Oil and Gas News Briefs
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China could surpass U.S. in 2021 as world's largest oil refiner

(Bloomberg; Nov. 21) - Earlier this month Shell pulled the plug on its Convent refinery in Louisiana. Unlike many oil refineries shut in recent years, Convent was far from obsolete: It's fairly big by U.S. standards and sophisticated enough to turn a wide range of crudes into high-value fuels. Yet Shell wanted to reduce refining capacity and could not find a buyer. Meanwhile, a new refining unit was firing up at Rongsheng Petrochemical's giant Zhejiang complex in northeast China. It's just one of at least four projects underway in the country, totaling 1.2 million barrels a day of crude-processing capacity.

The COVID crisis has hastened a seismic shift in the global refining industry as demand for plastics and fuels grows in China and the rest of Asia, where economies are quickly rebounding from the pandemic. In contrast, refiners in the U.S and Europe are grappling with a deeper economic crisis while the move away from fossil fuels dims the long-term outlook for oil. America has been at the top of the refining pack since the start of the oil age but China could dethrone the U.S. in 2021, says the International Energy Agency. In 1967, the year Convent opened, the U.S. had 35 times the refining capacity of China.

The rise of China's refining industry, combined with several large new plants in India and the Middle East, is reverberating through the global energy system. Oil exporters are selling more crude to Asia and less to long-standing customers in North America and Europe. And as they add capacity, China's refiners are becoming a growing force in international markets for gasoline, diesel and other fuels. Adding to the pain of refiners in the U.S. are regulations that encouraged some to repurpose for producing biofuels.

Saudi Arabia, Russia compete to be No. 1 oil exporter to China

(Reuters; Nov. 19) - Saudi Arabia and Russia are in a tight race to become China's top oil supplier in 2020 with both countries boosting exports to the economic powerhouse even as the coronavirus pandemic has hit global demand for oil this year. Saudi Arabia, which was China's top supplier last year, exported between 1.6 million and 1.7 million barrels per day from January to November 2020, as deep price cuts gave Saudi oil exports a boost this month, according to analytics firms Refinitiv, Vortexa, and Kpler.

It was catching up with Russia, which exported an average of about 1.7 million barrels per day of oil to China so far in 2020, and with Iraq in third place at about 1.2 million. China, the world's top crude importer, is one of the few countries to have boosted purchases in 2020, as its buyers made the most of low prices earlier this year while fuel demand recovered from the second quarter along with the broader economy. "It is a neck-and-neck race and it remains to be seen as to who will be the ultimate winner," Serena Huang, an analyst at Vortexa, said of Russia and Saudi Arabia.

The volume of Saudi crude arriving in China in November is expected to hit between 2.13 and 2.24 million barrels per day, compared with a record high of 2.1 million to 2.14 million in May, estimates from the three analytical companies showed. The rise comes as state oil giant Saudi Aramco sharply cut crude prices for Asian customers in October, trade sources said. By comparison, 1.49 million barrels per day of Russian crude is expected to enter China this month, down from 1.55 million in October, Vortexa said.

UAE questions production quota and OPEC membership

(Bloomberg; Nov. 19) - The United Arab Emirates has ratcheted up tension with its oil allies in OPEC+, with officials privately questioning the benefits of being in the producers' alliance and even considering whether to leave it. The UAE has not said publicly it's debating its membership, let alone planning to exit. And officials briefed the media only under condition they would not be named, allowing room for maneuver if they later want to distance themselves from the comments.

The move is unusual because the UAE — the biggest OPEC producer after Saudi Arabia and Iraq — has long avoided public clashes, preferring to solve disputes behind closed doors. It's unclear whether the warning is designed to force a negotiation over output levels with OPEC+ leaders Saudi Arabia and Russia, or represents a genuine policy debate. Tension between Riyadh and Abu Dhabi has grown since late summer when the UAE breached its OPEC+ quota and got a stern warning from the Saudis.

Emirati policy makers seem increasingly frustrated by what they see as unfair allocation of production caps and as the UAE economy reels from shriveling oil revenue and the coronavirus pandemic. It comes at a delicate moment for OPEC+, which has helped oil prices with a historic agreement to cut supply and offset the hit of the pandemic on demand. Any signs of cracks in the alliance would undermine a fragile market. The group needs to decide in the next two weeks whether to go ahead with a January production increase of 2 million barrels per day as set out in the agreement or delay it.

