Oil and Gas News Briefs
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Saudi Arabia, UAE reportedly reach compromise on OPEC+ policy

(Reuters; July 14) - Saudi Arabia and the United Arab Emirates have reached a compromise over OPEC+ policy, a source said July 14, in a move that should unlock a deal to supply more crude to a tight global oil market and cool soaring prices that are stressing buyers. Brent oil prices fell on the news by as much as $1 per barrel toward $75 after Reuters reported the two major OPEC producers had agreed to a deal.

The Organization of the Petroleum Exporting Countries, Russia and their allies, a group known as OPEC+, still need to take a final decision on oil output, after talks were abandoned because of the Saudi-UAE dispute. OPEC+ had agreed to record output cuts of almost 10 million barrels per day last year to cope with a pandemic-induced slump in demand. The curbs have been gradually relaxed and now stand at 5.8 million.

While Saudi Arabia and the UAE both endorsed raising output immediately, the UAE had opposed extending the deal to the end of 2022 unless it was given a higher quota. The OPEC+ source said Riyadh had now agreed to Abu Dhabi's request to have UAE's baseline — the level from which cuts under the OPEC+ agreement are calculated — set at 3.65 million barrels per day from April 2022, up from 3.168 million barrels currently.

Giving the UAE a higher baseline would pave the way for extending the overall pact to the end of 2022, the OPEC+ source said. Russia has been insisting on a quick output increase and has been mediating to get a deal done as soon as possible.

U.S. oil consumption comes roaring back

(Bloomberg; July 13) - America's oil demand has soared to new heights in a remarkable turnaround from just a year ago when the pandemic sent the U.S. economy into a tailspin and decimated demand. A rolling average of U.S. total oil products supplied — an indicator of consumption — jumped to the highest seasonal level in government data going back three decades in the week ending July 2. While gasoline and diesel demand have returned to pre-pandemic levels, a surge in petroleum use for products such as plastic, asphalt, lubricants and other industrial needs is propelling the recovery.

"A lot more industry is coming back online," said Rebecca Babin, senior energy trader at CIBC Private Wealth Management. "As the economy gets humming, those other types as well as gasoline and diesel feed into it." The comeback in U.S. demand threatens to accelerate a global supply deficit, with the OPEC+ alliance unable to agree on a deal to boost production and U.S. shale producers favoring fiscal restraint over boosting output.

Among the heavy consumers are petrochemical producers that invested heavily in manufacturing in the U.S. in the decade after fracking technology led to a surge in oil and gas production as well as low-cost natural gas liquids. The result has been an onslaught of plastic manufacturing along the U.S. Gulf Coast in recent years. Propane demand has also surged with Americans stuck at home during the pandemic grilling more than ever and heating outdoor spaces.

OPEC+ dispute adds volatility to oil market, IEA says

(Reuters; July 13) - The oil market will see tighter supply for now amid a dispute inside OPEC+ about how to ease production curbs, but it still faces the risk of a dash for market share if disagreement persists, the International Energy Agency said on July 12. The Paris-based agency said oil prices would be volatile until differences were resolved among members of OPEC+, which groups the Organization of the Petroleum Exporting Countries, Russia and other oil producers.

"The OPEC+ stalemate means that until a compromise can be reached, production quotas will remain at July's levels. In that case, oil markets will tighten significantly as demand rebounds from last year's COVID-induced plunge," an IEA report said. OPEC+ has been slowly unwinding record output curbs agreed last year to cope with the pandemic. But a dispute over policy between Saudi Arabia and United Arab Emirates this month meant plans to pump more oil by the end of 2021 were put on hold.

If differences persist, analysts say the group could even abandon their pact, prompting them to open the taps in a race for market share, adding uncertainty to a market that has seen prices surge to 2½-year highs. "The possibility of a market share battle, even if remote, is hanging over markets, as is the potential for high fuel prices to stoke inflation and damage a fragile economic recovery," the IEA said in its monthly report.

It may be too late for any OPEC+ deal to affect August exports

(Bloomberg; July 12) - One week after OPEC and its allies abandoned their meeting in acrimony, the window for an August oil-production increase is closing without any deal in sight. Regardless of the desire of other cartel members for a compromise, there's little sign that Saudi Arabia and the United Arab Emirates have made progress in resolving a dispute over how their production cuts are measured, delegates said.

