Oil and Gas News Briefs
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Reuters reports Shell wants to cut production costs up to 40%

(Reuters; Sept. 20) - Shell is looking to slash up to 40% from the cost of producing oil and gas in a major drive to save cash so it can overhaul its business and focus more on renewable energy and power markets, sources told Reuters. Shell's new cost-cutting review, known internally as Project Reshape and expected to be completed this year, will affect its three main divisions and any savings will come on top of a $4 billion budget-cutting target set in the wake of the COVID-19 crisis.

Reducing costs is vital for Shell's plans to move into the power sector and renewables where profit margins are relatively low. Competition is also likely to intensify with utilities and rival oil firms including BP and Total all battling for market share as economies around the world go green. "We had a great model, but is it right for the future? There will be differences, this is not just about structure but culture and about the type of company we want to be," said a senior Shell source, who declined to be named.

Last year Shell's overall operating costs came to $38 billion and capital spending totaled $24 billion. Shell is exploring ways to reduce spending on oil and gas production — its largest division, known as upstream — by 30% to 40% through cuts in operating costs and capital spending on new projects, two sources told Reuters. Shell now wants to focus its oil and gas production on a few key hubs, including the Gulf of Mexico, Nigeria, and the North Sea, the sources said. The company's gas division is also looking at deep cuts, the sources said. Shell had 83,000 employees at the end of 2019.

Saudis want to keep new OPEC from cheating like the old OPEC

(Bloomberg opinion; Sept. 21) - Last week's virtual meeting of oil ministers from the OPEC+ alliance was a fascinating insight into the exercise of power by Saudi Oil Minister Prince Abdulaziz Bin Salman. It opened with ABS, as he's referred to, lecturing his counterparts about the importance of honoring the output cuts they agree to, not as an act of charity but as a vital commitment to maximizing each member's profits.

The only person sitting at the table with him in Riyadh was the oil minister of the United Arab Emirates — the latest country to blatantly ignore its production goal. It can't have been a particularly comfortable place to be. It turns out that the new OPEC — where members are meant to be in it all together, sticking to output targets and making up for any shortfalls with deeper compensatory reductions — is starting to show some similarities to the old OPEC, which was marred by rampant cheating.

During the first four months of the deal OPEC+ struck in April implementing record output cuts, the 10 OPEC countries bound by the pact — plus 10 more from outside the group — achieved a compliance rate of just over 98%, an astonishingly high figure for a group with a reputation for missing its targets by a wide margin. Compliance with the output cuts introduced in January 2009, for example, never exceeded 70%, according to data compiled by the Centre for Global Energy Studies.

The fixation on securing compensatory cuts from OPEC+ members that have failed to meet their targets is understandable. Unless the Saudi prince can get a grip on OPEC's free riders, his new OPEC is going to look very much like the old OPEC, where Saudi Arabia bore the lion's share of the burden of balancing the market.

Oil trader says market cannot absorb any more supply

(Bloomberg; Sept. 23) - Global oil markets won't be able to absorb planned production increases by OPEC+ members as demand remains weaker than expected, said the head of commodities trader Mercuria Energy Group. Oil stockpiles have been building in September and won't draw down enough in the remainder of the year to be in balance if the cartel follows through with its plan to ease up on production cuts early next year, Marco Dunand, Mercuria's co-founder and chief executive, said in an interview.

"We do not need the extra oil," Dunand said from the firm's headquarters in Geneva. The forecast, by one of the world's biggest independent oil traders, is ominous for Saudi Arabia, Russia, and the rest of OPEC+ that have made historic output cuts this year in an effort to save a market battered by the coronavirus pandemic. With the cartel due to discuss further easing some of those curbs from January 2021, the warning that stockpiles have been building again could force OPEC+ to reconsider.

Dunand said global stocks rose by 500,000 to 1 million barrels a day in September but will be drawn down by about 1 million barrels a day in the fourth quarter. "We see a fair amount of oil going into ships into floating storage. … There has been a slowdown in the global rebalancing process." The oversupply is partly the fault of OPEC+ as it began to ease back its cuts in August and added over 1 million barrels a day to a weak market, Dunand said. The group is planning to meet Dec. 1 to decide whether to add a further 2 million barrels a day from January 2021. "I don't think the market can take that extra oil."

