockdown. Futures prices and swaps linked to physical prices show the market has now moved through the worst of the crisis caused by the price war between Saudi Arabia and Russia and the pandemic-driven collapse in consumption.

In the futures market, Brent’s six-month calendar spread has narrowed to a contango of less than $5 per barrel in recent days from more than $12 in late April. Contango, where prices for near dates trade lower than those for later dates, is associated with an oversupplied market with high and/or rising inventories. The spread is a measure of the
cost of storing crude: Is it profitable to buy low today and sell higher tomorrow? To be profitable, the spread needs to cover the cost of storing, financing, and insuring the oil.

On the consumption side, the gradual reopening of economies and transport systems in North America, Europe, and Asia as the epidemic is brought under control has increased fuel use. Provided producers continue to limit output, the market should gradually move into deficit over the second half of the year as transport systems reopen, which should arrest and then reverse the stockpile build. Oil inventories will remain very high through the end of the year, but they are no longer expected to exhaust available tank space.

**Proposed Louisiana LNG project sold for $2.25 million**

(S&P Global Platts; May 12) - A privately held energy infrastructure firm has agreed to buy Magnolia LNG from its parent, Australia’s LNG Ltd., for $2.25 million, according to the voluntary administrators that were appointed to review the parent company’s assets. The transaction, announced May 12 and scheduled to close by May 15, covers the proposed Louisiana export project, its 16 employees and the natural gas liquefaction technology that would be used at the terminal.

The development follows the April 13 withdrawal of a takeover offer for LNG Ltd. that the parent company had previously said was the best chance to save the $10 billion export project, proposed for 8.8 million tonnes per year capacity. With LNG Ltd. on the verge of insolvency, CEO Greg Vesey left the company and administrators from PricewaterhouseCoopers were appointed May 1 to review its assets on behalf of creditors. It was a sign that the developer might be preparing to enter bankruptcy.

Assuming the new transaction is completed, liabilities associated with Magnolia LNG will pass to the acquirer, Global Energy Megatrend Ltd., which has offices in London and Lafayette, Louisiana. The company is interested in becoming an integrated natural gas firm by acquiring and participating in U.S. gas fields and pipelines and also operating liquefaction facilities. LNG Ltd.’s financial decline came amid weak global LNG market conditions that have been exacerbated by the coronavirus pandemic.

**Global oversupply may force Qatar to cut LNG production**

(Bloomberg; May 12) - Hemmed in by weak demand and scarce storage, the world’s biggest exporter of liquefied natural gas may soon face a stark choice: curb output or ignite a battle for market share that has the potential — just as in the oil market — to turn gas prices negative. Qatar in February began redirecting LNG cargoes away from Asia, where the coronavirus was hobbling sales, and sending them instead to northwestern Europe. That quick fix didn’t last, as the pandemic soon engulfed
Europe’s biggest economies and left Qatar struggling for places to park unsold gas cargoes.

The Persian Gulf state has a key decision to make with far-reaching consequences. Cutting production of its main export would squeeze government revenue at a time when crude’s collapse is adding to pressure on LNG prices, some of which are linked to oil. If Qatar opts to slash LNG prices to secure sales, however, it might exacerbate the crash in gas that threatens margins even for low-cost producers such as itself.

Qatar stands to lose no matter which choice it makes. “Either Europe doesn’t want it and therefore the cargoes are stuck in Qatar, or they will have to shut in production,” said Thierry Bros, an energy associate at Harvard University’s Davis Center for Russian & Eurasian Studies. Meanwhile, the global LNG surplus could persist into the mid-2020s, the International Gas Union said in April. Prices, driven by weakened demand and an oversupply, have plunged by more than half this year to about $2 per million Btu.

**Chinese gas distributor warns prices could go negative, just like oil**

(Bloomberg; May 12) - One of China’s biggest natural gas distributors flagged the possibility of sub-zero market prices at its shareholder meeting, a scenario that would echo oil’s record plunge last month that stunned global markets. Gas prices could turn negative due to a lack of storage capacity, Wang Yusuo, chairman of ENN Energy Holdings, said at the online event from Hong Kong. He didn’t specify any particular region or benchmark, and said any dip into sub-zero territory would be short-lived.

While lower gas prices would benefit ENN through cost savings on imports, Wang’s comments serve as a warning to gas traders that the spectacular collapse in oil markets might befall them, too. U.S. oil futures plunged to negative prices April 20, an unprecedented level in the world’s most liquid crude contract and which inflicted billions of dollars in investor losses.