Meanwhile, both countries have proceeded to lock in volumes for their customers next month, leaving little scope for a change if there is a sudden breakthrough, delegates said. With August sales fixed and most Gulf countries preparing for an Islamic holiday that will close government offices and businesses for most or all of next week, a prompt supply increase may not be possible even if Russia, the U.S. or some other party manages to broker a deal. The timing of the holiday means the next gathering would be unlikely before the last days of July or perhaps early August.

The continuing stalemate leaves the oil market in limbo, unsure when or if it will receive additional shipments from the producers' group. Since the collapse in talks last week, there have been some efforts to bring the Organization of the Petroleum Exporting Countries and its allies back to the negotiating table to revive the failed proposal for monthly output increases of 400,000 barrels a day. Behind the scenes, Russia has been seeking a way to restart talks, delegates said.

Oil markets face twin risks of too little, too much supply

(The Wall Street Journal; July 13) - The recent failure of OPEC and its allies to agree on a plan to ease production cuts in August means oil-market investors face the contradictory worries of both undersupply and a potential oversupply, the International Energy Agency said July 13. The organization said that if the Organization of the Petroleum Exporting Countries and its allies cannot reach a supply agreement, the crude market faces "the prospect of a deepening supply deficit."

With the global oil market having now used up the supply glut it accrued at the start of the pandemic, potential inflationary pressures of higher oil prices could damage the fragile global economic recovery, the IEA said. At the same time, the memory of last year's price war — which contributed to the collapse of the crude market — remains fresh for investors. "The possibility of a market share battle, even if remote, is hanging over markets," with the risk of an oversupply knocking down prices, the IEA added.

The price of oil has remained volatile in the days since OPEC was unable last week to break a deadlock over oil production, with differences between Saudi Arabia and the United Arab Emirates — normally staunch allies — the main hurdle to an agreement. In addition to the supply uncertainty brought by the OPEC+ group's impasse, the potential impact of rising coronavirus cases on the long-planned easing of pandemic restrictions in several wealthy countries weakens demand visibility as well, the IEA said.

Top energy companies keep lid on spending, even with higher prices

(Reuters; July 12) - Leading international energy companies are resisting the temptation to rush and spend an unexpected windfall from rallying oil and gas prices as they focus on longer-term energy transition challenges, executives and analysts said. Benchmark crude oil prices more than doubled in the second quarter of 2021 from a year earlier and have risen further in recent weeks to close to $78 a barrel, their highest in almost three years as OPEC and other major producers failed to strike an agreement to lift output.

"The cash flow for majors is looking very strong, they're certainly firing on the oil and natural gas cylinders," Redburn analyst Stuart Joyner said, adding that things could improve further once demand for refined products fully recovers. The companies are expected to provide updates on their spending plans in second-quarter earnings reports over the coming weeks, but are unlikely to significantly shift tack as investors are laser-focused on securing higher returns from the sector after a disappointing decade.

The heads of top energy companies have said they expect prices will be volatile, giving little incentive, at least for now, to commit billions to projects that could take a decade or more to show a return on investment. Also dampening the bullish mood is huge uncertainty over near-term energy demand due to the resurgence of COVID-19 in parts of the world and longer-term with the shift to lower-carbon fuels to fight climate change. So, unlike previous cycles when rising oil prices loosened purse strings, executives will likely stick to their spending discipline and focus on their energy transition strategies.

Oil banker says Houston should embrace shift to clean energy

(Financial Times; London; July 12) - Houston, the epicenter of America's oil industry, needs to embrace the shift to cleaner energy to secure its economic future, one of the city's top oil bankers said. "If Houston wants to continue to be the world's leading energy capital, then it's going to need to be a leader in the newer forms of energy," said Bobby Tudor, chair of the investment bank Tudor, Pickering, Holt & Co.

Houston, the country's fourth-largest city, has been propelled by the oil and gas industry for more than a century and saw its economy supercharged over the past decade as the shale industry took off. Yet environmentalists and some city officials have long warned it needs to start planning for its post-oil future. Tudor is part of a growing chorus of industry insiders coming to the same conclusion as the oil boom starts to fade and growth and capital in the energy sector shifts to low-carbon technologies.

The oil industry is "highly unlikely to be contributing to Houston's growth in the next decade or two in the way that it has in the last decade or two," Tudor said in an interview with the Financial Times. "We don't think it's going away, but it's going to be a much slower growth profile." Tudor is a 30-plus year industry veteran.