Forecasting oil demand has gotten harder

(The Wall Street Journal; Sept. 22) - Predicting oil demand has rarely been more challenging, buffeting prices and muddying the outlook for traders, investors, and energy producers. Energy analysts are mapping out the course of the coronavirus and efforts to stop the pandemic, including limits on flights, cruises and the use of public transportation. They are also grappling with the effects on fuel demand of an economic downturn, rising unemployment, and changing patterns of work, study, and travel.

All this has introduced an unusual degree of uncertainty into estimates for how much oil the world will consume in the remainder of 2020. The lack of visibility has contributed to renewed turbulence in the market after prices rose over the summer, buoyed by the return of cars and trucks to the road. This year Brent has moved between a closing high of $68.91 in early January and a low of $19.33 in April. Only twice since 1990 has the price range been wider.

“The oil market, in terms of being able to predict what will happen next, is in a very unique situation,” said Marco Dunand, chief executive of commodities trader Mercuria Energy. “This has never happened in history, where people couldn’t predict with such a magnitude where the demand could be in three to four months’ time.” Forecasts by the International Energy Agency and OPEC have varied widely this year. Their monthly forecasts of demand in the next calendar quarter have differed by 1.3 million barrels a day on average, according to calculations by The Wall Street Journal.

OPEC members watch to see if Libya resumes oil exports

(Reuters; Sept. 21) - OPEC and its allies are watching efforts to resume oil output in Libya very closely, OPEC sources said Sept. 21, although producers should wait to see if there is a sustainable restart in Libya before reacting. OPEC member Libya is exempt from cutting oil output under a deal by the Organization of the Petroleum Exporting Countries and allies, and a restart in Libya supply could force other producers to make further reductions to support global prices.

Oil prices fell toward $42 a barrel on Sept. 21, weakened by the possible return of Libyan production which has been virtually shut down since January, and as rising coronavirus cases add to worries about global demand. Three OPEC sources said time was needed to assess the situation. “At this stage, we should watch for some time,” one of the OPEC sources said, declining to be identified. “But the market is reacting much faster on bearish sentiment.”

A second delegate said the organization was watching Libyan production very seriously, and another source close to OPEC said Libyan production was less of a concern than demand weakening again due to a new round of coronavirus lockdowns. “The bottom line will be how governments react to COVID-19 over the next few months,” the source said. “And this is anyone’s guess.” Libya’s National Oil Corp. on Sept. 19 lifted force majeure on what it deemed secure ports, and restart procedures are underway at some locations following a blockade beginning in January that cut the country’s production.

Qatar’s LNG expansion could push competitors to delay projects

(Australian Financial Review; Sept. 21) – Australia’s Woodside Petroleum and Santos face potential delays of several years to $50 billion of natural gas investments as a result of Qatar's aggressive approach to LNG pricing as it embarks on a mega-expansion of its ultra-cheap capacity to produce the fuel, possibly undercutting projects around the world. The combination of weak oil prices and Qatar’s move to reduce its pricing will make project approvals challenging for rivals with higher costs, analysts say.

That could add further pressure for Santos to "be patient" with a decision to proceed with the US$4.7 billion (A$6.4 billion) Barossa project off northern Australia, while Woodside might need to "reconsider" its US$11.4 billion Scarborough development in Western Australia, Credit Suisse analyst Saul Kavonic said. The comments come after LNG market insider Fereidun Fesharaki of FACTS Global Energy noted that Qatar had decisively moved to cut prices in its long-term LNG supply contracts.

The shift comes ahead of a Qatari expansion that will boost its capacity from 77 million tonnes of LNG to 126 million tonnes per year by the second half of this decade. With the Qatari expansion and other new LNG plants under construction, Fesharaki said, no new project approvals are needed until 2024-2025. Qatar's projects have the lowest break-even price globally. Bernstein Research estimates break-even at about US$5 per million Btu, compared with $6 to $8 for other new projects. "In a world where the lowest-cost projects move first, there seems little to stop Qatar," Bernstein's Neil Beveridge said.

