# Oil and Gas News Briefs
# Compiled by Larry Persily
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## OPEC+ non-compliance risk, weaker demand bodes ill for oil market

(Reuters commentary; Sept. 3) - Oil market rebalancing has decelerated over the past two months as producers' output discipline shows signs of slackening and consumption recovers more slowly than anticipated.  Meanwhile, members of the Organization of the Petroleum Exporting Countries and their partners in the broader exporters' alliance OPEC+ are showing signs of weakening commitment to output cuts agreed in April.

The production pact is following a familiar trajectory in which compliance starts to falter as the sense of crisis that led to the agreement fades.  At the same time, consumption is not recovering as fast as anticipated three months ago, as the coronavirus epidemic continues and economies are hit by job losses.  The global production-consumption balance, which was then expected to be in a significant supply deficit, with a large drawdown in inventories, is now expected to remain in surplus, at least in the near-term.

Despite OPEC+ efforts to talk up compliance, market sentiment has deteriorated significantly, as investors become more skeptical about the pact's ability to draw down crude inventories enough to bolster prices in the face of a long-lasting pandemic.

## Market will need to adjust as China scales back oil imports

(Reuters commentary; Sept. 3) - There is a crude oil market narrative that demand is recovering from the shock of the coronavirus pandemic, and therefore producers that cut back can now put more supply back into the market.  While there is evidence to support the view that demand is higher than at the top of pandemic-induced lockdowns, there are questions as to whether it's strong enough to absorb an increase in supply.

Much of the optimism remains centered around a recovery in Asia, particularly in China, the world's largest crude importer, which has been setting records for imports in recent months. August looks to be another strong month for China, with Refinitiv Oil Research forecasting imports of 12.11 million barrels per day.  This would be slightly higher than the official figures of 12.08 million for July, but short of the record 12.94 million in June.

But it's also no secret that much of China's surge in imports in recent months was due to a splurge of opportunistic buying during the price war in March and April.  With oil prices falling to 22-year lows, Chinese refiners took advantage of their financial muscle to vacuum up barrels across the globe.  That oil has been arriving since late May, so much so that tankers have had to wait for up to four weeks to unload at Chinese ports.

More than 90 million barrels was still waiting on tankers outside Chinese ports as at the end of August, Refinitiv said, with 17.5 million destined for China waiting off Singapore. The data seems to show that the crude that has been flooding to China will likely ease back to more normal levels from October onwards. It means the crude market is going to lose as much as 2 million barrels per day of demand that it had been getting used to.

## Spare oil production capacity will hold down price gains

(Bloomberg commentary; Sept. 6) - As the summer driving season fades in the rearview mirror, oil markets are taking on a distinctly chilly air. The demand recovery has stalled, just as the OPEC+ countries are starting to ease up on their record output cuts. With spare capacity rife throughout the supply chain and huge stockpiles of crude and refined products, it may be some while yet before oil prices resume their upward path.

After a strong initial rebound from the depths of the pandemic-induced slump, the comeback in demand has slowed dramatically. That oil demand in India remains muted is particularly bad news for those wishing oil prices higher. The one potential bright spot is China, which may yet prove a lifeline for flagging demand. But China's already got plenty of oil on hand. It took advantage of rock-bottom prices in March and April to buy crude, leaving the country's stockpiles brimming, both on land and in anchored tankers.

Even when demand does begin to pick up again, in China or elsewhere, there may be little immediate impact on prices. The devastation wrought by the pandemic has left ample spare capacity throughout the oil supply chain — enough to hold down prices. In the seven shale basins covered by the U.S. Energy Information Administration's latest report, there were still more than 7,600 drilled but uncompleted wells at the end of July, a number barely changed since February. But the greatest concentration of spare production capacity lies in the Persian Gulf and beneath the tundra of northern Russia.

## Low prices force Saudi Aramco 'to re-evaluate everything'

(CNN: Sept. 3) - The coronavirus pandemic is upending the energy industry and pushing its top players to make big changes. That includes Saudi Aramco, the world's largest and most profitable oil producer. The crash in prices this year is weighing on Saudi Arabia's state oil giant, which relies on pumping crude to generate the cash it needs to pay dividends to investors and finance a big chunk of government spending.

