Oil and Gas News Briefs
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International agency forecasts oil demand will plateau around 2030

(Bloomberg; Oct. 13) - The oil market will suffer a long-lasting blow from the coronavirus, with demand taking years to recover and peaking at a lower level, the International Energy Agency said. After an unprecedented 8% drop this year, global oil consumption eventually will return to pre-crisis levels in 2023, provided COVID-19 is brought under control next year, the Paris-based agency said Oct. 13.

Even in that case, which is the most optimistic scenario for oil considered by the IEA, the pandemic will have an enduring impact. The IEA reinforced its view that global oil demand will plateau around 2030, topping out at lower levels than forecast last year. “The era of global oil demand growth will come to an end in the next decade,” IEA Executive Director Fatih Birol said in the agency’s annual World Energy Outlook.

If the recovery from the pandemic is slower and there’s lasting economic damage, oil demand may only have a couple of years left to grow, the IEA said. The outlook from the agency, which advises most major economies, comes as oil majors like BP and Shell acknowledge that the combination of the pandemic and drastic changes required to avert a climate crisis will have profound consequences for their business models.

Consumption will increase by about 750,000 barrels a day each year to reach 103.2 million a day in 2030 — about 2 million a day less than predicted last year. The increase will be entirely concentrated in developing nations and dominated by feedstocks for plastics and other petrochemicals, rather than fuel for road transportation. After 2030, annual growth will dwindle to just 100,000 barrels a day. Long-term growth in oil demand will be tamed by the switch to more efficient or electric vehicles, the IEA said.

IEA warns rising COVID numbers could jeopardize oil market recovery

(The Wall Street Journal; Oct. 14) - The world is burning through the oil supply glut that threatened to cripple the energy industry a few months ago, but spiraling coronavirus infection numbers are putting the recovery in jeopardy, the International Energy Agency said Oct. 14. In its monthly oil market report, the IEA said global oil supply in September was 9% below the pre-pandemic average of 2019. And the amount of oil in expensive offshore floating storage has fallen sharply since May, the agency said.

The decline in stockpiles is happening from record-high levels and the drawdown in oil stocks could falter in the months ahead, with COVID-19 cases sharply rising in the developed world and the prospect of renewed restrictions on movement, the Paris-based organization said. The climbing case number "surely raises doubts about the robustness of the anticipated economic recovery and thus the prospects for oil demand growth," the IEA said. In the context of OPEC's monthly report released Oct. 13, in which the cartel cut its 2021 demand forecast, the IEA warnings may concern investors.

France plans to halt loan guarantees for all oil projects in 2025

(Reuters; Oct. 12) - France will stop providing state export guarantees to projects involving dirty forms of oil such as shale starting next year, followed by all types of oil from 2025 and gas from 2035, the Finance Ministry said Oct. 12. The French state stopped giving export guarantees — which companies often need to get bank credit — to projects this year where fracking and flaring were involved and also dropped its financial support for coal developments.

In a proposal to parliament on Oct. 12, the ministry said guarantees would now also be halted from 2021 for projects involving heavy oil, shale oil and bitumen oil sands. From 2025, export loan guarantees would no longer be provided for the exploration and development of new oil fields, followed by new gas fields from 2035. "We eventually don't want the government to support fossil fuels abroad with export financing," Finance Minister Bruno Le Maire told reporters.

The ministry said the later date for gas was because the fuel could help some countries during their transition to cleaner forms of energy. Le Maire said the deadline for gas projects could be accelerated, depending how the market evolves. Over the past 10 years, the government has extended export guarantees worth 4.5 billion euros ($5.3 billion) to the gas and oil industries, according to the ministry. Among major projects in the pipeline, French oil and gas company Total has not requested export guarantees for its $20 billion liquefied natural gas project in Mozambique, ministry sources said.

Mozambique makes plan for sovereign wealth fund with LNG riches

(Bloomberg; Oct. 13) - Mozambique has published its proposal for a sovereign wealth fund as it prepares to reap as much as $96 billion — more than six times the size of its gross domestic product — from liquefied natural gas projects that companies including Total are building. The developments, which are the biggest private investments yet in Africa, could make Mozambique the continent's second-biggest producer of the fuel.

