Oil and Gas News Briefs
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Exxon, Chevron talked in early 2020 about a merger

(Reuters; Jan. 31) - The chief executives of ExxonMobil and Chevron held preliminary talks in early 2020 to explore combining the two largest U.S. oil producers in what would have been the biggest merger of all time, according to people familiar with the matter. The talks, which are no longer active, are indicative of the pressure the energy sector's most dominant companies faced as the pandemic took hold and crude prices plunged.

The CEO talks between Exxon's Darren Woods and Chevron's Mike Wirth were serious enough for legal documents involving certain aspects of the merger discussions to be drafted, one of the sources said. Exxon and Chevron, which have market capitalizations of $190 billion and $164 billion, respectively, declined to comment. In their talks, the CEOs envisioned achieving efficiency savings through massive cost cuts to help weather the downturn in energy markets, one of the sources said. At the end of 2019, Exxon employed about 75,000 people and Chevron roughly 48,000.

A combination would almost certainly have triggered an intensive antitrust review by the U.S. Justice Department. A combined Exxon-Chevron would be eclipsed in size only by Saudi Aramco, which boasts a roughly $1.8 trillion market value and has previously pushed many U.S. drillers to the financial brink by flooding the market with oil. Despite inevitable antitrust concerns, the companies could argue a merger would represent the United States' best shot at taking on the Saudi state-owned conglomerate and the world's other largest state-backed oil producers, one of the sources said.

Abu Dhabi bank sees 'lack of group cohesion' among OPEC+

(S&P Global Platts; Jan. 28) - Growing infighting between OPEC+ members could make future meetings on production policy increasingly difficult as the alliance navigates the pandemic recovery, according to a report by Abu Dhabi Commercial Bank (ADCB). "We expect divisions and compromises to be more common ahead given the large number of participating member countries and their varying country-level objectives and priorities," ADCB said in a Jan. 27 report.

OPEC, Russia and other key producing countries have begun easing up on their historic production cuts instituted in 2020. But the producer bloc's last meeting on Jan. 4-5 was marked by significant disagreements, with several countries under severe fiscal and demographic pressures lobbying for increases in their quotas, while other members, led by Saudi Arabia, urged continued output discipline to support the market.

Saudi Arabia eventually announced a cut of 1 million barrels per day for February and March, while Russia and Kazakhstan were granted slight boosts to their quotas. Every other member agreed to maintain its January production levels. ADCB cited this "lack of group cohesion" in saying that OPEC+ will be challenged to reach consensus when it meets next. A monitoring committee co-chaired by Saudi Arabia and Russia will meet Feb. 3 to assess quota compliance and review market forecasts. The full OPEC+ is scheduled to meet March 4. "Finding the right balance between supporting the oil price and increasing output remains a critical and contentious point of debate," the bank said.

Lack of investment could lead to oil-price spike

(Bloomberg commentary; Jan. 29) - Nobody loves oil companies. Yet the world's disdain for its petroleum giants could carry a sting in the tail — a jarring price spike. Oil may be on the way out, but it will be a long goodbye. Even if demand peaks, companies need to invest tens of billions of dollars every year just to stand still. But right now many investors would prefer to take that cash in dividends or see it go into renewables.

"We have concerns about investment, particularly in light of the pandemic," OPEC Secretary-General Mohammad Barkindo said at a virtual conference Jan. 26. Starving the industry of capital today "could sow the seeds for extreme (price) volatility down the road." Combined capital expenditures by the supermajors in the third-quarter 2020 were half the level of a year ago — the lowest since 2005, according to data from Bloomberg.

Total global investment in oil and gas exploration and production fell by 34% last year to $261 billion, said a December report from the International Energy Forum and the Boston Consulting Group. Annual spending at that level won't satisfy the world's energy needs in the coming years, the report said. Annual investment needs to be 25% higher over the next three years to stave off a supply crisis, the report estimated. The coming year will be crucial in determining if the industry is capable of rising to that challenge.

Rosneft courts trading houses to buy stakes in Arctic oil project

(Reuters; Jan. 28) - Russian state oil major Rosneft is courting investments from global trading houses to help develop one of the world's biggest oil deposits, after talks with other possible partners stalled following a collapse in oil prices, sources familiar with the discussions told Reuters. Rosneft is in discussions with Vitol, Glencore, and Gunvor, among other traders, over investments in its Vostok project in the Arctic, having already secured a deal with Swiss-based Trafigura, which took a 10% stake at the end of 2020.