“For natural gas, I have heard about the possibility of negative prices. I also think it could happen,” Wang said. “That’s because natural gas has even more limited storage capacity and its production is also more rigid. So it may happen. But I don’t think it will be a dominant or long-lasting scenario.” Gas price benchmarks across Asia, Europe, and the U.S. have all traded near record-low levels this year amid a glut of supply and lackluster demand. Traders and analysts surveyed last week by Bloomberg News said while it’s unlikely that prices will slip below zero, they would not rule out the possibility.
Almost half of LNG stored at sea is Nigerian gas

(Bloomberg; May 13) - Nigeria is running out of places to park its liquefied natural gas. The West African nation, one of the world’s top producers of the fuel, continued to send out LNG cargoes even as demand slumped in line with the virus-stricken global economy. Almost half of the world’s LNG carriers currently deemed floating storage are laden with Nigerian gas, according to commodity tracking firm Kpler.

Nigeria, one of the oldest and biggest suppliers of LNG to Europe, highlights the challenges all producers are facing in the coronavirus pandemic. As demand has collapsed, buyers obliged to take cargoes under long-term contracts are postponing deliveries they don’t need. Record-low prices for the fuel also mean traders prefer to keep LNG in terminal tanks, hoping for better prices later. That’s created highest inventories at European import facilities for the time of the year since at least 2013.

Nigeria loaded so many carriers in April that some are now taking three times longer to reach the key export market of Europe as buyers defer deliveries. The longer LNG stays on the water, the more desperate cargo owners are to offload, said Manas Satapathy, managing director for energy at Accenture. That’s because prices will probably only fall in coming weeks, and it costs money to keep LNG in tankers. “The worst is yet to come, we will likely see super-low prices in late June, July, August,” said Satapathy.

Nigeria signs construction contract for LNG expansion

(Reuters; May 13) - Nigeria LNG has signed the engineering, procurement and construction contract for Train 7, its major gas expansion plan, Nigeria’s oil minister said on May 13. The long-awaited project is expected to boost Nigeria’s liquefied natural gas output by more than 30%. Nigeria LNG had previously announced it would award the contract to a consortium including Italy’s Saipem, Japan’s Chiyoda, and Daewoo of South Korea. Saipem said the overall value of the contract was over $4 billion.

“The construction phase of Train 7 can now commence in earnest,” said Minister of State for Petroleum Timipre Sylva. Nigeria LNG, a consortium between state-run Nigerian National Petroleum Corp., Italy’s Eni, France’s Total and Shell, signed its final investment decision on the Train 7 project late last year. It will add 8 million tonnes of annual capacity. Nigeria is rich in oil and gas but has been struggling to boost its output of both resources. Its LNG production has been steadily falling in recent years.

The expansion comes at a difficult time, however. LNG prices in Asia and gas prices in Europe have hit record lows as the coronavirus pandemic hit already weak demand. Some buyers have cancelled cargoes as a result, and there are currently more than 12 tankers carrying LNG searching for buyers, seven of them from Nigeria, according to
Novatek says it is on schedule to start up 2 more Arctic LNG projects

(S&P Global Platts; May 13) - Russian LNG producer Novatek will be in a good position to exploit any tightening of the global market in the mid-2020s — following the recent string of project deferrals and cancellations in other countries — as it positions itself to bring on significant new LNG production capacity in the coming years, Chief Financial Officer Mark Gyetvay said in an exclusive interview this week.

Novatek — operator of the Yamal LNG plant in northern Russia — sees the current low prices as potentially helping the industry by stimulating demand for the fuel, Gyetvay said. Numerous LNG project approvals have been pushed back due to low prices, the demand slump and companies slashing spending, including several in the U.S. and Africa. But Novatek is on schedule for 2023 start-up for the first train of its Arctic LNG-2 project and also plans a 2024 start-up of the smaller Obskiy LNG project in the Arctic.

"We believe with the recent wave of project cancellations and final investment delays, we are in a good position to capture this growing LNG market in the second half of this decade," Gyetvay said. Novatek has plans to reach a total of up to 70 million tonnes per year of LNG production capacity by 2030 as new projects come online. "We actually welcome a relative period of lower global gas prices as this will stimulate demand in price-sensitive regions," he said.

Fight over pipeline continues between hereditary and elected chiefs

(Vancouver Sun; May 12) - The majority of elected chiefs of Wet’suwet’en bands in northern British Columbia have rejected a deal struck last month between the federal and provincial governments and Wet’suwet’en hereditary chiefs. The agreement was reached after a stalemate between the hereditary chiefs and the provincial and federal governments over construction of a gas pipeline through their traditional territory. The pipeline is to send gas to the LNG Canada plant under construction near Kitimat, B.C.

