Oil and Gas News Briefs
Compiled by Larry Persily
July 26, 2021

Saudis want to be 'last man standing' as oil demand declines

(Bloomberg; July 21) – Saudi Energy Minister Prince Abdulaziz bin Salman's decisions after flying home from a tumultuous OPEC meeting in Vienna in March 2020 exposed a new Saudi policy — bolder, defiant of a growing global consensus on climate change, and more controlled by the royal family. They also reflected what Abdulaziz sees as his destiny: To ensure that the last barrel of oil on Earth comes from a Saudi well.

As he said at a private event in June, according to a source, "We are still going to be the last man standing, and every molecule of hydrocarbon will come out." All of this has huge implications for world energy markets. Abdulaziz, the first member of the royal family to be the kingdom's energy minister, is the most important person in the oil market today. But a rancorous OPEC+ meeting in July showed just how difficult it's going to be for him to consistently get his way in an era when oil-producing nations — their self-interests often in conflict — are contemplating a future of declining oil demand.

Saudi Arabia's power is under threat as the world seeks to move away from oil and other fossil fuels. Beneath the kingdom's desert there are about 265 billion barrels of oil, worth almost $20 trillion at current prices. It's a massive prize, but one that may be worthless someday if the global economy figures out how to keep churning without oil. "Saudi Arabia is not in a comfortable position," said Karen Young, a senior fellow at the Washington-based Middle East Institute and director of its Program on Economics and Energy. "There will be customers for oil in 10 and 20 years from now. But [every oil producer] is going to be competing for a smaller and smaller number of buyers."

Growth rate in China's oil imports could drop to two-decade low

(Reuters; July 23) - Beijing's crackdown on the misuse of import quotas combined with the impact of high crude prices could see China's growth in oil imports sink to the lowest in two decades in 2021, despite an expected rise in refinery rates in the second half of the year. Cargoes into the world's top oil importer and No. 2 refiner could be steady, or rise by up to 2% to just over 11 million barrels per day this year, consultancies Energy Aspects, Rystad Energy and Independent Commodity Intelligence Services said.

That compares to an average annual import growth rate of 9.7% since 2015, and would be the slowest growth since 2001, China customs data showed. The flat forecasts coincide with plans by OPEC+ to raise oil output by 400,000 barrels per day between August and December. China has been the global oil-demand driver for the past decade, and accounted for 44% of worldwide growth in oil imports since 2015, when Beijing started issuing import quotas to independent refiners.

While analysts expect global crude markets to stay in deficit this year despite the OPEC+ output rise, China's investigations into the trading of crude import quotas, and the resulting lower import allocations to independent refiners, have already cooled demand from the group that takes a fifth of China's imports. "This could mean an end to the rapid growth in China's crude imports which we've seen in the past," said a Beijing-based analyst. Imports in June fell to the lowest since 2013 after China clamped down on import quota trading in a drive to consolidate its refining industry and cut emissions.

Independent Chinese refiner may have avoided $2 billion in taxes

(Bloomberg; July 26) - A report by China’s state-run newspaper has singled out independent oil refiner Hengli Petrochemical for allegedly skirting taxes in a move that could prompt more government scrutiny of the so-called teapot sector. The private company allegedly passed off sales of fuels — namely gasoline and diesel — as more lightly-taxed petrochemical products, thus avoiding up to 13 billion yuan ($2 billion) in government levies, according to an article by China Energy News.

The allegations could not be independently verified by Bloomberg News. Multiple attempts to seek comment from Hengli were not successful. Nobody answered calls to the General Administration of Taxation. Such accusations present yet another blow to a sector that’s been working to clean up its reputation as a loosely regulated part of China’s energy market. Some private refiners have been spotlighted in recent months for tax evasion, unlawful practices and violating environmental guidelines, prompting calls for them to be nationalized or shut down.

China’s teapot sector accounts for a quarter of the nation’s oil-processing capacity. The news sent jitters across the oil market as traders assessed the risk of selling crude to companies that might come under more scrutiny from Beijing. Hengli operates a 400,000 barrel-a-day refinery complex in Dalian.

Report says China needs to add capacity to avoid power shortages

(Bloomberg; July 23) - China needs to accelerate its build-out of energy sources such as nuclear and pumped-hydro to stave off worsening power crunches in its industrial centers, according to a government-backed think tank. Some of the big cities that have recently suffered power outages when summer demand for air conditioning peaks are likely to see widening shortfalls in energy supply, according to the China Electric Power Planning and Engineering Institute, in a report covering energy needs through 2025.