Trading houses generally avoid investing directly in production, but the Rosneft deal may be attractive as it could give them access to a long-term major source of supply for the growing Asian market. Rosneft has estimated its Vostok resources at 44 billion barrels, but it will require vast investments in pipelines, roads, and other infrastructure in East Siberia and the Arctic with oil to be shipped to Asia through the Northern Sea route. Rosneft attempted to sell stakes in the project in 2019 when its CEO Igor Sechin traveled to Japan, China, and India for a roadshow with local investors.

Vostok will cost dozens of billions of dollars to develop. Along the 10% stake in Vostok, for which Trafigura paid close to 6 billion euros ($7.3 billion), Rosneft sweetened the deal by granting Trafigura an extension of its long-term deal to lift oil and products, which means it will remain the largest exporter of Rosneft fuels for the next five years. Oil traders and majors have repeatedly fought hard to win access to Rosneft's exports.

OPEC+ partners maintained close to full compliance in January

(Bloomberg; Jan. 31) - OPEC and its partners estimate they implemented 99% of their agreed oil-supply curbs in January, said to a delegate who asked not to be named. The 23-nation alliance known as OPEC+ aimed to withhold 7.2 million barrels a day of crude from the market this month — about 7% of global supplies. The compliance data is preliminary and will be reviewed Feb. 2 by the group's Joint Technical Committee.

OPEC+ agreed to unprecedented supply restrictions last April after the coronavirus pandemic grounded planes, shut down economies and caused oil prices to crash. Benchmark Brent crude has almost tripled since its trough that month to $56 a barrel, though it's still below what most OPEC+ nations need to balance their budgets. OPEC+ has started to restore output, but has been hesitant to avoid oversupplying the market.

Implementation in January was at 103% among OPEC members, and 93% for their non-OPEC partners, a group that includes Russia and Kazakhstan. The Joint Technical Committee will present its assessment to the Joint Ministerial Monitoring Committee, which meets on Feb. 3 to discuss strategy. The monitoring committee is unlikely to recommend any policy changes, according to delegates who declined to be identified. OPEC+ will hold a full ministerial meeting in early March to decide its next steps.

Market looks to see how U.S. shale producers respond

(Bloomberg; Jan. 28) - Shale producers swear this time is different. After years of rich spending and unchecked output helped trigger a series of price crashes, U.S. explorers say they have learned from their mistakes. They've pledged to keep a lid on production, even as crude rebounds amid OPEC supply cuts and the outlook for recovery from the pandemic-driven global economic collapse. Convincing the market is another matter.

One longtime energy investor sees “zero value” in producers’ promises of frugality. Explorers’ discipline won’t last as oil extends a recovery from historic lows to trade at more than $50 a barrel, a level at which many shale wells are profitable, said Charles Lemonides, the founder of Valueworks, which has about $200 million in assets under management. “Discipline will stay for a few months, maybe the next quarter or two before they start going at it again,” said Lemonides, whose firm holds shares in producers. “There’s a lot of equipment and expertise ready to be put to work.”

How the fragmented U.S. shale industry responds to higher oil prices has become a crucial question for traders and industry watchers across the world. Though OPEC and Russia have kept their output in check thus far and President Joe Biden’s administration has halted new oil leasing on federal land, crude demand is languishing well below pre-COVID levels. A sharp uptick in shale supply could send prices plummeting. Though past experience favors the skeptics, there are reasons to believe that U.S. producers have reformed. Explorers are under pressure to cut spending and generate cash flow.

Norwegian field to reach 535,000 barrels per day this year

(S&P Global Platts; Jan. 28) - Norway's new Johan Sverdrup flagship oil field should reach 535,000 barrels per day in the middle of this year, ahead of second-phase production coming on stream in the fourth-quarter 2022, field partner Lundin Energy said Jan. 28. Swedish-owned Lundin said reservoir performance at the field "continues to be excellent," with 12 wells currently producing.

