Oil and Gas News Briefs
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April 12, 2021

Even in a low-carbon world, companies drill for more oil

(Bloomberg; April 9) - A multibillion-dollar project to tap virgin oil fields in eastern Africa is expected to get the green light this weekend, highlighting an uncomfortable truth about the energy industry. Even as Total, the supermajor behind the project straddling Uganda and Tanzania, makes genuine efforts to begin the transition to low-carbon energy, the industry is nowhere close to ending its appetite for oil.

Even if you accept that petroleum demand may have already peaked, the world is expected to burn hundreds of billions of barrels of oil in the coming decades. That gives plenty of incentive for giants like Total, plus hundreds of smaller explorers, to keep searching the world for the next place to sink their drill bits. BP is the only oil major to have gone so far as to call an end to the era of oil demand growth. The company said last year that consumption may never return to levels before the coronavirus pandemic.

But even BP's less bullish outlook shows a world where a lot of petroleum will be used. In the BP scenario where the world achieves "net-zero" emissions by 2050 and oil demand falls rapidly, the world will still have an appetite for 660 billion barrels of oil over the period. That's not too far below the 880 billion consumed during the prior 30 years. The sheer size of the demand even in a lower-carbon future explains why Total is ready to spend $5.1 billion to drill along the remote shore of Lake Albert in Uganda and build a 897-mile heated pipeline to transport the waxy crude for export from a port in Tanzania.

African nations, French, Chinese companies proceed with oil project

(Reuters; April 11) - Uganda, Tanzania and oil firms Total and CNOOC on April 11 signed agreements to kick-start construction of a $3.5 billion pipeline to help ship crude from fields in western Uganda to international markets. France's Total and China's CNOOC own Uganda's oil fields after Britain's Tullow exited the country last year.

Ugandan President Yoweri Museveni and Tanzania's new leader Samia Suluhu Hassan, on her first official visit, attended the signing of the accords that included: a host-government agreement for the pipeline, a tariff and transportation agreement, and a shareholding agreement. Uganda discovered crude reserves in the Albertine rift basin in the west of the country near the border with the Democratic Republic of Congo in 2006. Government geologists estimated total reserves at 6 billion barrels.

However, the landlocked eastern African nation needs a pipeline to transport the crude to international markets. The planned East African Crude Oil Pipeline, at 898 miles, will run to Tanzania's Indian Ocean seaport of Tanga. Uganda's crude is highly viscous and needs to be heated to be kept liquid enough to flow. Total has said it could potentially be the longest electrically heated crude oil pipeline in the world.

Pipeline and field development costs could add up to more than $10 billion, Total CEO Patrick Pouyanne said. The company expects oil production to commence in early 2025. The pipeline has met resistance from environmentalists who argue it will threaten ecologically sensitive areas along its route, including wildlife reserves.

China's large stockpiles of crude add to OPEC+ caution

(Bloomberg commentary; April 10) - The OPEC+ producers, led by Saudi Arabia and Russia, may have gotten global oil inventory levels back up to where they want them, but that doesn't mean they can take their feet off the brakes on production just yet. At their last meeting the group set out a path to restore some of their shut-in production over the next three months. The easing, but not the ending, of output curbs reflects a more optimistic view of oil demand as the Northern Hemisphere moves into summer.

The output increases are relatively modest — 350,000 barrels a day in May, the same in June and another 440,000 barrels in July. On top of that, Saudi Arabia will gradually restore the million barrels a day that it cut unilaterally in February. But by the end of July, although the producers will have added almost 2.3 million barrels a day to supply since March, they will still only be pumping what they had originally planned for January. And they will still be withholding almost 60% of the production they cut a year ago.

The strength of prices owes a lot to the group's discipline and its willingness to delay the easing of output cuts. But stockpiles aren't coming down everywhere. There's one very important place missing from the OPEC+ target: China, which accounted for about 60% of global crude stock builds last year, adding 367 million barrels to its inventory over 2020, according to International Energy Agency calculations. Some of that oil went into government-controlled stockpiles and is unlikely to reappear unless there is a supply crisis. China's commercial stockpiles rose, too, adding to the cautiousness of OPEC+.

Nigeria has not managed its oil riches very well

(Bloomberg opinion; April 7) - Oil can be both a blessing and a curse. In Nigeria it has mostly been the latter. Just a decade after crude was first discovered in 1957, it was already tearing apart the young country in civil war. Production has never far exceeded the 2.3 million barrels a day hit in 1979, and won't in the foreseeable future. Imagine a Nigeria where oil had never been discovered, and it's not clear its economy would be any worse now. Ghana and Ivory Coast, neighbors less blessed with oil wealth, have been pulling ahead in terms of per-capita gross domestic product in recent years.