Tudor argued that many in Houston, including the big oil companies that call it home, are now seeing opportunities in the energy transition where they once only saw risks. The city should focus not only on renewables, but also on emerging technologies such as hydrogen and carbon capture and storage, where Houston's roots in the fossil fuel business and familiarity with large energy infrastructure give it a head start, he said.

Opponents are making it harder on oil pipelines

(Financial Times; London; July 14) - If Michigan Gov. Gretchen Whitmer gets her way, a 645-mile oil and gas pipeline called Line 5 will soon be closed. She is concerned the 70-year-old cross-border pipeline could leak in the environmentally sensitive Straits of Mackinac. She has called Line 5 a “ticking time bomb” that threatens the world’s largest group of freshwater lakes. But closing Line 5 would hamstring Ontario’s fuel supplies, as the pipeline carries 540,000 barrels of crude oil and natural gas liquids every day.

It also supplies jet fuel to Toronto’s airport and is a vital link in a network that transports oil sands crude across Canada, via the U.S. The line’s situation is not unique. A string of pipeline projects on both sides of the border have been threatened, or scrapped, over environmental concerns — causing oil executives, workers and some politicians to lament the end of the “mega pipeline” era. This trend, combined with the global energy transition, is prompting the industry to reassess how hydrocarbons are transported.

Canada’s oil sands have long been the bete noire of climate groups because of the energy-intensive process required to extract the crude. So, in an effort to slow climate change, and encourage the adoption of cleaner energy, activists have begun targeting the closure of pipelines — using the courts and harnessing the support of Indigenous groups and private landowners. “Which [oil] company is now going to say, ‘We want to build a big pipeline’, in the world that we live in?” asked Richard Masson, an executive fellow at the University of Calgary’s School of Public Policy.

Heat wave shut in some Canadian natural gas production

(Financial Post; Canada; July 14) - As a record-setting heat wave baked the western half of North America at the end of June, Canadian gas producers faced an unexpected problem: It was too hot to produce the commodity in many northern fields. Just as Texas gas producers weren’t prepared for the blizzard that battered the southern U.S. last winter and suffered “freeze-offs,” their Canadian peers experienced “heat-offs” as temperatures rose to 104 degrees in northern British Columbia and above 95 in Alberta.

“It went so high that it actually impacted gas supply,” said Darren Gee, president and CEO of Peyto Exploration and Development. Most natural gas plants and compressor stations are built with massive 1,500-horsepower cooling fans to allow production and processing of gas molecules in the heat. But as temperatures rose between June 25 and June 30, some facilities in northern B.C. and Alberta were not equipped with enough cooling equipment to handle the heat and had to shut in their production, knocking off up to 4 billion cubic feet per day of gas supply out of Western Canada.

These “heat-offs” happened at exactly the same time as electricity demand in the Western provinces skyrocketed as people took refuge from the sun by cranking up air conditioning or turning on fans. Natural gas power generation now accounts for 50% of power generation capacity in Alberta, as previously dominant coal-fired generating stations have been retired or are in the middle of conversions to burn natural gas.

High prices, short supplies plague natural gas market

(The Wall Street Journal; July 13) - A scramble for natural gas is creating pockets of scarcity in the global market, boosting prices for the fuel and for the electricity generated by burning it. Rampant demand in China is sucking in cargoes from the U.S., after a year in which American energy companies throttled back production. A drought in Brazil has added to the competition by curtailing power output from hydroelectric dams. Searing heat in Canada and the Pacific Northwest has also lifted gas demand.

Europe, in particular, is feeling the pinch. With liquefied natural gas carriers heading to Asia, buyers on the continent have struggled to replenish tanks and caverns after a long and cold winter. Storage levels are the lowest for this time of year in a decade, said Natasha Fielding, a gas analyst at Argus Media. The price of gas at a trading hub in the Netherlands shot to a record $13.10 per million Btu in July, the highest back to 2004.

High prices for gas, coal and emissions permits — the main costs for power plants — have fed off each other to send electricity markets skyward too. Germany’s electricity prices are close to their highest level back to 2000. And lofty gas prices are taking the shine off a boom in demand for products made by energy-intensive companies. Profits are being squeezed in industries such as chemicals, said Benedict De Meulemeester, chief executive of E&C Consultants, which advises firms on how to procure energy.