The central bank laid out plans for how the fund may function. The proposal anticipates that the $96 billion will accumulate over the lifetime of the projects. The fund will build up savings and contribute to fiscal stability when commodity prices fluctuate, according to the document published on the Bank of Mozambique's website Oct. 12. Lawmakers would regulate the fund with the Ministry of Economy and Finance managing it. The central bank will manage the fund's operations and implement its investment policy.

The government needs to deal with escalating violence in the northern province where the projects are located before it enjoys the full benefits. Fighters linked to Islamic State in August seized the port town of Mocimboa da Praia — about 37 miles south of where Total is spending $20 billion on its gas project. It's not clear when the state will regain control. The nation plans to have the fund operating before revenue from LNG starts to flow with first production due in 2022 from the smallest of the three projects planned.

LNG suppliers need to develop new markets to ensure growth

(S&P Global Platts; Oct. 12) - The development of new liquefied natural gas import markets will be key to ensure future LNG demand growth, senior gas company officials said Oct. 12 at the virtual Flame conference. Price competitiveness for LNG versus coal and contract flexibility will also be crucial if new buyers are to commit to the increased use of LNG in their energy mixes, the officials said.

"We have to make sure demand growth continues upwards and to find the means to develop new markets," CEO of floating storage and regasification unit provider, Hoegh LNG, Sveinung Stohle, said. "The supply side is not the one we should worry about — there is ample capacity. In reality what the industry should be focusing on is to increase demand and open up new markets," Stohle said.

Head of LNG trading at French major Total, Patrick Dugas, said China and India would drive demand growth in the coming years. "In China, displacement of coal with gas is a way to unlock demand," he said, while in India the country is building out significant new gas infrastructure that would boost gas consumption. CFO of Russian LNG producer Novatek, Mark Gyetvay, said price would be crucial in opening up new LNG markets. "Price is really critical for us to continue developing markets," he said, adding that some Asian markets, for example, were "extremely price sensitive."

LNG developers face challenges amid demand uncertainty

(Reuters; Oct. 12) - The International Energy Agency has nudged up its global natural gas demand forecast for this year, but still expects the biggest fall on record due to the impact of the COVID-19 pandemic. The Paris-based agency said Oct. 12 it now expects gas demand to drop by 3% year-on-year. In June, it forecast a 4% fall. "Global gas demand has been progressively recovering since June, driven mainly by emerging markets," IEA director Fatih Birol said, after the agency published its annual outlook.

However, Birol warned against assuming a return to “business as usual, as the current crisis could have long-lasting repercussions.” The resurgence of COVID-19 cases and the prospect of a prolonged pandemic have clouded the outlook for 2021, the IEA said. It expects gas demand to rebound by 3% in 2021. The IEA said the liquefied natural gas market played a key role in adjusting to the drop in demand with global LNG exports plunging 17% from January to July.

Looking ahead, the LNG sector faces challenges with one-third of active contracts covering 6.7 trillion cubic feet of gas per year due to expire over the next five years, the IEA said. Over the same period, liquefaction capacity is expected to increase by 20%. “These two factors will … create new opportunities for buyers and challenges for marketers in a context of demand uncertainty.” In the absence of committed buyers, the market has increasingly been relying on the balance sheets of oil and gas majors or on equity participation models to move LNG projects ahead.

"However, lower capital spending and leaner upstream portfolios in the wake of the pandemic means this approach now looks more challenging," the IEA said. Low spot LNG prices have also raised concern among banks and other financial players about the long-term viability of new LNG projects, the agency said.

Qatar reserves 40% of capacity at LNG import terminal in U.K.

(Bloomberg; Oct. 14) - Qatar is preparing to ramp up liquefied natural gas exports to the U.K. as the world’s biggest exporter of the fuel boosts its production capacity and looks for new long-term supply contracts. Qatar Petroleum reserved capacity for as much as 7.2 million tonnes of LNG per year at the Isle of Grain terminal from 2025 to 2050, about 11% more than it shipped to the U.K. in 2019. The deal will lock up about 40% of the London facility’s capacity after its owner, National Grid, expanded the import terminal.