In a statement released May 11, the elected chiefs said they were not properly consulted by the government or the hereditary chiefs over the landmark agreement on land rights. They said they only got to see the April 29 memorandum of understanding on May 7, when it was presented virtually by the hereditary chiefs. "They treated us improperly and failed to adequately inform us regarding the proceedings and processes that have taken place to date," the elected chiefs said.
The company building the 415-mile pipeline from Dawson Creek has struck deals with elected bands, including millions in grants and a promise to spend hundreds of millions for First Nations contracts for road building, clearing, camp construction, security, management, and fuel supply. But several of the hereditary chiefs objected to the deals and oppose the project. The Wet’suwet’en elected chiefs have called on the federal and provincial governments to withdraw the memorandum of understanding and begin the negotiation process again, including the elected councils as full participants.

**Asia nations could turn to coal as economies rebuild**

(Reuters; May 11) - Coal power plant construction will push ahead in Asia despite falling electricity demand and environmental concerns as policymakers prioritize boosting economies crippled by the coronavirus pandemic, analysts say. The European Union, International Monetary Fund and the United Nations have said the economic rebound after the pandemic is a once-in-a-generation opportunity to launch a “green recovery,” which includes Asia joining the global trend of ending support for coal power.

But there are signs that China and other Asian giants like South Korea and Japan will steer recovery funds into struggling coal-focused state financers, equipment suppliers, and construction firms. That could create a short-term jolt at the cost of efficiency and environmental damage, analysts say. “China and other governments may be tempted to invest in coal power to help their economies recover after the COVID-19 pandemic,” said Matt Gray, co-head of power and utilities at Carbon Tracker, a climate think tank. “This risks locking in high-cost coal power that will undermine global climate targets.”

China, which produces and consumes about half of the world’s coal, has recently said it would allow more provinces to start building coal power plants starting in 2023. It also accelerated construction of five plants and committed billions of dollars to cross-country electrical lines. China’s coal imports in April surged 22% from a year ago, as traders jumped on low prices to build stockpiles and prepare for a recovery in demand. Coal power relies heavily on state-backed financing from China, South Korea, and Japan.

**China sees future in hydrogen fuel cells**

(S&P Global Platts; May 13) - China is pushing ahead with plans to make hydrogen a key component in its energy mix as Asia’s leading energy consumer looks to shed its dependence on fossil fuel imports as well as clean up its skies. With the country focusing on adoption of hydrogen fuel-cell vehicles in a small number of pilot cities, analysts said Beijing needs to urgently push cost-effective technologies to efficiently produce hydrogen from coal, which is abundantly available and affordable in China.
"China is taking a fast-track route in pursuing hydrogen and fuel-cell development. The country is currently focusing mainly on the use of hydrogen in transportation, but it has eyes on other applications too, such as heating of buildings," said Edgare Kerkwijk, board member of the Asia Pacific Hydrogen Association. Industry sources and analysts said development of reliable and durable carbon-capture technology remains at the forefront of hydrogen production in China through coal gasification.

"In countries like China, carbon-capture, use and storage technologies will need to be used if hydrogen from coal is to have a place in the era of energy transition while taking care of the climate change emergency," said Ravinder Malhotra, regional hydrogen expert and president of the Hydrogen Association of India. Producing hydrogen from coal generates 19 tonnes of carbon dioxide emissions for every 1 tonne of hydrogen — twice the amount of CO2 compared with hydrogen produced from natural gas. The challenge is finding cost-effective ways to reduce or deal with all of the CO2.

Electricity demand is down, as are prices

(The Wall Street Journal; May 11) - Closures of office blocks, shops, and factories worldwide have throttled demand for electricity, dwarfing the amount of additional power consumed as people work from home. Globally, the International Energy Agency expects the biggest decline in electricity consumption since the Great Depression. It is as if Germany and France were both turned off for the year. In the U.S., wholesale power prices averaged $16.57 a megawatt-hour in the first six days of May, according to S&P Global Platts, down by more than a quarter from the start of 2020.

Meanwhile, the math of electricity production is shifting in favor of renewable energy sources. Coal plants, among the costliest to run in the U.S., typically deliver bursts of power to the grid when demand increases. Much of that electricity isn’t needed right now. Forty percent of the world’s electricity this year could be generated from low-carbon sources — nuclear, wind, and solar and other renewables — according to the IEA. That would be the highest on record as wind and solar power costs come down.

Electricity prices were falling even before the pandemic due to a surfeit of cheap natural gas, said Paul Cusenza, CEO of Nodal Exchange, which runs a market for power futures. A 30% drop in U.S. gas prices over the past year — accelerated by the recent crash in energy markets — has pushed electricity prices down. “Less demand, more low-cost generation and cheap gas,” said Dan Eager, principal analyst for European power at Wood Mackenzie. “You add that together and you have very, very low prices.”