China’s main energy source, coal, will very gradually be phased out even as electricity demand increases as the economy grows. Nuclear and pumped-hydro are particularly useful as backups to the intermittent power generated by other clean energy sources like wind and solar. Pumped-hydro is one of the oldest forms of storing energy. During times of excess power, pumps are used to push water up an incline. When more energy is needed, gravity pulls the water back through a turbine that generates electricity.

The institute attributed the intensifying shortages of power during periods of peak demand to China’s failure to meet targets for new plants. By 2020, it had built only about three-quarters of the capacity planned for both nuclear and gas, which is cleaner than coal but still emits carbon. For pumped-hydro, only half the target was met. The solution involves adding at least 20 gigawatts of nuclear and 31 GW of pumped-hydro power, bringing the totals to 70 GW and 62 GW, respectively, by 2025, the report said.

China falls far short of 2020 commitment to buy U.S. LNG

(S&P Global Platts; July 22) - Chinese imports of U.S. LNG have surged in recent months, helping to keep U.S. export facilities running close to full bore. But the purchases are short of the levels called for under the 2020 truce that ended a year-long freeze in the LNG trade between the two countries. Chinese imports of U.S. LNG totaled about $2.2 billion from the time the deal was signed in January 2020 through May, according to recent data from Panjiva, a business line of S&P Global Market Intelligence that provides news and analysis about global supply chains.

More than 100 tankers delivered about 350 billion cubic feet of U.S. gas to China over that time period, according to S&P Global Platts vessel-tracking software cFlow. Over 40% of that total was in 2021 through May, with the number of shipments picking up in May and June. As with other Chinese purchases of U.S. energy goods, the amount of LNG may be too little, too late to put China within reach of meeting its commitments under the deal. China fell another $25.4 billion behind its overall purchase commitments for the first five months of 2021, on top of an aggregate gap of $53.1 billion in 2020.

With the trade deal set to expire at the end of 2021, it remains to be seen whether Chinese commitments to buy U.S. energy goods will play a role in upcoming deal talks. Some market observers have pointed to a tense relationship and rising trade risk heading into those talks, but a number of analysts said increasing U.S. gas flows to China may continue so long as frictions between the countries do not translate into tariffs that would make LNG deliveries to China uneconomic again.

[Japan’s draft energy plan would cut LNG imports almost in half]

(Reuters column; July 22) - Japan has been largely forgotten as a source of demand for energy commodities, overshadowed by the rapid rise of China, but the country's new electricity generation targets will shake up the market. For many years Japan has been viewed as a largely steady source of demand for liquefied natural gas and coal used in power generation, with small variations in the import volumes on a year-by-year basis.

But this comfortable situation for commodity producers supplying the world's third-biggest economy may end if the draft of Japan's latest energy policy is put into effect. Japan aims to boost the use of renewable energy to 36% to 38% of the electricity mix by 2030, double the 18% achieved in the fiscal year to March 2020, according to a government report released July 20. The jump in renewable energy means that LNG and coal will have to surrender market share, with coal planned to drop to 19% from about 32% in recent years, and LNG dipping to a planned 20% from around 37%.

The Japanese public may balk at the nuclear component of 22%, which will require restarting most, if not all, of the remaining reactors, with nine currently operating and 24 still offline after the 2011 Fukushima disaster. Notwithstanding the challenges of the draft plan, the main impact would be felt by LNG and coal exporters, especially those in Australia. Japan is currently the world's biggest LNG buyer, and if it does drop the use of the fuel to 20% of power generation by 2030 from 37% in 2019, it implies annual imports should decline from 74.5 million tonnes in 2020 to about 40.3 million by 2030.

[Future of LNG in Mozambique depends on restoring security]

(Reuters analysis; July 22) - The future of Mozambique's gas ambitions hinges on its ability to end an insurgency linked to Islamic State, but if peace is the answer the nation and French energy giant TotalEnergies may have a problem. Four months after gunmen overran Palma, a town housing TotalEnergies contractors near its site in Cabo Delgado province, the insurgents still control swathes of territory and a key port while the army is in tatters, security experts, military personnel, company officials and insiders said.

TotalEnergies has said its $20 billion gas project will remain on hold until security is restored in a "verifiable and sustainable manner.” At the end of April, it estimated the delays would last at least a year. "A year strikes me as very optimistic," said Sam Ratner, an analyst with Cabo Ligado, a media and civil society project tracking the violence in northern Mozambique. An even bigger gas project led by ExxonMobil is now also on hold, with partner Galp telling Reuters that reestablishing security is essential.

Mozambique's gas reserves are estimated at some 100 trillion cubic feet, putting the country 11th in world rankings, and the two liquefied natural gas projects are at the heart of the transformation plan of one of the world's poorest countries. TotalEnergies and Exxon hope supply from Mozambique will help plug LNG shortfalls expected in the middle of the decade. TotalEnergies' project was due to produce 12.9 million tonnes per year initially from 2024; Exxon's project is planned to be even larger.