Aramco may be forced to do what was once unthinkable: abandon deals and sell assets. First on the block could be its plan to build a network of refineries in the world's biggest markets in a bid to extract more value from each barrel of crude it pumps. Deals to get into the refining business in China and India appear to have been put on hold in recent weeks. "It is fair to say that there is a re-evaluation of everything at the moment," said an Aramco source familiar with business strategies regarding the projects.

The realignment of priorities could have long-term consequences for the company and the Saudi kingdom, given the politically sensitive nature of some projects. "There's always politics involved," said Iman Nasseri, Middle East managing director at Facts Global Energy. Refining projects in particular will involve billions of dollars of investment and may not help generate cash for some years, a big risk with oil prices so low, Nasseri said. Aramco now faces a difficult set of choices as it races to conserve cash.

## Saudi Arabia cuts oil prices for October deliveries

(Bloomberg; Sept. 6) - Saudi Arabia has cut pricing for oil sales in October, a sign the world's biggest exporter sees fuel demand wavering amid more coronavirus flare-ups around the globe. The kingdom's state producer, Saudi Aramco, reduced its key Arab Light grade of crude by a larger-than-expected amount for shipments to Asia, its main market. It also lowered pricing for U.S. buyers.

Oil demand has plunged this year after the pandemic forced governments to lock down economies, airlines to cancel fights and workers to stay home. OPEC+ producers agreed in April to slash output by almost 10 million barrels a day, roughly 10% of global supply, to bolster prices. Those cuts and a demand recovery in China have since helped oil prices more than double, but they're still down around 35% this year. Brent crude fell to $42.66 a barrel on Sept. 4, suffering its biggest weekly loss in almost three months as infection rates continued to climb in nations such as the U.S. and India.

"Aramco understands the importance of China for the global oil market," said Giovanni Staunovo, a commodities analyst with UBS Group. "The cut for October might help to support stronger imports from China over the coming months." The company is reducing pricing for Light exports to Asia in October by $1.40 a barrel. Saudi Arabia usually sets the tone for pricing decisions by other Middle Eastern petrostates.

## Big Oil just isn't as big any more

(The Washington Post; Sept. 4) - A dozen years ago, ExxonMobil was the bluest of blue-chip companies. Raking in record-breaking profit, it spent every quarter of 2008 as the world's most valuable publicly traded company. Not anymore. The oil giant's market value today is about a third of what it was in 2008, when it approached $500 billion. That slide culminated last month with Exxon ending its 92-year run on the Dow Jones Industrial Average.

The removal of the longest-serving component of the U.S. stock indicator is just the latest sign of the decline of oil as major driver of the U.S. and global economies. Pummeled by the coronavirus pandemic, which has stopped travel in its tracks and sent oil prices to historic lows, the energy sector became the smallest component of the S&P 500-stock index this summer after dipping below utilities, real estate, and materials.

The slide has been so steep that today five technology firms — Alphabet, Amazon, Apple, Facebook, and Microsoft — are each worth more than the top 76 energy companies combined. Exxon and a half dozen or so of the world's largest oil companies — so-called Big Oil, though that's an increasingly outdated term — just aren't that big anymore. "Oil has shrunk as part of every economy, not only the U.S.," said Pavel Molchanov, an energy analyst at Raymond James. "This is a global trend."

## Russian energy minister predicts oil at $50-$55 in 2021

(CNBC; Sept. 4) - Russian Energy Minister Alexander Novak forecasts only modest oil price recovery in 2021, based on a weak demand outlook and pandemic-induced changes in business and human behavior. "My forecast for 2021 is a little more modest than that of Goldman Sachs. I predict the range of $50 to $55 per barrel as the average price for the year. But we can expect volatility in the market, with both highs and lows," he said Sept. 4.

Goldman Sachs last week predicted international benchmark Brent crude at $65 per barrel by the third quarter of next year, "with additional upside through 2021 as inventories start to normalize." Novak disagrees. "The future recovery is going to be much slower," he said, "not the fast trend we have observed in the first few months. Mostly due to the overall transformation and the changes in the energy balance and in the behavior pattern of consumers."

