Oil and Gas News Briefs
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Uncertainty clouds long-term investment in oil companies

(Financial Times; London; June 18) – With oil prices climbing well above the $70-a-barrel level they struck before the pandemic, commodity-sector investors should be roaring. Certainly, oil traders are excited as executives and hedge fund managers predict $100 oil may not be so far away as underinvestment has restrained supply.

But fund and investment managers who trade in oil companies rather than oil prices still appear to be in a deep slumber. Scratch the surface of the optimism among oil traders and soon it becomes clear why those fund managers who prefer trading in companies, from Big Oil majors to upstarts, do not quite share in the optimism. The problem is that the oil market, by its own standards, is largely flying blind.

In normal times, the industry has become pretty good at predicting demand and supply. But since last spring, the market has had to learn to embrace big swings. Compounding the issue if the long-term outlook. Demand, most traders and analysts agree, will peak at some point thanks to the growing use of electric vehicles and intervention by governments to turn their citizens away from oil. Peak demand could be in five years or 15 years, and, if you ask a trader candidly, they'll say there's no way of really knowing.

This means we could either be heading for a supply crunch — as Big Oil companies scale back investments — or a glut within a matter of years. For investors in oil companies, the uncertainty is paralyzing. For equity investors, who need to take a longer-term view of possible returns, the uncertainty is particularly toxic.

CEOs say lack of investment will constrain supply, drive prices higher

(Bloomberg; June 22) – The bosses of some of the world's biggest oil companies said crude prices are likely to keep rising because a lack of investment will curtail future supply. The chief executive officers of Shell and TotalEnergies have joined major commodity traders and banks in predicting that oil could go as high as $100 a barrel, although they also said volatile markets could drive prices back down again.

The lack of investment is "going to exacerbate supply and demand tightness as the economies pick back up again, and then in time we'll see supply pick up and rebalance," ExxonMobil CEO Darren Woods said at the Qatar Economic Forum on June 22. But "in the shorter term probably higher prices" are more likely, Woods said.

Trading house Trafigura said oil could top $100 a barrel over the next year. Bank of America also forecast this week that prices could jump to that level, and Goldman Sachs said it doesn't rule it out. Oil has climbed 44% this year as widespread improvement in vaccination counts increase travel and transport and boost oil demand. Meanwhile, there hasn't been enough investment in oil and gas projects, and that could push prices higher, Qatari Energy Minister Saad al-Kaabi said at the forum.

Major trader sees $100 oil if conditions are right

(Bloomberg; June 21) - Oil could top $100 a barrel in the next 12 to 18 months as the global economic recovery from the pandemic drives demand, according to Trafigura Group. "The market is hungry for oil," Saad Rahim, Trafigura's global chief economist said June 22 in a Bloomberg TV interview. The trading house joins a chorus of market watchers predicting that crude could reach triple digits under the right conditions.

Benchmark Brent has surged above $75 a barrel for the first time in two years as economies emerge from COVID-19 restrictions, pushing up demand for gasoline, diesel and even jet fuel. The pickup in consumption — now driven by the U.S. and Europe — and the "structural underinvestment" in new production, will underpin a further rise in prices, Rahim said. "Eventually you are going to be in a situation where demand has not only recovered but is stronger than it was, and you don't have the capacity you need."

Prices could hit $100 as soon as next year and are likely to exceed that level with 18 months — if the conditions are right — with the increase happening "gradually, and then suddenly," Rahim said. Trafigura is the world's second-largest independent oil trader, handling more than 6 million barrels of crude and petroleum products a day. The Singapore-based company has thrived during the pandemic, posting record half-year profit of $2.1 billion as it seized opportunities to cash in on volatile swings in prices.

OPEC+ considers adding back more oil production in August

(Reuters; June 22) – OPEC+ is discussing a further easing of oil output cuts in August as oil prices rise on global demand recovery, but no decision has been taken on the exact volume of crude to bring back to the market, two OPEC+ sources said June 22. The Organization of the Petroleum Exporting Countries and allies, known as OPEC+, is returning 2.1 million barrels per day to the market from May through July as part of a plan to gradually unwind last year's record oil output curbs. OPEC+ ill meet July 1.

"It is highly possible to increase (production) gradually from August," one of the sources said. The ongoing talks mean that OPEC and Russia are likely to find common ground again on oil production policy. Moscow has been insisting on further raising output to avoid global prices spiking, while key OPEC producers, such as Saudi Arabia, have given no signals on the next step until recent discussions with its colleagues.

Russian producers see August as a good time to further boost production despite the expected return to the market of Iranian crude. Russia sees the market in a deepening supply deficit, an industry source said June 22. In addition, “limping” U.S. production further supports the case for OPEC+ to boost its output, a Russian source said.