Security analysts, however, say the military deficiencies that allowed the insurgency to take hold in the north of Mozambique won't be easily reversed. They say soldiers are ill-equipped, undisciplined and poorly paid, leading to low morale. "It's not Total that's going to reestablish peace," Patrick Pouyanne, CEO of TotalEnergies, told investors in May. "We're not going to build a facility inside a Fort Knox ... that won't work."

Ichthys LNG plant was flaring 50 million cubic feet a day

(Boiling Cold; July 22) - Satellite monitoring has revealed that Inpex's Ichthys LNG project offshore Australia was burning massive amounts of waste gas when partner TotalEnergies shipped its first carbon-neutral LNG cargo from the operation. The French energy giant delivered a cargo to China in September 2020 that it said had all emissions from the production and use of the gas offset with carbon credits from a Chinese wind farm and Zimbabwe forest. The Inpex-operated plant started up in 2018.

Analysis of satellite data with U.K.-based Capterio's FlareIntel tool showed that until November 2020, the Ichthys facilities were regularly flaring 50 million cubic feet of gas a day. Capterio, a flaring-reduction project company, estimated this level of flaring could add up to the equivalent of 1.5 tonnes of CO_2 emissions for every tonne of LNG produced. Ichthys produces the most carbon-intensive LNG from any Australian offshore project by a wide margin, even without excessive flaring.

A Capterio report released this week questioned whether Ichthys' high level of flaring emissions was included in calculating the offsets required for TotalEnergies' shipment to China. There is no transparent standard for certifying if LNG is carbon neutral, according to Capterio. Some cargoes have only offset Scope 3 emissions from burning the gas, while other sales just offset the Scope 1 emissions from producing and shipping the gas. Ichthys is the first LNG plant operated by Tokyo-based Inpex.

Oil-producing communities not happy with Nigeria's overhaul bill

(Reuters; July 22) - Nigerian legislators have sent a sweeping oil-industry overhaul bill, in the works for 20 years, to President Muhammadu Buhari for signature. The president is expected to sign it. The package sweetened terms for producers but includes terms that could foster resentment in oil-producing communities. Oil majors successfully pressed for several changes, arguing that Nigeria, Africa's largest oil exporter, must become more competitive to attract a shrinking amount of development money.

The package would reduce oil royalty rates by 2.5% to 3.5% from the original proposal for onshore, shallow-water and deep-water oil production; remove additional hydrocarbon taxes of 5% to 10% on deepwater licenses; lower the hydrocarbon taxes for onshore and shallow-water licenses; and lower production-based royalties for natural gas and natural gas liquids to 5% from the current 7%, and to 2.5% if the gas is used in Nigeria. Producing companies would continue to pay a 30% corporate tax.

The bill would earmark 3% of operating expenses of companies to existing oil-producing communities, up from 2.5% in the original proposal — but communities had sought 10%. The bill removes price controls on gasoline and boosts fuel-quality standards, changes long-sought by campaigners against pollution and in support of fiscal responsibility. Southern oil-producing communities decried provisions dedicating money to developing "frontier" fields concentrated in northern Nigeria. Observers worry the bill could trigger unrest in the turbulent Niger Delta, which produces the bulk of Nigeria's oil.

Buyers of oil and gas assets may be too small to cover the risks

(Financial Times opinion column; London; July 21) - The 2010 Deepwater Horizon disaster spilled more than three million barrels of oil and would eventually cost BP and its partners more than $70 billion. What might have happened if the Deepwater partners had not been financially robust companies but instead highly leveraged private equity-backed independents? Who would have picked up the tab in the face of disaster?

As the energy world evolves, companies are under pressure to commit to becoming net-zero carbon emitters by dates well within the operating lifetimes of many of their assets. Environmental, social and governance criteria, high-profile litigation and disinvestment campaigns are leading the biggest companies to restructure to conform to a zero-carbon consensus. But much of the restructuring will involve sales of assets rather than closures. Companies are selling oil and gas assets to smaller companies that may not have the financial strength to meet the challenges that catastrophic failures can present.

Such deals raise questions as to who are the best owners of assets in the long term. In a bankruptcy, smaller, less capitalized companies are more likely to walk away. That can leave governments to clear up the mess, with strains on the public purse, lower tax revenues and potentially significant social consequences. Current asset sales probably are not the last round. This is a risky ownership cascade. Sellers and regulators should consider if the deals merely shift the liability to others less able to cover the burden.