China’s imports of U.S. crude likely to decline in October

(Reuters commentary; Sept. 21) - A record amount of U.S. oil is likely to be offloaded at Chinese ports this month, and then volumes are likely to fall off sharply as the price advantage enjoyed by U.S. exporters fades. Vessel-tracking and port data compiled by Refinitiv indicates China will import 867,300 barrels per day of U.S. crude in September, exceeding 653,870 in August and 693,500 in July. The numbers for July and August beat the previous record of 466,600 barrels per day in June 2018, according to Refinitiv.

China’s imports of U.S. crude are likely to drop to around 500,000 barrels per day in October, however, and may be lower in November, according to preliminary estimates. While it may be tempting for Washington and Beijing to talk up the recent record volumes of U.S. crude flowing to China as a sign that the two sides are trying to make January's Phase 1 trade deal work, the explanation is probably simpler.

China's refiners went on a buying splurge in April during the price war between Saudi Arabia and Russia. Although the price dispute was resolved with a new output cut agreement, much of the U.S. crude that has flowed to China was bought during the price war or in the following weeks, when U.S. crude prices were in the doldrums. It's this crude that has been arriving from July onwards. The bulk of that cheap oil is likely to be offloaded at Chinese ports this month.

Brimming stockpiles push global refiners to cut back production

(Reuters; Sept. 20) - Global oil refiners reeling from months of lackluster demand and too much inventory are cutting fuel production into the autumn because the recovery in demand amid the pandemic has stalled, according to executives, refinery workers and industry analysts. Refiners cut output by as much as 35% in the spring as lockdowns destroyed the need for travel. As lockdowns eased, they boosted output slowly through late August. But in the U.S. and elsewhere, refiners have been decreasing run rates for the past several weeks in response to increased inventories and a lack of demand.

The hit to capacity has been most notable in China. The second-largest fuel consumer led the world in oil demand recovery after taming its outbreak of coronavirus. But its refiners also export fuel, and those shipments have been weak due to the virus's effect on fuel demand in other Asian nations. Chinese refineries are expected to cut runs in September, led by PetroChina with a 5% to 10% reduction versus August, as Chinese refiners grapple with high fuel inventories and poor export margins, analysts said.

"The impacts of COVID-19 ... are putting extreme pressures on the refining business that we have not experienced before and are not sustainable over the longer term," said Scott Wyatt, chief executive at Australian fuel supplier Viva Energy Group. Inventories of distillates, which include diesel, jet fuel, and heating oil, which usually start building ahead of winter, are brimming this year, leading to a poor outlook for refinery margins.

Continued weakness in jet fuel demand hit refineries

(Reuters; Sept. 21) - Jet fuel consumption remains the hardest hit section of the global oil market as passengers avoid air travel as a result of the pandemic and government travel restrictions. The specific problems of the jet fuel market explain why refinery margins for closely related distillates such as diesel are being hit much harder than benchmark oil prices. Travel travails have helped push distillate margins to their lowest levels for more than a decade and are undercutting refinery demand for crude.

Sustained recovery in distillate margins and oil prices will therefore depend on a wider resumption of cross-border aviation. But resumption of long-haul flights is looking less likely than a few months ago, given the resurgence of coronavirus cases in many parts of the world. An upturn in jet fuel consumption depends on one or more of three factors: Deployment of a COVID vaccine; alternative methods of infection control (for example, rapid testing or improved contact tracing and isolation); or lifting travel restrictions.

Globally, air freight tonne-miles were down just 18% in June compared with passenger revenue-miles down 87%, according to the International Civil Aviation Organization. Business-related travel has been hit harder than leisure journeys as a result of the cancellation of conferences and in-person customer visits for infection control and to cut corporate spending during the recession. Jet fuel, with strict quality specifications, is normally a premium product and makes a big contribution to refinery profitability.