BP says higher oil prices will help build its renewables business

(Reuters; June 22) – BP will continue producing hydrocarbons for decades to come and will benefit from rising oil prices even as it reduces oil output as part of its shift to low-carbon energy, CEO Bernard Looney said June 22. The recent rally in crude oil prices, which climbed June 22 to a more than two-year high above $75 a barrel, is likely to continue, Looney said in an interview at the Reuters Events: Global Energy Transition conference. “There is a very strong possibility that these prices will sustain over the coming years, and if they do that’s very good for our strategy.”

Higher oil prices mean BP will be able to raise more cash from selling assets that will go toward building its renewables and low-carbon business, as well as returning money to shareholders through share buybacks, he said. Looney brushed aside investor concerns that BP might miss out on the price rally because of its plan to slash oil output by 40% and grow its renewables output 20-fold by 2030 as part of its energy transition.

“As people understand we’re going to be in the hydrocarbons business for decades to come, that concern has gone away a little bit,” Looney said. “We want to run the best hydrocarbons business possible. We don’t want to run the biggest hydrocarbons business possible.” BP’s shares hit their lowest since the mid-1990s late last year, a bigger drop than any of its rivals, amid falling oil prices and investor concerns. They have recovered strongly this year but are still 30% below their pre-COVID levels.

Iraq cancels sale to Chinese company, resells crude at higher prices

(S&P Global Platts; June 23) - Iraq has scrapped a $2 billion prepaid oil supply deal with China's state-owned Zhenhua Oil Co. and sold the crude earmarked for the deal to other customers, as Baghdad seeks to take advantage of rising prices, a top oil official told S&P Global Platts. Iraq's State Oil Marketing Organization earlier this year selected Zhenhua as the winning bidder for the agreement, which included a one-year $2 billion prepayment and called for 4 million barrels of crude to be supplied each month.

Under the deal the oil was supposed to be destination-free and Zhenhua would have been allowed to resell cargoes. "For the time being we may say it is not applicable at this stage because of oil prices," SOMO's Deputy Director General Ali al-Shatari said. "We are even generating additional profits in excess of what the Iraqi budget needs."

Iraqi Oil Minister Ihsan Ismaael said SOMO had decided to "freeze" the deal, which would have been the state marketer's first such transaction. SOMO sold its crude at an average oil price of $65.842 per barrel in May, a 23.5% increase from its average oil price in January, according to oil ministry data. A Beijing-based source with knowledge of the matter confirmed that Zhenhua and SOMO had terminated the deal. Zhenhua supplies about 18 million barrels of Iraqi crudes each year to its sister refinery Huajin Chemical, in addition to cargoes to other Chinese refineries, sources said.

Nigeria's long-awaited oil overhaul legislation in jeopardy

(Reuters; June 23) - A week before the latest deadline to pass Nigeria's long-awaited oil overhaul bill, demands for big changes, including from community leaders seeking an increased share of revenues, could push its passage into late this year, sources said. The last-minute wrangling — which aims to modernize Nigeria's petroleum industry and attract a shrinking pool of global fossil fuel investment dollars — has disappointed those who had hoped the political alignment of the presidency and the National Assembly would break the cycle of failure that has stalked overhaul efforts for 20 years.

Among the changes are proposals to publicly sell shares in state oil company NNPC and implement market-based prices for natural gas and power. At acrimonious meetings in the nation's capital this week, community leaders revived demands to increase their share of petroleum produced in their regions to 10% — up from 2.5%. Communities with oil exploration in northern Nigeria's Lake Chad region and the middle of the country are also seeking a greater share of oil revenues.

The National Assembly goes on recess in early July, so if the package is not approved before then, it cannot become law until September. Lagos-based consultancy Financial Derivatives Co. said the failure to pass an oil overhaul has cost $15 billion annually in lost investments. "With the global shift from fossil fuels to renewable forms of energy picking up pace, the passage of the (overhaul) may just be too little too late. … It is unlikely Nigeria will be able to make up for either the lost time or the lost investment."

Oil majors express strong interest to invest in Qatar's LNG expansion

(Bloomberg; June 22) - Qatar said there is plenty of demand from some of the world's biggest oil companies to be part of its $29 billion project to raise production of liquefied natural gas and preserve Qatar's market dominance. The Persian Gulf state received pitches for double the equity investment it is seeking to finance the expansion, said

Energy Minister Saad Al-Kaabi. LNG buyers have also rushed to make offers for the extra supplies, he said, even though they aren't scheduled to be available until 2025.

Shell, TotalEnergies, and ExxonMobil are among the bidders for the equity investments, Kaabi said at the Qatar Economic Forum on June 22. Attracting international investors is an important vote of confidence for Qatar and its LNG expansion plans, amid changing global perceptions of the fuel. Once touted as a bridge between coal and oil and cleaner forms of energy such as wind and solar, LNG's future is looking less certain as governments step up efforts to slow climate change and cut out fossil fuels entirely.

State firm Qatar Petroleum is increasing its annual LNG production capacity to 110 million tonnes from 77 million tonnes, and has undercut rival exporters on pricing in a bid to retain its spot as the world's biggest producer of the fuel. QP plans a second project that will raise output to 126 million tonnes per year by 2027. QP executives have jetted around the globe in recent months to strike competitive deals with the fastest growing customers, sometimes agreeing rates well below those they were asking for less than a decade ago. South Asia has been a particular focus for Qatar.