Kuwait opens LNG import terminal in shift from burning oil for power

(Bloomberg; July 13) - Kuwait has opened its first permanent facility to import liquefied natural gas, as oil-rich Persian Gulf states accelerate efforts to wean their power plants off crude and use cleaner forms of energy. The Al Zour terminal received its first cargo of gas, from Qatar, on July 12, according to state news agency Kuna. The plant is 10 miles from Kuwait’s border with Saudi Arabia and is designed to import as much as 22 million tonnes of LNG each year, making it easily the largest of its kind in the Mideast.

“Gas demand in Kuwait is set to rise in the power sector due to the planned phase-out of oil plants worth 10 gigawatts,” Abhishek Rohatgi, an LNG analyst at BloombergNEF, said in a note. “Gas-demand growth is likely to outpace domestic production growth from the Jurassic fields, raising LNG imports.” BloombergNEF expects LNG use in the Mideast to increase almost 50% by 2025, with most of the increase coming from Kuwait.

Several of Kuwait’s neighbors are also trying to phase out oil from domestic use. Saudi Arabia aims to stop burning as much as 1 million barrels a day in its power plants by

2030, instead using solar, wind and gas. Iraq is spending billions of dollars to ramp up gas output. The Gulf Arab economies are among the world's biggest oil consumers on a per capita basis, in part because of their heavy use of crude in their electricity grids. Kuwait, one of OPEC's biggest oil producers, needs to buy LNG from abroad since it pumps little gas of its own. The oil diverted from power plants will probably be exported.

South Korea signs long-term, lower-cost deal for Qatari LNG

(The Korea Herald; July 12) - South Korea's state-run Korea Gas has signed an agreement with Qatar to purchase an additional 2 million tonnes of liquefied natural gas for 20 years starting from 2025, the Ministry of Trade, Industry and Energy said July 12. Qatar supplies 9 million tonnes of LNG to Korea annually through multiple long-term deals with KOGAS, the country's sole LNG wholesaler. In 2024, contracts for 4.9 million tons will end. The new deal starting from 2025 will make up for some of those volumes.

"This is the cheapest long-term LNG supply deal KOGAS has ever signed," a company official said. Though KOGAS and Qatar agreed on a price more than 18 months ago, the two parties signed the deal on revised pricing terms. "This will save KOGAS $1 billion throughout the contract period of 20 years," the official said.

South Korea, the world's third-largest LNG importer after China and Japan as of 2019, imports about 38 million tonnes a year, mostly from Qatar and Australia. Qatar, which is embarking on a massive expansion of its LNG production capacity — looking to boost its output more than 40% by the second half of this decade — is aggressively courting new supply contracts to build market share.

Houston LNG developer loses investor, gas buyer

(Natural Gas Intelligence; July 12) - A deal with French supermajor TotalEnergies that would have injected up to $700 million into Tellurian's Driftwood liquefied natural gas export facility in Louisiana has fallen through after the developer failed to meet a key deadline for sanctioning the project. In a July 12 filing with the Securities and Exchange Commission, Tellurian said its agreements with Total had been canceled because they were "not consistent" with commercial deals Driftwood had signed with other parties.

The agreements signed in 2019 called for Total to invest up to $700 million and take up to 2.5 million tonnes per year of LNG. However, Total had the right to walk away if Tellurian did not reach a final investment decision by July 10. The latest news marked another setback for Houston-based Tellurian. The company cut back on staff last year amid a weak LNG market, and also saw a key deal with India's Petronet fall through.

Tellurian has since retooled its marketing model and is now offering 10-year contracts, without requiring customers to take an equity stake. With the market strengthening, the company in recent months has signed deals with traders Vitol and Gunvor. Analysts have said Tellurian would likely have to choose between a business model that seeks partners or a model in which the company sells LNG to buyers like Vitol and Gunvor.

Driftwood one of more than a dozen North American LNG projects that have repeatedly pushed back decisions to start construction due primarily to an insufficient number of customers signing the long-term deals needed to finance the multibillion-dollar facilities.

Spreading COVID cases cut into fuel demand in Southeast Asia

(Bloomberg; July 12) - The fast-spreading delta virus variant is on the march through a largely unvaccinated Southeast Asia, forcing restrictions on work and mobility that are taking the shine off the region’s rebuild in energy demand. Indonesia, Southeast Asia’s biggest economy, is being hit by an acutely brutal wave of COVID-19, with movement curbed in the industrial heartland of Java and tourist enclave of Bali. Malaysia is still in the midst of a nationwide lockdown, while Thailand has just stepped up restrictions.