Opponents step up fight against LNG terminal near Philadelphia

(Philadelphia Inquirer; Sept. 20) - Environmentalists have stepped up alarms about a proposed fuel export terminal in South Jersey that they say will accelerate fracking in Pennsylvania gas fields, worsen climate change, and attract 100-car trains carrying liquefied natural gas across Philadelphia. The Gibbstown Logistics Center in Gloucester County would be just across the Delaware River from Philadelphia International Airport. A hearing examiner and the Delaware River Basin Commission staff have recommended approving permits to dredge the river and to build a pier for the $450 million private port.

The interstate commission voted Sept. 10 to delay a decision at least until its business meeting in December. But it will be hard-pressed to reverse its unanimous approval last year of the project, which has received permits from the New Jersey Department of Environmental Protection and U.S. Army Corps of Engineers. The private port is designed for multiple purposes — to receive imported automobiles or as a potential staging area for companies to erect and service wind turbines off New Jersey’s shore. But primarily it is designed for exporting gas extracted by fracking in Pennsylvania’s Marcellus Shale region.

New Fortress Energy, a company affiliated with the developers of the Gibbstown Logistics Center, is behind a plan to liquefy gas at a proposed facility northwest of Scranton, Pennsylvania, and ship the LNG by road or rail to Gibbstown. There it would be loaded onto ships and either exported overseas or barged to domestic customers. “This is the first time that this much volume of gas is being liquefied, traveling across land, and then loaded directly onto ships that then go out to sea to sell it for export,” said Tracy Carluccio, deputy director of the Delaware Riverkeeper Network, which has led opposition to the plan.

Nigeria wants to promote natural gas-fueled vehicles

(Bloomberg; Sept. 19) - Nigeria is counting on natural gas-powered vehicles to help it reduce reliance on gasoline and improve its climate credentials while easing the pangs of ending decades of an expensive fuel-subsidy regime. Energy prices have shot up sharply after the government ended subsidies, and the country's labor unions are threatening a general strike on Sept. 28. After a 60% loss of revenues due to the plunge in oil prices, President Muhammadu Buhari is insisting the decision cannot be reversed.

As a palliative, Africa's top oil producer is offering a 250 billion naira ($648 million) stimulus package — the National Gas Expansion Program — that it hopes will spur the use of natural gas in transportation as an alternative to gasoline-powered cars, according to the central bank. Investors can access the fund, which has maximum term of 10 years, with interest capped at 5% to the end of February and then 9% afterward.

The plan involves getting thousands of buses and trucks to run on the cleaner fuel by collaborating with investors to build the infrastructure, such as pipelines and refueling stations, on major highways across the country of more than 200 million people. With proven reserves of more than 200 trillion cubic feet of gas, Nigeria currently produces about 8 billion cubic feet daily, most of which goes in liquefied natural gas exports. Local consumption is still largely limited by lack of distribution facilities, and a lot of the country's gas is simply burned off or pumped back down oil wells.

Mediterranean nations join together to promote gas development

(Reuters; Sept. 22) - Six countries signed a charter for an Egypt-based energy forum on Sept. 22, giving formal status to a group that seeks to promote natural gas exports from the eastern Mediterranean and that Israel hopes will strengthen its ties with Arab neighbors. Egypt, Israel, Greece, Cyprus, Italy, and Jordan established the East Mediterranean Gas Forum (EMGF) as an intergovernmental organization in a virtual ceremony hosted by Cairo.

The group unites regional rivals of Turkey, which has been locked in a bitter dispute with European Union members Greece and Cyprus over gas drilling rights in the region. The Palestinian Authority is also part of the forum, Israeli Energy Minister Yuval Steinitz said in a statement. France has applied to join with the United States and European Union requesting observer status.

For Israel, the forum "brings regional cooperation with Arab and European countries, the first of its kind in history, with contracts to export (Israeli) gas to Jordan and Egypt worth $30 billion, and that is just the beginning," Steinitz said. Egypt began importing Israeli gas at the start of this year, for possible re-export to Europe or Asia. Discovery of

Israel's giant offshore Zohr field in 2015 unlocked interest in Egypt's energy market and encouraged Egypt to promote itself as a regional gas liquefaction and export hub.