"Phase 1 processing capacity is expected to increase further, up to 535,000, following modification work to upgrade the water-injection facilities, which is expected to be complete by mid-2021," the company said. Discovered by Lundin in 2010 and operated by Norway’s state-controlled Equinor, Johan Sverdrup came on stream in November 2019 and has revived Norwegian oil production, which rose by 15% to 2 million barrels per day last year.

Sverdrup crude, which is of medium gravity unlike typical North Sea grades, has become a staple of China's independent refining sector. Lundin also reiterated its expectations that Phase 2 development will raise output to 720,000 barrels per day.

Wood Mackenzie expects oil demand to recover, but still short of peak

(Reuters; Jan. 28) - Global oil demand is expected to rise by nearly 7% this year, boosted by quicker vaccine distribution and a better economic outlook, energy consultancy Wood Mackenzie said Jan. 28. Total liquids demand is expected to average 96.7 million barrels per day in 2021, 6.3 million higher than last year when the

COVID-19 pandemic caused an unprecedented oil demand shock but still below the peak of about 100 million barrels per day in 2019.

"Our short-term forecast assumes vaccine distribution accelerating through 2021 and is underpinned by 5% expected growth in global GDP … following the global economy's 5.4% contraction last year," said the consultancy's vice president, Ann-Louise Hittle. In terms of supply, Wood Mackenzie expects oil output from the U.S. Lower 48 states to decline by about 500,000 barrels per day this year, moderating from last year's drop. Rig activity is expected to continue to rise but much of the recovery will depend on oil prices and the industry's willingness to spend on growth again, Wood Mackenzie said.

It added that decisions by the Organization of the Petroleum Exporting Countries and allies, a group known as OPEC+, will be a huge uncertainty for global oil markets. "Can OPEC+ negotiate deals each month and remain committed to production restraint? Some production restraint is needed in 2021 for market balance, but compliance could wane with demand recovery," Hittle said.

Norway's wealth fund sells all of its oil and gas stocks

(Bloomberg; Jan. 28) - Norway's sovereign wealth fund has sold its entire portfolio of companies focused on oil exploration and production, marking a major step away from fossil fuels for the investing giant. The portfolio, worth about $6 billion in 2019, was fully exited by the end of last year, Trond Grande, the fund's deputy chief executive, said Jan. 28. The move completes a years-long process to reduce the investor's exposure to a sector that has defined Norway's economy for the better part of half a century.

Grande spoke after the fund revealed a roughly $10 billion loss on oil and gas holdings in 2020, which had been valued at more than $40 billion at the start of the year. The fund still holds integrated oil companies, with Shell its seventh-largest equity investment when it last disclosed its holdings at the start of last year. The fund declined to comment on the size of its oil exploration and production portfolio.

Overall, 2020 was one of the fund's best years ever with the total portfolio generating $123 billion in returns buoyed in particular by its holdings of tech stocks. Norway's wealth fund, the world's biggest, started turning its back on oil and gas over three years ago. The intention back then was to diversify away from an industry to which Norway's economy was heavily exposed with a view to addressing a key financial risk. The fund's new CEO, Nicolai Tangen, has made sustainable investing a key focus of his strategy, and says all managers who work for the fund need to operate with that in mind.

[Hedge payout covers much of Mexico's loss in 2020 oil revenues]

(Reuters; Jan. 29) - Mexico has received $2.38 billion from its annual oil hedging program, its finance ministry said Jan. 29, compensating for most of the drop in the country's oil revenues after the coronavirus pandemic sent crude prices tumbling. The 2020 payout, only the fourth since Mexico began hedging regularly in the early 2000s, acts as a lifeline for an economy pushed deeper into recession by the pandemic.

The hedge, the world's largest financial oil deal, is designed to protect Latin America's second-largest economy against oil-price crashes. In previous years, Mexico has spent about $1 billion on the insurance policy. Deputy Finance Minister Gabriel Yorio said the latest payout covered about 80% of income lost in 2020 from lower oil prices. Mexico had hedged oil revenues at $49 a barrel. It is not clear how much of the protection was financed by options or reserves from a special fund.

"Given Mexico's budget still has significant exposure to oil revenue, hedging that traditionally very volatile revenue stream is usually a good idea," said Alberto Ramos, head of the Latin America research team at Goldman Sachs. "But oil-revenue hedging is no substitute for sound economic and fiscal management and sensible oil-sector policies: Strong operational, financial and strategic management of Pemex would also go a long way for Mexico to maximize its oil and gas wealth and protect the budget," Ramos said, referring to Mexico's state oil company.