India’s biggest refiner plans $13 billion expansion

(Bloomberg; July 23) - India’s biggest oil refiner says fossil fuels will continue to be key part of the nation’s energy mix as it embarks on a $13 billion expansion. Indian Oil Corp.

plans to increase its oil processing capacity by a third over the next five years to boost output of gasoline, diesel and petrochemicals, Chairman Shrikant Madhav Vaidya said. That will give the company the capability to refine 2.15 million barrels a day.

The big bet by Indian Oil will help meet an expected increase in the nation's energy consumption, although it contrasts with a notable shift from fossil fuels by other key crude consumers. That includes local rival Reliance Industries — operator of the world's biggest refining complex — which last year signaled a move toward cleaner alternatives from gasoline and diesel.

"I firmly believe all forms of fuel will have a place to stay — fossil fuels will be there," said Vaidya. "There's going to be demand for whatever we invest in. Consumption is going from leaps and bounds and energy security is the primary concern for me, which may not be the concern to the developed world." The International Energy Agency predicted last year that India's oil use growth would surpass that of China in the mid-2020s and make it an attractive market for refinery investment.

U.S. natural gas prices highest since December 2018

(Bloomberg; July 22) - Natural gas futures soared to $4 per million Btu in the U.S. for the first time since December 2018 as summer heat intensified concerns about tight supplies later this year. Gas for August delivery settled at $4.003, the highest closing price in 31 months. Prices for the fuel are soaring across the globe as scorching weather stokes demand for electricity to run air conditioners. In the U.S., however, the rally is also underpinned by concern about a potential supply shortfall in the winter, when gas consumption peaks as homes and businesses crank up the heat.

Stockpiles are already below normal for the time of year, and production growth has been restrained as drillers heed investor calls for capital discipline. "You generally have a heat situation that justifies this kind of rally. It's largely a function of the weather, and it's not going to go away," Bob Yawger, director of the futures division at Mizuho Securities, said in an interview. "We haven't seen this kind of heat in a long time."

Exports are also contributing to tight gas supplies. In May, the U.S. shipments of liquefied natural gas exceeded Australia's for the first time ever as buyers around the world continued to purchase record amounts of the fuel. In June, gas deliveries to Mexico from the U.S. via pipelines also reached an all-time high. U.S. gas in underground storage is 6.2% below normal for the time of year, government data show.

[U.S. leading LNG supplier to Europe]

(Journal of Petroleum Technology; July 23) - The United States remained Europe's top supplier of liquefied natural gas in the first three months of 2021 as it continued to gain market share at the expense of Russia and Qatar, Europe's second- and third-largest sources of LNG, according to the EU Commission's latest European Gas Market Report. The U.S. supplied 24% of the EU's overall LNG imports, Russia placed second at 21%, and Qatar was third at 18%, the EU Commission reported in early July.

Nigeria placed fourth, followed by Algeria and Trinidad and Tobago. A review of EU Commission reports dating back to 2019 reveals a steady quarter-to-quarter decline in Europe's LNG purchases while it also documents the growing rivalry between the U.S. and Russia, Qatar's fall from dominance, and the emergence of the U.S. as Europe's top supplier starting in the fourth quarter of 2019. The EU is the world's third-largest LNG market, though its imports amounted to only about half that of Japan and China.

In terms of gas deliveries overall, including pipeline gas, Russia remained the leading gas supplier to Europe (45% of all imports). After Russia, Norway was Europe's second-largest gas supplier (23% of all imports) on the strength of its pipeline deliveries. LNG figured as Europe's third-largest source of gas imports and is likely to play a larger role in the future as Europe's largest domestic gas producer, the Netherlands, prepares to end production at its Groningen field in 2022.

[Russia back to planning LNG-powered icebreakers]

(Reuters; July 23) - Russia plans to build its first batch of icebreakers powered by liquified natural gas, a top official said July 23, returning to an idea that had been put on hold. Russia has the world's only fleet of nuclear-powered icebreakers, and continues to build up that fleet, hoping to develop the Northern Sea Route across its northern flank into an international shipping lane as climate change melts the ice.

"We are now returning to this topic (LNG-powered icebreakers). I think that by the end of the year we will decide on the possible construction of two to four medium-sized icebreakers," Rosatom chief Alexei Likhachev said. Russia's government has named state nuclear energy firm Rosatom as the Northern Sea Route operator. Arctic LNG producer Novatek signed an agreement of understanding with Rosatom to develop LNG-powered icebreakers in 2018, but those plans went quiet until now.

LNG-powered icebreakers cost half the 60 billion roubles ($814 million) needed to build nuclear-powered icebreakers. Meanwhile, Likhachev's deputy Kirill Komarov said Rosatom had ordered two more nuclear-powered icebreakers, known by their project name 22220. Arktika, Russia's newest icebreaker that was built last year, was the first of that project series. An additional four are currently in development.