Adjusted for inflation, that measure of income hasn't grown in Nigeria since 2014. Oil has held back the country in many ways, including pushing up the value of its currency to levels at which other industries struggle to compete. Private businesses struggle to hire qualified workers. More than half of wage-paying jobs are in the public sector, which has traditionally derived as much as 80% of its revenue from crude. Educated Nigerians would often prefer to be unemployed and be waiting for a secure government job rather than working in the private sector, according to a 2015 World Bank report.

Many more seek education and jobs abroad, contributing to a diaspora of 17 million people, equivalent to about one-twelfth of the in-country population. The gusher of oil money also fuels the corruption and unrest that has long plagued the country. Some $380 billion has been stolen or wasted since independence, according to one 2006 estimate by the former head of the country's anti-corruption agency.

And oil itself struggles. Nigeria's production costs of about $30 a barrel are much higher than in the Middle East, pumped up by the same corruption that plagues the rest of the economy. Its crude, traditionally attractive due to its high yields of gasoline, may find life particularly hard as electric cars cause that segment of the barrel to decline fastest.

Biden administration declines to shut down Dakota Access oil line

(Bloomberg; April 10) - The Dakota Access oil pipeline that's been at the center of a years-long battle between oil companies and the Standing Rock Sioux tribe won't be forced to shut down while federal regulators conduct a new environmental analysis. The Biden administration's decision to allow the line to keep operating is a victory for pipeline owner Energy Transfer and drillers such as Continental Resources that have used the line since 2017 to transport crude from North Dakota's Bakken oil field.

A Justice Department lawyer told the U.S. District Court for the District of Columbia on April 10 that the federal government has the authority to take enforcement action against Dakota Access — which could include a shutdown — but won't do so "at this time." Opponents of the pipeline, including several tribes that pushed the court to issue its own shutdown order, viewed the court hearing as test of Biden's commitment to Indigenous rights and climate action.

The opponents' motion for a shutdown is still pending before the judge, who could rule in the coming weeks. The judge gave Dakota Access 10 days to file updated legal briefs on the impacts of a possible shutdown. At issue is whether federal authorization of the 570,000 barrel-a-day pipeline overlooked key environmental concerns. An appellate court in January affirmed that the project's approval by the Army Corps of

Engineers was unlawful. Dakota Access is challenging that order. The Army Corps is conducting a court-ordered environmental impact statement that is expected to conclude in 2022.

Cheniere says global LNG demand could start decline in 2040

(S&P Global Platts; April 9) – Cheniere Energy expects LNG demand to increase until 2040, though it may decline beyond that due to continued global action to reduce greenhouse gas emissions, presenting risks for existing U.S. liquefaction terminal operators and project developers, the company said April 9. The conclusions were issued in a report assessing the long-term impact of climate-change mitigation policies and trends that are in process or under consideration globally.

North American exporters are under pressure to show that LNG produced from shale gas can bridge the energy transition to cleaner-burning fuels, and can aid rather than impede buyers' carbon-reduction goals. At the same time, they must address how a future of lower demand for fossil fuels will impact their growth. Some developers have delayed or canceled new projects. Cheniere operates LNG export terminals in Louisiana and Texas, and is the country’s largest producer of the super-chilled fuel.

Cheniere's analysis relied on three scenarios. The company incorporated cost-curve analysis of LNG projects based on projected supply, demand, costs and carbon pricing. "Under all three scenarios, demand for LNG increases from 2020 levels through 2040, resulting in supply gaps to varying degrees," the report said. "Additional LNG supply, i.e., beyond existing and under-construction liquefaction projects, would be needed to meet this demand." The report added that "continued action to reduce global GHG emissions may cause LNG demand to decline beyond 2040."

Japan will allow coal plants past 2030, but with stricter standards

(Nikkei Asia; April 10) - Japan will allow coal-fired power plants meeting a stricter efficiency target to continue operating past 2030, defying a growing trend to quit the fossil fuel completely as countries like France and Germany have pledged. Every power company in Japan will be required to increase the efficiency of its coal power plants to 43%, under guidelines drafted April 9 by an advisory body under the Ministry of Economy, Trade and Industry. The ministry will identify and update relevant ordinances.