OPEC+ deals with dissension as it tries to keep group together

(Bloomberg analysis; Nov. 22) - All is not well in the house of OPEC. As the cartel's oil ministers prepare to meet in just over a week to decide on the next step in their record-breaking output deal, officials in the United Arab Emirates, normally a loyal Saudi ally, are privately questioning the benefits of participating, and may even be considering whether to leave the Organization of Petroleum Exporting Counties.

The deliberations, leaked to the press on Nov. 18, may be nothing more than an attempt to get the producer group to review the UAE's oil quota. If so, it seems unlikely to succeed. Worse, it risks throwing a wrench into the discussions over how producers should respond to the conflicting pressures from positive vaccine news and the negative impact of renewed coronavirus lockdown restrictions on travel and economic activity.

Questions about the UAE's future in OPEC come at an awkward time for the group and its OPEC+ allies. Tensions are emerging over what to do about output targets, which are set to ease in January. The answer seems obvious. COVID-19 vaccines are unlikely to affect oil demand any time soon and stockpiles are high. Meanwhile, Libya, emerging from civil war, has added about 1 million barrels a day to supply in recent weeks. As a result, OPEC+ is expected to extend the current output cuts for three to six months.

Meanwhile, not everyone is respecting their commitments. The UAE, already chafing at the restrictions, says there shouldn't be any decision until everyone has fulfilled their cuts — fewer than half of the members have done so. But revisiting the UAE's target creates problems. Iraq wants special treatment, because of its fight against the Islamic State. Nigeria wants some crude reclassified to remove it from its quota. Dealing with everyone's grievances would set in motion a rapid unravelling of the entire OPEC+ deal.

U.S. petroleum inventories to decline — if noting goes wrong

(Reuters commentary; Nov. 19) - U.S. petroleum inventories are sliding toward more normal levels as the glut earlier this year caused by volume warfare among OPEC+ members and the first wave of epidemic-driven lockdowns is gradually being absorbed. Falling crude and refined-product inventories are likely to herald a tighter production-consumption balance and an upswing in both spot prices and calendar spreads next year, which are already being anticipated by oil traders in rising futures prices.

But an upturn in the oil market depends on OPEC+ timing its production increases carefully on the global economy avoiding a double-dip recession, and on the rapid deployment of an effective coronavirus vaccine. There appears to be a reasonable prospect for all three conditions being met with timing of an effective vaccine that allows international air travel to resume the largest residual source of uncertainty.

U.S. crude and petroleum product inventories outside the Strategic Petroleum Reserve declined by 11 million barrels last week, according to Energy Information Administration data. Inventories have declined in 16 of the past 17 weeks by 124 million barrels since the middle of July. The drawdown has reversed more than half of the earlier buildup of 224 million barrels since the pandemic's onset pandemic in March. Lower production by members of OPEC+, the redirection of oil exports to Asia, especially China, and a series of hurricanes that have cut output in the Gulf of Mexico have helped to trim stockpiles.

High bids total $121 million in offshore Gulf Coast lease sale

(Texas Tribune; Nov. 18) - In the last opportunity for oil companies to bid on federal Gulf of Mexico waters under the Trump administration, the government on Nov. 18 leased more than a half-million acres for offshore drilling and production. The sale comes as President-elect Joe Biden nears his transition — Biden promised during his campaign to ban new oil and gas leasing on public lands and waters as part of his clean-energy plan to reduce the use of carbon-emitting fossil fuels, which contribute to climate change.

The oil industry largely saw this week's auction as an opportunity they are unlikely to have for the next four years. "They wanted to jump on it before the window potentially closes and there are more regulatory hurdles," said Sami Yahya, senior energy analyst for S&P Global Platts Analytics. The Bureau of Ocean Energy Management said about 518,000 acres were leased for nearly $121 million in high bids. That exceeded the target of $100 million, said Mike Celata, Gulf of Mexico regional director for the bureau.

Expectations for the sale were dim because of decreased global oil demand and low oil prices caused by the COVID-19 pandemic. "Back in the 2014 era, we used to have billion-dollar auctions," Yahya said. "We're really scraping the bottom of the barrel here." There were 105 bids during the auction — a recovery from 84 placed in March, but down from 165 in August 2019. The highest bids came from European companies Shell, Equinor, and BP, all of which placed more than $17 million in bids with Shell spending the most at $28 million. California-based Chevron submitted $17 million in bids.