The agreement bolsters the Persian Gulf country’s plan to increase its annual liquefaction capacity by 43% to 110 million tonnes in 2025. Qatar is already the U.K.’s biggest supplier of LNG by far, and the deal announced Oct. 13 will give state-run Qatar Petroleum even greater access to the market in five years’ time. With Britain adding more renewable power to its energy mix, gas has become the nation’s fuel of choice for generating electricity on days when the sun doesn’t shine and wind doesn’t blow.

Some developers are postponing final investment decisions for export projects amid the global pandemic. However, Qatar’s plan to add four new production lines may get a go-ahead by the end of the year, energy consultant Wood Mackenzie said. Qatar’s decision will affect LNG producers worldwide, Andrew Seck, a vice president at Total, said at the Energy Intelligence Forum on Oct. 13. “I think that will cause a significant challenge to many of the other competitors,” Seck said. Qatar appears willing to offer LNG much more cheaply than in the past. QP signed a deal in September to sell the fuel to China’s Sinopec at the lowest long-term contract price announced in recent years.

Spot LNG prices in Asia climb to highest this year

(Reuters commentary; Oct. 12) – Spot-market liquefied natural gas prices in Asia have roared back to life in recent weeks, boosted by temporary and longer-lasting factors and recovering from being one of the commodities hardest hit by the coronavirus pandemic. Spot cargoes for delivery in November to Northeast Asia were assessed at $5.50 per million Btu in the week ended Oct. 9, the highest price this year and a sixth consecutive weekly gain.

That nearly triples a record low of $1.85 in separate weeks in May when many of Asia’s economies were locked down to combat the spread of the coronavirus. Among the factors now driving spot LNG prices higher is the expectation of stronger demand over the northern winter as colder temperatures are forecast. It’s worth noting that spot LNG prices are typically seasonal, reaching their peak during the northern winter and hitting lows during the low-demand shoulder seasons between winter and summer.

Last winter, spot LNG’s high was $6.80 per million Btu, reached in mid-October — early compared to prior years — but showing that the current price may have room to rally. There is also evidence LNG flows to Asia are rising. Refinitiv vessel-tracking and port data show 20.68 million tonnes of the fuel was discharged in the region in September, up from 19.86 million tonnes in August and 19.44 million tonnes in September 2019.

Norwegian LNG plant expected to resume production in January

(Reuters; Oct. 12) - Equinor’s Melkoeya liquefied natural gas plant in Norway is expected to resume output on Jan. 1, 2021, after it was damaged in a fire last month, the company said in a regulatory statement on Oct. 12. The fire on Sept. 28 in one of the plant’s electricity-generating turbines was extinguished after about six hours, Norway’s Petroleum Safety Authority said at the time.

Europe’s only large-scale LNG plant, near the arctic town of Hammerfest, can process more than 600 million cubic feet of gas per day, which is piped in from the offshore Snoehvit field some 100 miles away in the Barents Sea. After cooling the gas until it turns to liquid, it is shipped in tankers to energy markets in Europe and Asia. The Snoehvit gas field is owned by Norway’s Equinor and Petoro, French major Total, U.K.-based Neptune Energy and Germany’s Wintershall Dea. The LNG plant is 13 years old.

Lender sees large-scale Middle East investment in natural gas

(Bloomberg; Oct. 12) - Investment in natural gas projects across the Middle East and North Africa will rise, even as the coronavirus pandemic dampens demand for the fuel, according to Arab Petroleum Investments Corp. (Apicorp). Gas projects planned or under development in the region will require around $211 billion in investment between 2020 and 2024, the multilateral lender said Oct. 12. In its previous investment outlook, Apicorp estimated that spending would total $185 billion between 2019 and 2023.

Expansion of output in Qatar, the biggest exporter of liquefied natural gas, will account for $22 billion of the planned investment, Saudi Arabia-based Apicorp said. Iran and Saudi Arabia are set to see the most activity with almost $90 billion of planned and committed investment between them by 2024. Middle Eastern states are lining up new gas projects while cutting oil-related investments, though the pandemic has battered prices for both fossil fuels. This is partly because governments are promoting the use of natural gas to produce electricity instead of crude, a more polluting alternative.

The battle to secure LNG buyers will become “fiercer” over the next two or three years, and some producers may choose to consume more gas of theirs at home if global prices for LNG remain low, Apicorp’s Chief Economist Leila Benali said. “The key question is how you monetize the gas, whether you export it or consume it domestically,” Benali said. “A player should go where it can get the most monetization for the fuel that it’s producing.”