Norway's oil and gas sector needs renewable power

(Reuters; June 23) - Norway's oil and gas industry is counting on renewable power from hydro plants to cut emissions from its offshore platforms, but rival power demand from the green economy is putting a spanner in the works. Meanwhile, the decision to keep investing in oil and gas flies in the face of global pressure to shift away from fossil fuels and Norway's reputation as a pro-green economy with more electric cars per capita than any other country. Norway relies on renewable hydropower for virtually all its electricity.

But Oslo is loath to relinquish Norway's lucrative position as one of the world's top oil and gas producers, accounting for over 40% of its exports, and instead wants to make the industry greener. "The Norwegian parliament has set a target of 50% reduction in emissions on the Norwegian continental shelf by 2030. Power from shore is the only technology that can deliver cost-efficient cuts that can get the industry close to this target," Deputy Oil and Energy Minister Tony C. Tiller told Reuters.

There's a practical problem with the plan. Norway's electricity grid is constrained at some junctures and the needs of other industries, particularly green economy players such as battery factories and hydrogen plants, have to be factored in. Earlier this year the national grid operator told Norway's state-owned oil firm Equinor and partner Aker BP to look elsewhere for power, something that could add "nine zeros" to a current 50 billion crown ($6 billion) project cost estimate for electrifying some of their platforms.

[Novatek switches planned LNG plant to ammonia and hydrogen]

(Reuters; June 23) - Russian non-state natural gas producer Novatek has decided to reconfigure its planned Obsky LNG project to produce ammonia, hydrogen and methanol, the company's Chief Financial Officer Mark Gyetvay said June 23. Novatek had initially planned to use a Russian-owned technology, called Arctic Cascade, to produce liquefied natural gas at the project as part of a broader drive for the domestic producers to shield themselves from potential risks of international sanctions.

"One of the announcements we've made recently was to move away from Obsky LNG to Obsky Gas Chemistry, which will be ... producing clean fuel like ammonia, hydrogen, and methanol," Gyetvay said at an online conference, set up by Renaissance Capital. Novatek delayed a final investment decision last year for the Obsky project, which was expected to come onstream in 2024-2025 and produce almost 5 million tonnes of LNG per year. The plant would be built on the Yamal Peninsula, where Novatek has operated the Yamal LNG plant since 2017 and is building a second LNG export project nearby.

[Norway awards Arctic exploration licenses]

(Reuters; June 23) - Norway has awarded four exploration licenses to seven oil companies, including three for the Barents Sea in the Arctic, in a sign that the country aims to continue to pump hydrocarbons for decades to come. The awards were part of Norway's so-called numbered licensing rounds that cover unexplored frontier areas of Norway's continental shelf, expanding the geographic reach of its oil and gas industry.

Norway's plans to continue with exploration in the Arctic and elsewhere have been criticized by environmentalists who say they contradict the Nordic country's international pledges to reduce greenhouse gas emissions. Earlier this month climate activists asked the European Court of Human Rights to rule against Norway's plans for more oil drilling in the Arctic, arguing the country's exploration deprives young people of their future. The court has not said whether it will take up the environmentalists' case or not.

Equinor received stakes in two of the permits, and will be the operator for both. Eni's Vaar Energi and London-based Ineos E&P will each operate one license. Shell, Japan’s Idemitsu, Sweden’s Lundin Energy, and Austria’s OMV also received stakes in the same blocks, but will not be operators. The latest round did not attract as much interest as the previous two rounds. Norway has held numbered licensing rounds since the mid-1960s.

Polluting oil refinery in U.S. Virgin Islands to close indefinitely

(The Associated Press; June 21) – A huge oil refinery in the U.S. Virgin Islands that contaminated the environment in a series of releases that sickened dozens of people and forced schools to close announced June 21 that it would remain shuttered indefinitely. Limetree Bay Energy said it would lay off more than 270 workers by September because it faced “extreme financial constraints” after the Environmental Protection Agency suspended its refinery and processing operations last month.

The EPA stopped the operations under a 60-day emergency order, noting that Limetree had significant air pollution and oil releases since February. The agency called the incidents “totally unacceptable.” The company’s announcement of an indefinite closure comes a month after a class-action lawsuit accused Limetree of routinely emitting dangerous airborne chemicals at its facility on the island of St. Croix.

The plant’s previous owner was Hovensa, a joint venture of U.S.-based Hess Corp. and Petroleos de Venezuela. At the time it was among the 10 largest refineries in the world and struggled with pollution, paying a $5.4 million penalty one year for violating the Clean Air Act. In 2012, Hovensa announced it was closing the refinery. The complex kept operating as an oil storage terminal for nearly a decade until Limetree restarted the plant in February 2021 following permission from the Trump administration. It is not run by EIG Global Energy Partners, which bought the operation in 2019 for $190 million.