Drilling opponents call for stop to insuring, investing in ANWR

(Bloomberg; Nov. 19) - A group of investment firms, conservationists and Indigenous groups have called on some of the world's biggest insurers to cease supporting oil and gas projects in the U.S. Arctic National Wildlife Refuge, even as the Trump administration advances plans to auction drilling rights in the Alaska wilderness.

The Gwichin Steering Committee, a group representing indigenous tribes that live in Alaska and Canada and opposes efforts to drill in the refuge, coordinated the letter with investment firms, including Boston Common Asset Management and Domini Impact Investments, which collectively manage more than $47 billion of assets. Recipients of the letter, including American International Group and Allianz, are being asked to stop insuring or investing in oil and gas projects in the refuge.

The remote territory has become a focus of environmental activists and an embodiment of the vastly different climate policies of President Donald Trump and President-elect Joe Biden. While the Trump administration wants to sell oil and gas leases in ANWR's coastal plain before Biden's Jan. 20 inauguration, Biden has promised to permanently protect the land. The wilderness is an example of how investors and pressure groups can force financial giants to change the way they operate. Most major U.S. banks have said they will not finance drilling projects in the Arctic, after a similar pressure campaign.

Norway offers new acreage in Barents and Norwegian seas

(Bloomberg; Nov. 19) - Norway, Western Europe's biggest oil producer, is offering fresh exploration licenses in the far north less than a week after the country's Supreme Court finished hearing an appeal over earlier Arctic permits. The so-called 25th licensing round covers nine areas, eight of which are located in the Barents Sea and one farther south in the Norwegian Sea, the Petroleum and Energy Ministry said in a statement Nov. 19. It includes 136 blocks across both seas.

Norway's oil and gas industry has been keen for acreage to offset an expected decline in production in the middle of the next decade. The Barents is estimated to hold more than 60% of the undiscovered resources off Norway with over half in areas not open for drilling, according to the Norwegian Petroleum Directorate. "New discoveries are necessary to ensure continued activity, ripple effects, employment and governmental revenues throughout the country," Petroleum and Energy Minister Tina Bru said.

Offering licenses so far north is controversial with environmental organizations contesting similar awards in the courts. The Supreme Court will at the turn of the year rule on an appeal by Greenpeace and Nature & Youth that oil production in the area breached both the constitution and Norway's commitments to the Paris climate-change agreement. The plaintiffs lost earlier cases in district and appeals courts.

Abu Dhabi finds more oil, plans production boost by 2030

(Financial Times; London; Nov. 22) - Abu Dhabi has unveiled the discovery of 22 billion barrels of unconventional reserves including shale oil as the Gulf producer pledged $122 billion in capital expenditures for its national oil company over the next five years.

The emirate's supreme petroleum council said Nov. 22 that it had also discovered an additional 2 billion barrels of conventional oil, bringing its recoverable conventional and shale reserves up to 107 billion, the sixth-largest in the world.

In a statement, Abu Dhabi National Oil Co. said the 22 billion barrels in unconventional oil resources were larger than some of those in its conventional fields. "The production potential ranks alongside the most prolific North American shale oil plays," it said. The announcement of new reserves comes amid tensions between Abu Dhabi and its close ally Saudi Rabia in the summer after Abu Dhabi exceeded its OPEC production quota.

The petroleum council's approval of $122 billion in capital spending for 2021-25 marks a reduction in the last five-year plan from 2018 which forecast $132 billion in spending through 2023. The oil-rich emirate is targeting an increase in output capacity from 4 million barrels to 5 million barrels a day by 2030. The oil company has over the past few years been introducing cost efficiencies and attracted more overseas investment as the UAE seeks to maximize hydrocarbon revenues as it prepares for a post-oil future.

Rising demand in Asia boosts prices for Mideast crude

(The Wall Street Journal; Nov. 20) - There is a new disconnect between oil prices to the east and west of the Suez Canal, reflecting the divergence between resurgent crude demand in Asia and sluggish consumption in the U.S. and Europe. Fueled by China, and more recently India, oil consumption in Asia has rebounded since the pandemic eviscerated demand this spring. In the West, stop-start lockdowns have impeded travel and the recovery is expected to falter again during the current surge of infections.