Japan’s economy minister tells LNG industry to be more price-flexible

(S&P Global Platts; Oct. 12) - Japan's Minister of Economy, Trade and Industry, Hiroshi Kajiyama, called on the LNG industry on Oct. 12 to increase its flexibility in pricing and to promote cleaner use of the fuel amid rising demand in Asia. "Asian countries' LNG imports are expected to expand full steam ahead amid rising expectations LNG will be a stable energy source and a means of both tackling climate change and pursuing economic growth," Kajiyama told the online LNG Producer-Consumer Conference 2020.

While Japan’s and other Asian LNG importers' high ratio of oil-linked pricing in their medium- to long-term LNG supply contracts is keeping their import costs low given current oil prices, Kajiyama warned of a potential risk to stable LNG supply in the years ahead should the situation cause upstream investment for new supply to stagnate.

A greater diversity of LNG trades through introducing various price benchmarks other than oil indexation to reflect supply and demand of LNG and a further relaxation in destination restrictions, along with the creation of a "fair price review" mechanism in medium- and long-term contracts, would be important, Kajiyama said. "These efforts will be win-win for both producers and consumers because it will ultimately increase the number of medium- and long-term contracts," he said.

Moody’s expects China’s gas demand to grow 6%-8% a year to 2030

(Moody’s Investors Service; Oct. 13) - Moody's Investors Service said in a new report that natural gas consumption in China is set to expand over the next 10 years, aided by ongoing urbanization and a raft of favorable government policies to support the sector. "While gas consumption growth is projected to slow in 2020 because of coronavirus disruptions, we forecast that based on China's energy use targets and promotion of gas as a clean energy source, gas consumption will grow at an average of about 6% to 8% annually in 2018–2030," said Ralph Ng, a Moody's analyst.

To meet increasing demand for gas and relieve shortages, China has been expanding its supply, including imports of piped gas and liquefied natural gas. As a result, imported gas rose to account for more than 40% of total gas supply in China in 2019, up from 31% in 2015. "We expect this trend will continue over the next two years and that increasing LNG supply sourced from different countries and domestic storage capacity will become a key measure for peak load management, especially in winter," Ng said.

In addition, the establishment of a new company, PipeChina, to form a unified national oil and gas pipeline network, will consolidate midstream and LNG terminal assets with more market participants gaining access to the assets.

New $5 billion gas pipeline adds to European supply

(Bloomberg; Oct. 13) - Europe’s glutted natural gas markets are about to get a fresh source of supply after BP and its partners finished a major new pipeline from Azerbaijan into southern Europe. The $5 billion Trans Adriatic Pipeline, or TAP, project is “substantially complete” 4½ years after construction started on the 545-mile link. The partners are now preparing for commercial operations and offering capacity to buyers.

Flows from the pipeline add to pressure on Europe’s gas distribution grid, which is struggling to absorb unusually high storage levels and shipments of liquefied natural gas, said James Huckstepp, leader of a team at S&P Global Platts analyzing the industry. The link will bring an additional 280 billion cubic feet of gas per year to Italy, and 35 billion cubic feet to Greece and Bulgaria, shifting the dynamic of a market that gets much of is supplies from Russia and the North Sea.

Completing the link is a milestone for the European Union, which has worked for years to diversify its sources of gas supply away from Russia. While Germany is supporting Russia’s controversial Nord Stream 2 route to bring gas to the continent through the Baltic Sea, TAP as part of the southern corridor has emerged as an alternative source of energy from countries outside Russia’s grip. TAP will take gas from Azerbaijan and the Caspian Sea region and deliver it through Turkey and to Italy toward European buyers.

Japan will work to reduce emissions from LNG supply chain

(Nikkei Asia; Oct. 10) - Japan will collaborate with Australia and Southeast Asian nations to reduce the burden that the entire LNG supply chain puts on the environment, the Nikkei has learned. Word of the collaboration comes as some investors are beginning to act on their environmental concerns and as Japan looks to stabilize its procurement of energy resources. Industry Minister Hiroshi Kajiyama will announce the decision on Oct. 12 at Japan's annual LNG Producer-Consumer Conference.