The mobility curbs and a lack of success in reining in the variant are prompting downward revisions in forecasts for consumption of fuels, particularly gasoline. Indonesian motor fuel demand will drop by 8% in the third quarter compared with May, before the virus resurgence started having a major hit on the economy, FGE forecasters said. In Malaysia, it will plunge by 17% over the same period, the consultants said.

Delta’s spread through Southeast Asia — which has a population about twice that of the U.S. — is a fresh headwind for Asian refiners. Indian energy demand is yet to fully recover from the vicious virus wave in April and May, while in China there are signs the nation’s V-shaped economic rebound from COVID-19 is slowing. “Conditions continue to be stacked against fuel consumption,” weighing on margins, said Peter Lee, an oil and gas analyst at Fitch Solutions.

Shell signs 5-year deal to supply carbon-neutral LNG to China

(Reuters; July 12) - Shell has signed a five-year contract with PetroChina to supply the company with carbon-neutral liquefied natural gas cargos, Shell said July 12. Many companies, particularly those in the fossil-fuel industry, are using tools such as carbon offsets to compensate for emissions they are unable to cut in their operations. For each LNG cargo delivered under the agreement, the two companies will “cooperate to offset life-cycle carbon dioxide equivalent emissions generated across the LNG value chain, using high-quality carbon credits from nature-based projects,” Shell said.

Nature-based offset projects, such as reforestation, protect, transform or restore land and enable nature to add oxygen and absorb carbon dioxide emissions. The announcement came as PetroChina received its first carbon-neutral LNG cargo at Dalian port of China, Shell said. Shell said the offsets would come from its own portfolio of nature-based emission reduction projects. Many environmental groups are skeptical about the use of carbon offsets and warn the ability to pay for emission reductions elsewhere could prolong the use of fossil fuels widely blamed for climate change.

Developer of delayed Quebec LNG project ‘optimistic’

(Natural Gas Intelligence; July 13) - The pandemic delayed but failed to kill the $10.6 billion plan for Atlantic seaboard liquefied natural gas exports, according to project sponsor GNL Quebec. Still, public health precautions that slowed preparations and regulatory review have postponed the target date for starting shipments by two years until late 2026, President Tony Le Verger said in an interview.

“I’m optimistic,” Le Verger said. Instead of pausing until the Quebec government keeps a promise to make a hotly contested environmental approval decision this summer, GNL is lining up its gas supply. The firm has a 25-year federal license to export up to 1.8 billion cubic feet of gas per day as LNG from the proposed Energie Saguenay terminal. The terminal is named after its industrial town site at an ice-free port 277 miles east of Montreal at the junction of the St. Lawrence and Saguenay rivers.

All the gas would flow from Alberta and British Columbia to the liquefaction plant, coming through a new pipeline across 470 miles of northern Ontario and Quebec from a connection with a TC Energy line from Western Canada. A joint panel of federal and provincial environmental regulatory agencies is considering the project. Meanwhile, financial giant Societe Generale has stepped aside from its role as a GNL adviser as part of a “green-finance strategy” that included severing U.S. oil and gas industry ties.

Owner of polluting Caribbean refinery files for bankruptcy

(Reuters; July 12) - The owners of Limetree Bay, a Caribbean refinery that was once the largest in the Western Hemisphere, filed for bankruptcy July 12 after lenders balked at putting new cash into a project dogged by cost overruns and regulatory troubles. The St. Croix refinery overhaul was the most expensive effort in nearly a decade to expand refining capacity in the hemisphere. Investors plunged several billion dollars into the project, aimed at taking advantage of its location on shipping routes in the Caribbean.

The plan fizzled after construction delays and the pandemic, which slashed demand for fuel worldwide. The refinery restarted in February, only to shut three months later when Limetree ran afoul of U.S. environmental regulators who ordered it shut after a series of fires and noxious gas releases. The U.S. Environmental Protection Agency in May ordered the plant to close temporarily after the releases contaminated drinking water, shut a school and led residents to complain of breathing problems and foul odors.

The EPA order, and subsequent investigations by U.S. officials, made investors wary of investing the additional money needed to get the refinery restarted, the company said in court filings. Limetree Bay, formerly known as Hovensa, was idled in 2012, and filed for bankruptcy three years later. At one point, its roughly 600,000-barrel-per-day capacity made it the largest in the Western Hemisphere. It restarted with the aim of producing as much as 210,000 barrels of fuel a day. The plant employed roughly 400 people.