The disparity has nudged prices for Dubai crude, a basket of Middle Eastern oils mainly bought by Asian petroleum refiners, above West Texas Intermediate, the U.S. gauge for crude, and above Dated Brent, the benchmark for the physical-oil market in the Atlantic. Before the coronavirus pandemic, this was a rare dynamic. Dubai is typically cheaper because most Middle Eastern crudes are inferior in quality to the light, sweet oil drilled from under the North Sea and the U.S. Permian Basin.

Since September, however, Middle Eastern crudes have regularly fetched a premium. On Nov. 18, Dubai crude cost $43.80 a barrel, according to S&P Global Platts, making it $1.06 a barrel more expensive than Dated Brent. In 2019, Dubai stood 85 cents-a-barrel below Brent, on average. In 2018, the discount was double that. "I can't remember this level of disparity between the East and the West," said Amrita Sen, founder of Energy Aspects consulting firm. By pushing Middle Eastern crude to a premium, the oil market is drawing U.S., European, and African crudes toward Asia, where needs are greatest.

Environmental report questions China’s commitment to cut emissions

(Reuters; Nov. 19) - China’s plan to build more coal-fired power plants “contradicts” its pledge to go carbon neutral by 2060 and risks creating 2 trillion yuan ($303.60 billion) in stranded power assets, according to new research published Nov. 20. President Xi Jinping promised in September that China would bring climate-warming greenhouse gas emissions to a peak before 2030 and achieve carbon neutrality 30 years later, committing the country to an accelerated transition to renewable energy.

But Beijing’s willingness to build new coal-fired power capacity is a key litmus test that will determine whether the targets can be reached, said the Beijing-based consultancy Draworld Environment Research Center and the Centre for Research on Energy and Clean Air (CREA) in Helsinki. Industry groups say China needs 1,300 gigawatts of coal-fired capacity to meet growing demand, up from around 1,100 gigawatts now. About 250 gigawatts of new power capacity is being planned. However, China must impose a moratorium on new coal plants and work to phase out existing ones, the report said.

“My understanding is that the coal industry is still lobbying for a coal power capacity target for 2025 that would allow for the addition of up to 200 large new coal-fired power plants,” said Lauri Myllyvirta, CREA lead analyst. “Given that half of China’s enormous coal capacity is less than 10 years old, and the equivalent of another 100 large plants are already under construction, there is definitely no need for more if the country wants to avoid massive waste of capital,” he added.

Chinese companies may purchase Exxon’s share of Iraqi oil field

(Bloomberg; Nov. 25) - China’s oil giants China National Petroleum Corp. and CNOOC are considering acquiring ExxonMobil’s remaining stake in an oil field in Iraq, which could fetch at least $500 million, according to people familiar with the matter. The state-owned firms are weighing a deal to buy the 32.7% stake in Iraq’s West Qurna 1 field held by Exxon, the people said, asking not to be identified as the matter is private.

A sale would mark Exxon’s exit from the West Qurna 1 field, where it was once the dominant player and remains the lead contractor. In 2010, it signed an agreement with a company of Iraq’s Ministry of Oil to rehabilitate and redevelop the oil field in the southern part of the country. Three years later, Exxon struck a deal with PetroChina, CNPC’s listed unit, and Indonesia’s state-owned PT Pertamina to take stakes in the assets. PetroChina currently holds 32.7% of West Qurna 1.

No final decisions have been made and geopolitical risks in Iraq add uncertainties to any potential agreement, the sources said. The oil field is one of the world’s largest with expected recoverable reserves of more than 20 billion barrels. The site produces slightly below 500,000 barrels a day, one of the people said.

Small LNG project in British Columbia delayed a year

(Business in Vancouver; Nov. 20) - Construction of the Woodfibre LNG plant and export terminal in Squamish, British Columbia, just north of Vancouver, which was scheduled to be underway this year will be pushed back by more than a year, the company's outgoing president said. Construction on the project, planned for 2.1 million tonnes annual capacity, will likely not start until the fall of 2021. David Keane is retiring as Woodfibre's president at the end of this month, but will continue as an adviser.

In an exit interview of sorts, Keane explained why the project has been delayed, and said he now expects Singapore-based owner Pacific Oil and Gas to formally approve the project, estimated to cost between C$1.6 billion and C$1.8 billion, by third-quarter 2021. Construction would start shortly thereafter, with the plant expected to be producing liquefied natural gas for export by late 2025. The COVID-19 pandemic and a bankruptcy have contributed to the Woodfibre LNG construction delay, Keane said.