The Federation of Electric Power Companies of Japan called the 43% guideline "an incredibly high target." Currently, Japan urges power companies to maintain an efficiency rate of 44.3% across all thermal power plants, including those fueled by liquefied natural gas and petroleum. By setting an explicit target for coal power, the ministry hopes to encourage companies to make necessary upgrades, and to ensure that only the most efficient coal plants survive into the next decade.

Japan is home to 150 coal-fired power plants. Though cutting-edge facilities emit far less greenhouse gases than their older counterparts, they still produce twice as much or more carbon dioxide as plants that run on LNG. The 43% figure is at the top end of what coal power plants can currently achieve. Just two facilities in Japan cleared the threshold in fiscal 2019, while 31 topped 40%, according to the economy ministry. Most plants will likely require updates to meet the new target by 2030 — or shut down.

North Asia LNG buyers begin to stock up ahead of next winter

(Bloomberg; April 7) - North Asia's liquefied natural gas importers are making earlier-than-usual moves to stock up ahead of next winter after they were caught flat-footed this year by a sudden cold blast that sent spot-market LNG prices skyrocketing to a record. China's Sinopec purchased at least 35 cargoes for delivery between June and February through a tender that closed earlier this week, in part to prepare for the winter when demand for the fuel peaks, according to traders.

Other buyers in China, Japan, and South Korea are considering following suit, said the traders, who requested anonymity to discuss private details. It's uncommon for Asian LNG importers to procure so many winter cargoes in April. The moves illustrate a desire to avoid a repeat of earlier this year when buyers were unable to find affordable shipments. China's government went as far as to scold the nation's state-owned gas buyers for being ill-prepared.

A burst of frigid winter weather, coupled with supply disruptions, forced buyers to scramble for cargoes and sent rates skyrocketing. Spot LNG prices for North Asia, home to the world's biggest importers, surged to $32.50 per million Btu in January, the highest on record and 500% higher than the same time last year.

Louisiana LNG developer continues looking for equity partners

(Natural Gas Intelligence; April 9) - Tellurian could begin construction on some elements of its proposed Driftwood liquefied natural gas export terminal in Louisiana as early as this summer, CEO Octavio Simoes said. "We're aiming to start construction of the owner obligation costs this summer." Those owner work responsibilities are not covered by the company's engineering, procurement and construction contract with Bechtel, reported at up to $15.4 billion depending on the capacity of the plant.

Houston-based Tellurian is still evaluating when it would issue a notice to proceed to the contractor to begin construction on the project, Simoes said. "We can issue the notice to proceed when the timing is right," he said. The company had previously targeted a 2021 FID for the Driftwood LNG project. "There are some scenarios where we think we could do it before the end of the year, and there are some scenarios where it would be early next year," he said. Tellurian had not "committed to anything at this point."

Simoes said the company is still looking to move forward with the project after the pandemic turned the global LNG market on its head last year. Tellurian was not immune to the impacts, as an initial sales agreement with India's Petronet LNG was scrapped. The developer is continuing to search for equity partners to fund the project in exchange for off-take deals. It is offering 10 million tonnes annual off-take under 10-year contracts.

U.K. undecided whether Shell has to remove offshore platform legs

(Bloomberg; April 9) - The U.K. government is still undecided on whether it will allow Shell to leave in place the giant concrete legs that once supported the iconic Brent offshore oil platforms. Shell has asked for permission to leave the columns — each almost as tall as the Eiffel Tower and together weighing about 1 million tons — jutting from the water because it says removing them would pose a greater environmental risk. A government decision on the matter, which was due in September, has dragged on.

The decision on the legs that held up the Brent Bravo, Charlie, and Delta platforms is still being considered, a spokesperson for the Department of Business, Energy and Industrial Strategy said in an emailed response to question. It didn't provide an updated timeline. Shell's iconic Brent field, which lends its name to the oil benchmark that sets most of the world's crude prices, was one of the U.K.'s most significant fields when it was discovered in 1971. At its peak it produced more than half a million barrels a day.

The field's dismantling has drawn the ire of environmental groups, with Greenpeace activists hanging a banner on the platform reading "Clean up your mess, Shell!" in 2019. While the U.K. has the authority to approve Shell's plans, it is required to consult with members of ocean protection group OSPAR. The group prohibits leaving unused installations in the sea, but does set out a process to request a relaxation of the rule.