Japan is the world's largest consumer of liquefied natural gas, accounting for 20% of global consumption. The nation uses the gas to generate nearly 40% of its electricity. City utilities also pipe the gas to residents for heat. But Japan's procurement of LNG could be impeded if more investors and banks divest from fossil fuels and their moves end up affecting the funding for gas field development projects.

Japan is promoting the idea of carbon capture and storage to boost its environmental standing. In this approach, carbon dioxide that is generated at the production field would be immediately collected and buried. At the same time, competition for LNG is expected to increase from emerging countries. It is estimated that 70% of the expected increase in demand through 2030 will come from the Asia-Pacific region.

EU considers binding standards to limit methane emissions

(Reuters; Oct. 14) - The European Union is considering binding standards for natural gas to limit emissions of methane, the second-largest contributor to global warming after carbon dioxide. The 27-member bloc is the world's biggest importer of gas, and imposing such standards could affect its major suppliers, which include Russia and Norway. Published on Oct. 14, the EU methane strategy includes a clearer commitment than previous drafts that shied away from methane limits on gas consumed in Europe.

"The Commission will consider methane emission reduction targets, standards, or other incentives for fossil energy consumed and imported in the EU in the absence of significant commitments from international partners," the policy said. Curbing methane is key to plans to cut EU greenhouse gas emissions to net zero by 2050. However, that target does not capture the emissions released to produce or transport gas to the EU, whereas methane standards for imported gas would affect its gas suppliers.

Methane, which is emitted from leaky oil and gas pipelines and infrastructure, unused coal mines and farming, is 84 times more potent than CO2 in its first 20 years in the atmosphere. Some campaigners welcomed the push to tackle imported emissions, but Green EU lawmakers lamented the lack of legislation on agriculture, where most methane emissions come from livestock farming. The commission will propose legislation next year requiring oil and gas companies to monitor and report methane emissions and repair leaks, and will consider banning venting and flaring methane.

[Flaring the issue for Democratic candidate for Texas oil and gas post]

(Houston Public Media; Oct. 13) – Texas voters have the opportunity to choose the next state oil and gas regulator from candidates with very different approaches. Republican Jim Wright and Democrat Chrysta Castaneda are facing off Nov. 3 for a seat on the three-member Texas Railroad Commission, which regulates oil, gas, and other energy resources. Despite its name, it no longer has any authority over the rail industry.

Companies turn to the commission for approval of drilling projects and pipelines. The commission also regulates oil and gas waste disposal — like injecting wastewater from hydraulic fracturing back into the earth, or burning off gas into the atmosphere (flaring). The state Democratic party is calling this the most important environmental race in the country, and Castaneda has made finding solutions to flaring central to her campaign. If she wins, she would be the first Democrat elected to the commission in 30 years.

Republican Jim Wright is a newcomer to politics. Wright is a business owner and runs four companies in the energy industry, including in oil field waste and recycling. One of his former businesses was the subject of a legal battle over improper waste disposal, and the Texas Railroad Commission cited it for multiple violations, although Wright has said he sold the company before that. He advertises himself as a pro-business conservative that will work with industry and the public, according to his website.

[P&O Cruises takes delivery of LNG-powered $950 million cruise ship]

(Cruise & Ferry; Oct. 13) - P&O Cruises has officially taken delivery of its new ship Iona from Meyer Werft in an official handover ceremony at the German shipyard. The $950 million Iona is 1,132 feet long with 17 guest decks and 2,500 berths, which P&O says makes her the largest cruise ship ever built for the U.K. market. It is also the first British cruise ship to be powered by liquefied natural gas.

“Iona’s delivery is a very positive signal for the future of cruising,” said Paul Ludlow, president of P&O Cruises. “We are focused on readying her to welcome guests during her new maiden season to Northern Europe, Spain, Portugal, and the Canary Islands from our homeport of Southampton. As our operations are currently paused until early 2021, Iona will not be sailing for the moment, but we look forward to our guests experiencing this game-changing ship.”

Iona’s features include the two-deck Sky Dome, a public area covered by the first glass dome roof at sea. The space will be used as a pool environment by day and for dining and entertainment at night. The ship also includes the first gin distillery at sea along with eight specialty restaurants, 13 entertainment venues, and four swimming pools.