[Russia may turn to petrochemical industry in resource-rich Arctic]

(The Barents Observer; Norway; Jan. 29) - Russia has over the years invested vast sums in the development of the natural gas reserves of the Yamal Peninsula, and companies Gazprom and Novatek now operate some of the country's biggest industrial projects in the Arctic region. However, the current shift in international energy markets away from fossil fuels could ultimately lead to catastrophe for the export-oriented Russian oil and gas sector unless radical adjustments are made.

In December last year, the country's First Deputy Prime Minister Andrey Belousov set up a working group that is to propose ways forward for the energy-rich region. Powerful companies such as Gazprom, Novatek, Gazprom Neft, Rosatom, Sovcomflot, Russian Railways, and the Russian Direct Investment Fund are all represented in the group, newspaper RBC reports. In addition, the group includes several leading government officials, among them former Energy Minister Aleksandr Novak.

On the agenda is the possible development of petrochemical industry in the region, including the production of feedstocks for plastics. The vast gas resources in the region can also be applied for production of hydrogen, state planners said. According to regional authorities in the Yamal-Nenets region, almost 19 trillion cubic feet of gas was produced in the region in 2020, along with 170 million barrels of condensate. And more is to come. Several projects are under development, among them Novatek's Arctic LNG-2, which will more than double the region's liquefied natural gas exports.

U.S. could scale back LNG project financing under Biden

(S&P Global Platts; Jan. 28) - Efforts to curtail financing of overseas oil and gas projects received a substantial boost from the Biden administration's climate executive order Jan. 28. A provision directed the treasury and energy secretaries to work with two key U.S. financing entities — Export-Import Bank and International Development Finance Corp. — to identify steps for the U.S. to "promote ending international financing of carbon-intensive fossil fuel-based energy," while advancing sustainable development.

The wording does not specify the resources to be targeted, leaving energy market observers speculating over whether liquefied natural gas project investments would be at risk. If so, the order could squelch nascent efforts under the Trump administration, and encouraged by LNG developers, to help spur U.S. financing of overseas natural gas infrastructure and aid in the development of gas markets. The treasury secretary and secretary of state are tasked with submitting a plan to the president within 90 days.

U.S. LNG developers in recent years have encouraged steps such as Ex-Im Bank credit support for buyers of long-term LNG contracts. Nikos Tsafos, senior fellow at the Center for Strategic and International Studies, said the new administration's goal appears to be stopping fossil fuel financing overseas. "The question is whether the ban will be broad or narrow, and whether it will contain exceptions," he said. "Could a gas project get financed if it clearly displaces coal in the target country?" The U.S. Ex-Im Bank approved a $4.7 billion loan in 2020 for the Mozambique LNG project, which will rely heavily on U.S. goods and services. French major Total is the leader of the venture.

Equinor takes proposed Tanzania LNG project off its balance sheet

(National Gas Intelligence; Jan. 29) - Equinor said Jan. 29 it would take a $982 million write-down of its Tanzania liquefied natural gas export project proposed for the East Africa nation, saying it does not currently compete economically with other projects in the company's portfolio. "While progress has been made in recent years on the commercial framework … overall project economics have not yet improved sufficiently to justify keeping it on the balance sheet," the Norway-based company said.

Equinor said it would continue to work with Tanzania's government on the commercial, fiscal, and legal aspects of the project. But for now the project has a projected break-even price "well above" the average of its portfolio. The company has been in Tanzania since 2007, when it signed a production-sharing agreement with Tanzania Petroleum

Development Corp. Equinor started exploratory drilling offshore in 2011 and has made nine gas discoveries there, with estimated volumes of 20 trillion cubic feet of gas.

Equinor has said an LNG export project is the most viable solution to development. But the gas is spread across several reservoirs miles apart, which would require multiple production wells to extract gas and bring it ashore by a subsea pipeline. As a mega-project, according to Equinor, it would take an investment of $20 billion. Equinor would be the operator with a 65% participating interest in the production-sharing agreement, while ExxonMobil has a 35% working interest with Tanzania holding the right to 10%.