Shell has said the structures will deteriorate and collapse over a period of 1,000 years. The dismantling of the pieces above the waterline are carried out separately from those below. The tops of three platforms have already been removed with Charlie next in line.

Total says it is staying in Myanmar to protect its workers

(Asia Times Financial; April 7) - French oil and gas major Total finds itself in the geopolitical crosshairs over its decision to remain in Myanmar while other corporate giants are pulling up stakes. Total CEO Patrick Pouyanne said his decision to stay the course and continue to produce natural gas and pay taxes to the military junta that seized power Feb. 1 was to protect staff from prison or forced labor and “to avoid further worsening the living conditions of the people by depriving millions of electricity.”

“Stopping gas production in protest against political developments would expose workers to a terrible situation,” he wrote in a Le Journal du Dimanche newspaper opinion column on April 4. However, he said Total is shelving plans to develop more gas off Myanmar’s west coast and halting its gas-well drilling campaign, adding that the company would donate the equivalent of its taxes owed to human rights associations.

Total began operations in Myanmar in 1992, then also under a military government. It employs about 250 people in the country, while the Yadana offshore gas field, which it operates, provides about half the electricity for Yangon’s nearly five million residents. The rest of the field’s gas is piped to neighboring Thailand. Total, as well as other international corporations operating in Myanmar, have been under increasing pressure from human rights organizations and activist investors to pull up stakes instead of continuing operations and paying taxes to the military government.

India ready to buy Iranian crude if U.S. eases sanctions

(Bloomberg; April 8) - India’s state-run oil refiners are ready to snap up Iranian crude the moment U.S. sanctions are eased, according to a government official. Refiners have started making preparations in advance of the possible removal of penalties so that they can swiftly enter into contracts for Iranian supply, said a senior oil ministry official, asking not to be named because they’re not authorized to speak to the media.

India has been vocal in its support for Iranian crude purchases recently as it laments the price of supplies from Saudi Arabia. The world’s third-largest oil importer has also signaled its desire to diversify its sources of crude, hoping the new U.S. administration will take a softer line on sanctioned producers.

Indian refiners have been buying new grades from areas outside of the Middle East including Guyana and Norway, while also taking more U.S. crude in an effort to reduce reliance on OPEC producers. Iranian exports tumbled after former President Donald Trump tightened sanctions in 2018 and ended waivers for some countries in 2019. India — once Iran’s second-biggest customer — imports more than 85% of its total oil needs. Getting access to Iranian crude would bring a number of benefits, including cheaper barrels and a longer credit cycle, while the shorter voyage would cut freight costs.

Foreign players find way into China’s growing competitive gas market

(S&P Global Platts; April 8) - The competition in China's downstream gas sector is expected to heat up with the entry of more foreign participants vying for a greater presence in the increasingly open and growing market, sources and analysts said. Italy's Eni and China's Zhejiang Energy last week signed a memorandum of understanding on strategic cooperation, including potentially developing a long-term LNG supply agreement and joint participation in gas and LNG projects.

This came a week after Total announced that it formed a marketing joint venture with Shenergy Group. Both Zhejiang Energy and Shenergy are local government-owned enterprises that mainly engage in power generation and the gas industry. They supplied 420 billion cubic feet and 350 bcf of natural gas in 2019, accounting for more than 81% and 90% of total gas consumption in Zhejiang province and Shanghai, respectively.

"More and more Western suppliers wish to establish presence through the entire value chain, to get involved from upstream all the way to downstream, other than just supplying LNG," a Guangdong-based source said. "The cooperation between Western suppliers and China's regional gas majors will enable the latter to obtain cheaper gas resources from the formers' global profiles, which is expected to intensify competition between them and other domestic gas majors," a Beijing-based market observer said, adding that the latter used to source gas from the three national oil companies.

Russia’s proposed Baltic LNG project has its problems

(The Jamestown Foundation; April 7) - Russia’s leading business news outlet, Kommersant, reported that Gazprom has hit another obstacle in its anticipated mega-project Baltic LNG. According to the article, the engineering, procurement, and construction contractor has either been dismissed or resigned. This is not the first time reports have circulated about Baltic LNG’s troubles. The $20 billion to $25 billion venture in Ust-Luga is planned to handle as much as 1.6 trillion cubic feet of gas a year.