Judge tells Polish utility to talk with climate group about coal plant

(Bloomberg; Sept. 23) - The owners of Europe's dirtiest power plant were told to discuss the future of the facility with climate change activists who want it to close earlier than planned, part of a year-long legal dispute in Poland. A judge at the district court in Lodz said Sept. 22 that the state-owned utility PGE should attempt to reach a settlement with climate activists within three months and, according to the activist group, the judge said climate change is a crisis that requires the company's attention.

The case highlights increasing pressure on Poland to shift away from its reliance on coal. For ClientEarth, which brought the suit, the ruling puts environmental experts at the table with energy companies for the first time and sweeps away the utility's effort to get the case thrown out at an early stage. "The court's decision was an extraordinary thing," said Boleslaw Matuszewski, a lawyer at BMG Adwokaci in Warsaw, who represented ClientEarth in the proceedings.

The case focuses on the Belchatow generation plant in central Poland, which can burn a ton of coal every second. ClientEarth argues that under Polish law, PGE must either stop burning lignite at Belchatow or install filters that would reduce carbon dioxide emissions to zero by 2035. ClientEarth wants PGE to close the plant entirely by 2035. Coal supplies about 70% of the Poland's electricity. It's the only country in the European Union that refused to sign the bloc's 2050 climate-neutrality goal at a national level.

China has a lot of work ahead to be carbon neutral by 2060

(Bloomberg; Sept. 23) - President Xi Jinping's surprise announcement that China plans to go carbon-neutral by 2060 has left many questions, including: "How?" China is the world's largest energy user and greenhouse-gas emitter, mines and burns half the world's coal, and is the top importer of oil and natural gas. Transitioning that economic behemoth to carbon-neutrality within a few decades could cost $5.5 trillion, Sanford C. Bernstein & Co. estimates, and require technologies that are barely in use today.

"What's being contemplated here has never been done before," said Neil Beveridge, an analyst at Bernstein. "This is a monumental challenge." While Xi's comments during his speech to the U.N. Sept. 22 were void of details, he said China would scale up its Paris Agreement commitments through "more vigorous" measures. Non-fossil fuels, which account for about 15% of China's primary energy mix, will have to take a huge leap.

Nuclear power will have to increase. China's first homegrown reactor recently began loading fuel, and the country has started approving new plants after a freeze of several years. The increase in renewables would mean a reduction in fossil fuels from about 85% of the energy mix now to 25% or less, according to Bernstein, which sees oil and coal bearing the brunt of the reduction with cleaner natural gas posting modest growth.

The biggest hit would land on coal, the most polluting fossil fuel, which accounted for nearly 58% of China's energy in 2019. In one of the more ambitious climate outlooks prepared by a state-owned energy giant, China National Petroleum Corp. last year forecast a "Beautiful China" scenario with coal at only 14% of the mix by 2050.

Canada's natural resources sectors have lost 43,000 jobs

(Calgary Herald; Sept. 23) - Canada recorded its largest ever drop in natural resources employment in the second quarter, as the COVID-19 pandemic caused commodity prices to plummet and close to 43,000 workers lost their jobs. Statistics Canada reported Sept. 23 that employment in natural resources sectors fell 7.3%, which is "the steepest decline ever recorded" as "low natural resource prices contributed to broad-based job losses."

The energy industry felt the brunt of the job losses with 23,600 workers losing their jobs, followed by 11,850 jobs lost in the mining and minerals industry. A further 6,100 jobs were lost in the forestry sector and 1,400 jobs were lost in hunting, fishing, and water industries. Altogether, there were 42,950 people out of work in those natural resources businesses in the second quarter.

As the price of oil and refined products like gasoline fell between April and June, so too did the broader natural resource sector's contribution to the Canadian economy and to exports. "Canada has long been a net exporter of natural resources — export values are generally about double those of imports," the agency reported. A recent report by Calgary-based ARC Energy Institute notes that reinvestment in the oil and gas sector will fall to $9.5 billion this year, compared to $25.3 billion in 2019 — a 64% drop.