The minister pointed to the drop in business travel and the switch to digital conferencing and working from home, all of which reduce travel and therefore oil demand. "This clearly transforms the energy balance and will impact demand recovery," he said. The "growing share of non-carbon energy sources" in the global energy mix will also contribute to a slower recovery for oil in the longer term, Novak said.

## Investment managers call on Texas to ban gas flaring

(Bloomberg; Sept. 4) - Investors managing more than $2 trillion in assets are calling on Texas regulators to ban the burning of natural gas in shale fields, arguing the energy industry hasn't moved quickly enough to curb the controversial practice. The California State Teachers' Retirement System, AllianceBernstein and Legal & General Investment

Management (LGIM) said they support eliminating gas flaring by 2025, according to a letter to the Texas Railroad Commission, which oversees oil and gas in the state.

All three investors have been vocal on environmental issues before, but it's the first time large institutional investors have taken such a public stance with the Texas regulator. "Actions of leading operators demonstrate the financial and technical viability of ending routine flaring," the fund managers said in their letter. "It is clear, however, that voluntary actions alone have been insufficient to eliminate routine flaring industry-wide."

Investors and environmentalists are increasingly drawing attention to flaring because of its wastefulness and contribution to climate change. Flaring is utilized around the world as a way to deal with gas that producers can't transport — or don't want to pay the price. Much of what's burned, especially in the shale fields of Texas, is associated gas coming from oil wells. The sheer abundance of gas in the Permian Basin of West Texas and New Mexico means local prices for the fuel are often so low that it's cheaper for shale operators to burn it rather than pay for pipeline connections and storage.

Last year the Permian flared enough gas to supply 5 million U.S. homes, according to Oslo-based Rystad Energy. Texas has come under attack for allowing companies to effectively flare at will over the past decade as production boomed. Texas regulators have had a "hands-off policy" on flaring for too long, said John Hoeppner, head of U.S. stewardship and sustainable investment at LGIM, the U.K.'s biggest asset manager.

## Global refinery overcapacity getting worse

(The Wall Street Journal; Sept. 3) - This year's oil glut is receding. It is a shame that can't be said of the global glut of oil refineries, which is only getting worse. Europe in particular has long had too many refineries, but the pandemic-induced fall in energy demand has ramped up pressure to solve the problem. For the region's oil producers — already reeling after a flood of oil pushed some prices below zero in April — a few aging refineries are likely in line for a makeover while others could go the scrap heap.

Refineries process oil into gasoline, diesel, jet fuel and other products. Most output is easily shipped, so competition is global as well as regional. Europe's fleet is owned by everyone from the major oil companies to local companies. The region's youngest refinery was built 45 years ago, and while many have been upgraded, new designs are cheaper and more efficient. Historically, developed-market refiners supplied developing nations, but recently the latter have built their own facilities, adding to excess capacity.

Raul Alcamo of Energy Aspects estimates that the world needs a 10% refinery capacity cut, yet more new refineries are in the works, primarily in China and the Mideast. The pressure to shutter developed-world capacity will only grow. For the big oil companies, one answer is to sell: BP, Shell, and Total have sold their stakes in 18 refineries since 2009, and Shell said last month it was in talks to sell 5 of its remaining 15. A solution is to convert refineries into fuel storage. Even better is retooling to produce renewable fuels, which would meet tightening environmental regulations and sell at a premium.

## Oil tanker charter rates lowest since May 2018

(Bloomberg; Sept. 4) - Six months ago, oil supertankers experienced a windfall as the pandemic slashed demand for crude and traders raced to book ships to store the glut. Now that season of good fortune for those ships has all but vanished. The tankers, which can haul 2 million barrels of oil across the oceans, are now earning just $6,103 a day on the benchmark route from the Middle East to China, Baltic Exchange data show. That's the lowest since May 2018. Back in March, they could make $250,000 a day.

The boom-to-bust comes as the recovery in oil demand stutters and the OPEC+ alliance continues to curb output, reducing the need for tankers. At the same time, China, the world's largest importer, has slowed its purchases following a buying binge when oil was cheap. To help improve rates in the short-term, vessels can slow down in order to limit their availability. And renewed interest from traders to store oil at sea on a temporary basis could also provide a temporary boost to charter rates.