Discussions of Baltic LNG were initiated almost 20 years ago. In its latest form, the proposed complex is to integrate a liquefaction plant with a gas processing facility to produce 13 million tonnes per year of LNG, along with liquefied petroleum gas (propane and butane) and ethane. The feed gas would come from Gazprom deposits in northern Siberia. Shell effectively withdrew its commitment to the project in 2019, opposing the decision to build an integrated gas processing complex instead of just an LNG plant.

Consequently, Baltic LNG is being pushed only by Gazprom itself and Russian company RusGazDobycha, owned by a longtime partner of an oligarch close to the Kremlin. Such a business configuration requires financial support from the Russian state, but Russian state development corporation VEB.RF announced last year that it would not provide money from the National Wealth Fund to support the project and declared that other solutions should be sought, possibly foreign investors. The lack of funding could explain why Baltic LNG developers are now looking for a new contractor.

Exxon may shut down refinery in Norway

(Reuters; April 8) - ExxonMobil is considering whether to close down its Slagen oil refinery in Norway, which has a capacity to process 120,000 barrels of crude per day, turning the site into an import terminal, the U.S. energy major said April 8. The refinery at Slagentangen near Toensberg in southeast Norway was built in 1961 and processes crude oil from the North Sea, exporting about 60% of the output, according to Exxon.

It is too early to say when a decision will be made, the company's Esso unit in Norway said. "In practice, it means that we would stop producing oil products at the refinery and instead we will import them," an Esso spokeswoman said. "Refineries in Europe operate in an increasingly challenging market, characterized by falling demand and strong competition, leading to overcapacity," Esso said. In Norway, a world leader in the adoption of electric cars, demand for highway fuels has decreased, the company said.

Russian LNG headed to Norwegian plant damaged in fire

(The Barents Observer; Norway; April 8) – The liquefied natural gas tanker Vladimir Rusanov left the far northern Russian port of Sabetta on April 6 and set course for the LNG plant at Hammerfest on Norway's Barents Sea coast. According to the plant operator, Equinor, the cargo from the Yamal LNG terminal is needed to help hold down the temperatures at the Norwegian operation, which has been under reconstruction since a serious fire in late September 2020 caused major damage.

The fire destroyed the power turbine, and large volumes of salty seawater damaged auxiliary systems such as electrical cables and equipment in the plant. The superchilled gas will be offloaded into the Norwegian plant to keep down temperatures in the plant's equipment, Equinor representative Cato Osenbroch told the Barents Observer. The plant started operations in 2007.

COVID surge complicates annual maintenance at oil sands sites

(Reuters; April 9) - Canada's oil sands are entering their busiest season for annual maintenance, bringing thousands of extra workers onto sites in Alberta, but union officials say many members are reluctant to travel as a third wave of COVID-19 surges across the country. “It’s absolutely crazy in the oil sands right now trying to get workers,” said Ian Robb, Canadian director for Unite Here! labor union “People don’t want to travel, especially not by plane or by bus. But these east coasters need the work, they are used to the work and we need them here.”

Companies are introducing rapid COVID-19 tests and offering to help workers pay for travel. Still it may be hard to get skilled workers and keep them safe due to the variant-driven spike in cases, with nine oil sands sites fighting outbreaks. About once a year tradespeople from as far away as Canada’s East Coast move into workcamps in the Fort McMurray region for weeks. Last spring maintenance work was scaled back as the first wave of COVID-19 hit. This season will be busy since oil sands operators cannot meet regulatory and safety requirements if they put the work off again.

Investors take 49% stake in Saudi Aramco oil pipelines

(Bloomberg; April 9) - Investors led by EIG Global Energy Partners agreed to acquire a roughly $12.4 billion stake in a Saudi Aramco oil-pipeline rights company. The group will acquire a 49% equity stake in Aramco Oil Pipelines Co., a newly formed entity with rights to 25 years of rate payments for oil shipped through the Saudi oil giant’s network of conduits, EIG said in a statement. The deal implies a total equity value of about $25 billion for Aramco Oil Pipelines.

The deal is part of Saudi Arabia’s drive to open up to foreign investment and use the money to diversify its economy. Asset disposals also go some way to helping the energy giant maintain payouts to shareholders, as well as investments in oil fields and refinery projects. The company paid a $75 billion dividend last year, the highest of any listed company, almost all of which went to the government.

“The deal was described as a lease-and-lease-back agreement. The state-controlled company will lease the usage rights in its pipelines to Aramco Oil Pipelines. The new entity will grant back to Aramco the exclusive right to operate and maintain the network for 25 years and collect rates from the parent company in return. Aramco will continue to retain ownership of the pipelines.