In January, the project's main engineering, procurement, and construction contractor, McDermott, filed for bankruptcy protection in the U.S. It has since restructured its debt and may continue as Woodfibre's contractor. The COVID-19 pandemic also temporarily closed LNG-module fabrication yards in Asia. The delay forced the company to apply for a five-year extension to its provincial environmental certificate. While the company waits for Pacific Oil and Gas to pull the trigger on its final investment decision, Woodfibre has been working on remediation of the site, which was previously occupied by a pulp mill.

Government incentives encourage gas drilling in Argentina

(S&P Global Platts; Nov. 18) - Pan American Energy and YPF, two of the biggest oil and gas producers in Argentina, plan to step up gas drilling as a new incentives program boosts the profit potential in the business, executives said Nov. 18. "We are returning to drill for gas," Santiago Tanoira, vice president of gas and energy at YPF, the country's state-backed energy company, said at the Ambito Debate online energy seminar.

YPF took the decision when the government stimulus program was officially announced in October, saying at the time that it would invest $1.8 billion over the next three years in boosting gas output, including from the Vaca Muerta shale play. The program creates a system of auctions for long-term gas supply contracts with the goal of preselling 2.5 billion cubic feet per day of gas each year to distributors and power plants — and additional amounts during the winter when demand surges for heating.

The gas plan, which was made official Nov. 16, is expected to increase the price for producers to $3.50 per million Btu, more than the current average of $2 and in line with the breakeven in Vaca Muerta. The government wants the incentives to rebuild gas output to avert shortages and limit pricier imports of liquefied natural gas as well as of diesel and fuel oil. Gas output has fallen nearly 15% in September from the most recent peak 5 bcf a day in July 2019, according to the Argentina Oil and Gas Institute.

Japanese companies will build LNG-fired power plant in Vietnam

(Nikkei Asia; Nov. 19) - Utility Tokyo Gas and trading house Marubeni will build a liquefied natural gas-fired power plant in Vietnam, betting on the emerging economy's growing appetite for an energy source cleaner than coal. The Japanese companies have signed a memorandum of understanding with Petrovietnam Power — a member of state-run Vietnam Oil and Gas Group — and a local construction company for the project, with an estimated total investment of 200 billion yen ($1.93 billion).

The deal comes as China, Japan, and South Korea lead the way in setting goals for cutting greenhouse gases in Asia in the coming decades. Natural gas plays a key role in such plans. The Japanese companies and their Vietnamese partners will begin a feasibility study and negotiations on power pricing, with the aim of bringing the plant online in 2026.

Located in the coastal province of Quang Ninh about 125 miles from Hanoi, the power station will have a capacity of 1,500 megawatts, the equivalent of one nuclear reactor. The project will include construction of an LNG import terminal and regasification facilities, as well as a pipeline to the plant. Power demand is increasing 10% a year in Vietnam's growing economy. While a global shift to renewable energy is accelerating, this transition poses a challenge for rapidly industrializing emerging economies.

Quebec will ban sale of new gasoline-powered cars starting 2035

(Reuters; Nov. 16) - The Canadian province of Quebec said Nov. 16 it will ban the sale of new gasoline-powered passenger cars from 2035, joining California and others in announcing moves to shift to electric vehicles and reduce greenhouse gas emissions. Canada’s second-most populous province announced the ban as part of a C$6.7 billion (US$5.1 billion) five-year plan to help Quebec reduce its greenhouses gases by 37.5% by 2030 in comparison with 1990 levels, Premier Francois Legault said in Montreal.

Brian Kingston, president of the Canadian Vehicle Manufacturers’ Association, reacting by Twitter to Quebec’s announcement, said: “Consumers need more support to buy new ZEVs (zero-emission vehicles), not bans on internal-combustion vehicles.” The Canadian province of British Columbia has already moved to phase out fuel-powered cars and trucks over a two-decade period with a total ban on their sale or lease coming into effect in 2040. The United Kingdom is also said to be working on a similar decision.

Canadian Prime Minister Justin Trudeau has promised sweeping measures to fight climate change and boost economic growth, including making zero-emission vehicles more affordable and investing in charging stations across the country.