Natural gas pipeline owners may have a future moving hydrogen

(Bloomberg; Jan. 29) - Three million miles of natural gas pipelines crisscross the U.S., and the fight against climate change could render them obsolete. The past two weeks illustrate the stakes. The president canceled the permit for the $9 billion Keystone XL oil line his first day in office, a signal any new U.S. pipeline will face long odds. His climate envoy, former Secretary of State John Kerry, warned gas lines could become “stranded assets” in 30 years as the administration seeks to end power plant carbon emissions.

Pipeline owners are eyeing another, possibly future-proof fuel: hydrogen. Unlike natural gas, hydrogen can be burned without putting carbon dioxide into the air. Run it through a fuel cell to generate electricity and the only waste is water. Produce hydrogen using electrolyzers powered by solar plants or wind farms and it becomes a way to store large amounts of renewable energy. The best part for pipeline companies: Getting it where it needs to be, in bulk, could require the same infrastructure that now carries natural gas.

It could be a savior for the businesses behind fossil-fuel infrastructure. Even as those same companies insist gas will play a role for years to come, many of them are talking up the potential of hydrogen. They’re launching projects to blend small portions of hydrogen into their existing networks to see how the equipment behaves. They’re running experiments to strip hydrogen out of that blended gas to use at specific sites.

The questions in hydrogen transport go beyond merely the will to pursue it. Even mixing it with gas poses technical problems that need to be overcome. Compressors built to move gas don’t work well with hydrogen and would likely need to be replaced. Some steel pipe turns brittle and cracks when exposed to hydrogen over time. Pilot projects around the world are planned to give companies a better sense of the obstacles ahead.

European effort trains scientists to find gas pipeline leaks

(Bloomberg; Jan. 27) - About two hours into our drive around Utrecht, a city of 358,000 near the center of the Netherlands, the display providing a real-time readout of ambient methane levels begins to freak out. The unit was consistently showing concentrations close to the atmosphere's background level of around 2 parts per million. But suddenly, it spikes to 300 ppm. Behind the wheel, Hossein Maazallahi, a Ph.D. candidate at Utrecht University, said the reason is clear: A natural gas pipeline has sprung a leak.

Maazallahi, 30, is part of a seven-country, public-private research project that's training scientists to find methane leaks in fossil fuel production and municipal infrastructure across Europe. Methane is the primary component of natural gas, which is supplanting its dirtier cousins as a source of electricity. Researchers, however, are finding that the pipes delivering all that gas are a lot leakier than utility companies understand.

The study of methane levels in Utrecht and Hamburg, Germany, recently published in a scientific journal, found 81 apparent leaks in Utrecht's network and 145 in Hamburg. Beyond localized safety issues, the problem has a planetary component: It plays a role in global warming. Methane is the second-most abundant greenhouse gas after carbon dioxide. But it's 25 times more effective at trapping heat. The higher potency combined with a shorter lifespan — maybe a dozen years rather than a century or more for CO2 — has brought it to the forefront of climate mitigation strategies.

Saudi Arabia has big plans for renewables, hydrogen energy

(Bloomberg; Jan. 28) - Saudi Arabia wants to emulate Germany's success with renewable energy and be a pioneer in hydrogen production, as the world's biggest oil exporter seeks to diversify its economy. "We will be pioneering … when it comes to renewables," Energy Minister Prince Abdulaziz bin Salman said Jan. 27 on a panel at the Future Investment Initiative conference in Riyadh. The kingdom is working on green and blue hydrogen projects and also projects to capture carbon emissions, he said.

The green version of hydrogen, which produces only water vapor when burned, is made with renewable energy, typically solar and wind power. The blue type is produced from natural gas with the greenhouse gas emissions being captured so they can't escape into the atmosphere. While hydrogen is seen as crucial for the switch from oil and gas to cleaner fuels, the technology to make it is still expensive.

Prince Abdulaziz said Saudi Arabia planned to convert half its power sector to gas, while the rest would be fueled by renewable energy. The kingdom currently burns plenty of oil in its power plants. Saudi Arabia's past efforts to boost renewable-energy production have met with little success. Germany, a country not known for sunny weather, has become one of the world's biggest producers of solar energy, largely thanks to heavy government subsidies that helped spur the industry.