For now though, the outlook doesn't look good. More ships are starting to come available as congestion begins to ease at China's ports following the buying spree earlier in the year, Clarksons Platou analysts including Frode Moerkedal wrote in a report this week. "The return of vessels from floating storage and reduced port congestion is putting (downward) pressure on rates," the analysts said.

## China's oil-and-gas majors working on green initiatives

(Reuters; Sept. 3) - China's top state oil and gas producers — PetroChina, Sinopec, and CNOOC — are working on several green initiatives, according to company executives. Asia's largest oil and gas producer, PetroChina, said last week it aims for near-zero greenhouse gas emissions by 2050, the first Asian national oil company to set that target. It plans to spend up to $1.5 billion annually by 2025 — a more than five-fold increase from current levels, and roughly 4% of its 2020 total capital spend — on a mix of gas power generation, geothermal, wind, solar, and hydrogen projects.

Sinopec plans to build several "hydrogen highway corridors" along China's East Coast by adding hydrogen refueling stations alongside its 30,000-strong fuel stations. It has created a six-person new energy office under the group's planning department and established a research and development center with 48 staff members. Last month Sinopec announced its first capital investment in solar, taking a stake in photovoltaic glass maker Fengyang Sillicon Valley Intelligence Co.

Sinopec, China's leading shale gas developer, also aims to nearly double its output of the fuel to more than 450 billion cubic feet a year by 2025. And the offshore oil and gas specialist revived activities in offshore wind power in 2019 after closing its renewable unit in 2014, and now plans to spend 3% to 5% of its annual budget on the sector. Its first 300-megawatt wind power plant off Jiangsu province is due online at the end of 2020 and it has planned other projects off Guangdong and Shandong provinces.

## Last drilling rig in Venezuela shut down in August

(The Wall Street Journal; Sept. 4) - Venezuela's oil industry — rich in reserves, a crucial Allied resource in World War II, a founding member of OPEC — is grinding toward a halt. Venezuela has greater oil reserves than any other country, but after years of corruption, mismanagement, and, more recently, U.S. sanctions, its oil output has dropped to a tenth of what it was two decades ago.

Abandoned wells rust as looters scavenge the metal. The last drilling rig in Venezuela shut down in August. The country is on course, by the end of 2020, to be pumping little more than Wyoming, which produced 280,000 barrels per day in 2019. "Twenty percent of the world's oil is in Venezuela, but what good is it if we can't monetize it?" said Carlos Mendoza, an ambassador under the late president Hugo Chavez, who enjoyed the prize when prices were high but starved industry of investment and maintenance funds.

While oil is under stress worldwide from climate-change concerns and the rise of wind and solar power, what's happening in Venezuela goes far beyond the global industry's troubles. Venezuela's economy is likely to shrink more than 30% this year from the oil industry collapse plus the pandemic, said Ecoanalitica, a Caracas consulting firm. For the long-suffering citizenry, the prospect is for more misery, in a place where 96% of people already live in poverty, according to a study by three universities.

Chevron is the last U.S. oil giant still operating in Venezuela, the rest having left after Chavez rewrote contracts more than a dozen years ago. Chevron hung on, struggling with whether it was risking damage to its reputation but knowing a pullout could hit the government's finances. After working in Venezuela for 94 years, Chevron now is forced to leave by Dec. 1. The Trump administration will no longer give Chevron a waiver from U.S. sanctions that bar companies from doing business with the government.

## Analysts expect U.S. LNG exports to recover by winter

(Natural Gas Intelligence; Sept. 2) - U.S. liquefied natural gas exports will likely reach roughly 10 billion cubic feet per day this winter after falling to about 30% of capacity in July amid the steep drop-off in global demand caused by COVID-19, analysts said. "We've gone through the worst of it," said Wood Mackenzie's Alex Munton, principal analyst for Americas LNG. “I think clearly in terms of customers of U.S. LNG canceling cargoes because of the economics being unviable, that situation has changed.”