Japan's Kawasaki wants to build liquefied hydrogen carriers

(Reuters; Jan. 25) - Japan's Kawasaki Heavy Industries is aiming to replicate its success as a major builder of liquefied natural gas carriers with hydrogen, a key element that may help decarbonize industries and aid the global energy transition. A A$500 million ($385 million) pilot project, led by Kawasaki and backed by the Japanese and Australian governments, plans to ship its first cargo of liquefied hydrogen from Australia to Japan this spring, which the firm hopes will mark a new clean-energy era.

"We want to prove the possibilities of shipping mass volumes of hydrogen to be used in Japan and elsewhere in Asia, just like LNG," Motohiko Nishimura, Kawasaki's vice executive officer, told Reuters on Jan. 22. Hydrogen, long used as rocket fuel, is mostly extracted from natural gas or coal. It is mainly utilized in oil refining and to produce ammonia for fertilizers but future demand is expected to come from broader segments including the transport, building, and power generation sectors.

Hydrogen has become the green fuel of choice among many governments and businesses that are betting big that the universe's most abundant element can help fight climate change. Japan's government unveiled an ambitious goal in December to boost its annual hydrogen demand to 3 million tonnes by 2030, from about 2 million tonnes now, and to 20 million tonnes by 2050. Kawasaki aims to build 80 hydrogen carriers to import 9 million tonnes of the fuel a year by 2050.

BP delivers first LNG to China under integrated value chain deal

(LNG Prime; Jan. 25) – BP said it has started to directly supply customers in China with regasified LNG that it has imported into the country. This is the first time that BP has created a fully integrated gas value chain into China, directly connecting upstream resources, transportation, and trading with downstream gas customers, it said. The first cargo of gas delivered under BP's new terminal usage agreement at the Guangdong Dapeng LNG import terminal in Shenzhen, Guangdong, arrived Jan. 24.

Under the agreement, the energy firm has 600,000 tonnes a year in regasification capacity at the terminal. BP also has a 30% stake in the facility. BP last year signed to supply gas to ENN Group and Foran Energy, both in Guangdong. BP will supply each with 300,000 tonnes per year of regasified LNG for two years starting in 2021.

Canada's oil-by-rail up to 173,000 barrels a day in November

(The Canadian Press; Jan. 25) - Canadian exports of crude oil by rail jumped 87% in November as oil production rose in Western Canada amid limited pipeline capacity for heavy crude. The Canada Energy Regulator said rail shipments of oil amounted to

173,000 barrels per day, up from 92,800 barrels per day in October, though that is down from 302,300 barrels per day shipped by rail in November 2019.

Crude-by-rail numbers have been volatile the past year, with shipments rising to a record 412,000 barrels per day last February, then falling to an eight-year low of 39,000 in July. Rail transportation of oil is more expensive than shipping by pipeline, so shippers tend to use it only when pipelines are full or if the destination market offers much higher prices than can be achieved in Canada.

Michigan approves oil pipeline tunnel beneath Great Lakes

(The Associated Press; Jan. 29) - Michigan's state environmental agency said Jan. 29 it has approved construction of an underground tunnel to house a replacement for a controversial oil pipeline in a channel linking two of the Great Lakes. The decision, a victory for Enbridge, comes as the Canadian company resists Gov. Gretchen Whitmer's demand to shut down its 68-year-old line in the Straits of Mackinac.

Enbridge disputes her claim — echoed by environmentalists and Native tribes — that the pipeline crossing the 4-mile-wide waterway is unsafe. Enbridge had sought to ease concern by striking a deal with Whitmer's predecessor in 2018 to run a new pipe through a tunnel drilled beneath the straits connecting Lake Huron and Lake Michigan. The project requires state and federal permits. Liesl Clark, director of the Michigan environmental agency, said the company's application met state legal requirements.

Enbridge has said the $500 million project will be completed by 2024. Environmental groups and tribes fighting to decommission the line, which moves oil and natural gas liquids between Superior, Wisconsin, and Sarnia, Ontario, oppose the tunnel. They say it would pollute the waters, harm fish, and damage shoreline wetlands. The state said the tunnel is a separate legal matter from the dispute over the existing pipeline. Whitmer last fall ordered the line shut down by May, saying Enbridge had violated an easement for pipeline operations. The company is challenging the order in federal court.