About 165 U.S. cargoes have been canceled through September and about 35 are likely to be canceled in the fourth quarter, Flex LNG CEO Oystein Kalleklev said. European or Asian gas prices typically need to be at least $1 per million Btu higher than U.S. gas prices for the economics of American LNG exports to work and “we are seeing that now,” Munton said, adding that European gas prices have increased recently.

U.S. LNG customers must be able to at least recover their “cash cost,” which comprises feed gas, fuel gas, pipeline fees and shipping, he said. The customers don’t necessarily need to recover their respective liquefaction fees in the range of $2.25 to $3 per million Btu because they must pay those fees to the plant operator regardless whether or not they take the LNG — they are sunk costs. With the improving prices, shipbroker Poten & Partners expects “to see pretty significant growth” in U.S. LNG exports this month and full output in October, said Jason Feer, global head of business intelligence.

## Clean energy will find it hard to compete on price in South Korea

(S&P Global Platts; Sept. 4) - South Korea, which relies on imports to meet all of its oil and gas needs, is making a push toward renewable and clean energy sources including hydrogen, but hurdles such as high costs and political uncertainty could slow progress. President Moon Jae-in's "Green New Deal" unveiled in July calls for spending 73.4 trillion won ($62 billion) over the next five years as part of efforts to achieve a "carbon-neutral economy" by 2050.

The plan is part of a broader Won 160 trillion "New Deal" program to prepare for the post-coronavirus era aimed mainly at creating 1.9 million jobs. The ambitious plan calls for expanding the country's power generation capacity of solar panels and wind turbines to 26.3 gigawatts in 2020 and 42.7 gigawatts in 2025, up from 12.7 gigawatts last year, which would reduce South Korea's heavy reliance on coal in electricity production. But the plan is not without hurdles, high costs being one of them.

South Korea's low electricity rates make it difficult for renewables and hydrogen to make meaningful inroads into the market, analysts said. "South Korea's electricity rates based on nuclear and coal are at the lowest-level among OECD members and therefore power production by renewable sources and hydrogen are less economically viable," said Lee Seong-ho, a senior researcher at the Korea Institute of Energy Technology Evaluation and Planning. Unless the price of renewables and hydrogen becomes low enough, their share of power production is not expected to increase, Lee and other analysts said.

## Shell begins preparations to restart Prelude floating LNG

(Argus Media; Sept. 4) - Shell has begun restart operations at its Prelude floating LNG facility offshore Western Australia, which has been offline since February. But it has yet to define the timeline for when production will resume. "The process for hydrocarbon restart of Shell's Prelude FLNG facility has commenced," a Shell spokeswoman said. "Once we have safely started up, we will be in a stronger position to talk about timing of production and cargo."

Shell suspended cargo loadings at Prelude because of technical issues, following an order from Australia's upstream regulator, the National Offshore Petroleum Safety and Environmental Management Authority, in late January to carry out additional work following three safety incidents at the plant between September and January.

At full operation, Prelude is rated to produce 3.6 million tonnes of LNG per year. The multibillion-dollar, 1,600-foot-long floating production plant has loaded just one cargo since it was towed into place. That cargo last summer came eight years after Shell took a final investment decision on Prelude, designed to produce and liquefy gas from remote offshore fields.

## U.S. Forest Service proposes to streamline oil and gas rules

(Natural Gas Intelligence; Sept. 3) - The U.S. Forest Service is proposing to streamline approvals for oil and gas development in national forests and grasslands. The proposed rule is open for public comment to Nov. 2. The overhaul, part of a Trump administration mandate to encourage mineral extraction on federal acreage, “would align Forest Service processes with those of the Department of the Interior to provide more clarity and consistency for oil and gas permitting on public lands,” the Forest Service said.

According to the Forest Service, there are currently 5,490 federal oil and gas leases covering about 4.2 million acres, or roughly 2% of National Forest System lands. Across the forest lands, there are an estimated 3,165 gas and oil producing wells. These wells in 2018 supplied more than 25 million barrels of crude and gas liquids.

The Forest Service said the rule change is in line with the president’s executive order that federal agencies “review existing regulations that potentially burden the development or use of domestically produced energy resources and appropriately suspend, revise or rescind those that unduly burden the development of domestic energy resources beyond the degree necessary to protect the public interest or otherwise comply with the law.”