Oil and Gas News Briefs
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Chinese firms could take stake in Qatar's LNG expansion

(Reuters; May 11) - Qatar is in talks to take on Chinese firms as partners in its liquefied natural gas expansion project, the world's largest, in a shift from the Gulf state's reliance on western majors for technology and global outreach, industry sources said. Since the early 1990s, Qatar has depended on international companies, including ExxonMobil, Shell and Total, to help it to build its LNG industry. In exchange, the Western majors received lucrative long-term supply contracts.

But the U.S. shale gas revolution and increased focus on renewable energy as pressure mounts to tackle climate change has curbed the West's appetite for gas. Three sources familiar with the matter told Reuters that state energy giant Qatar Petroleum was in talks with Chinese state firms, including PetroChina and Sinopec, for equity stakes in Qatar's $28.7 billion North Field expansion, the world's biggest single LNG project. ExxonMobil, Shell, ConocoPhillips, Total, Chevron, and Eni have also been invited to bid for a share.

The expansion would allow Qatar to strengthen its position as the largest LNG exporter, with output of 110 million tonnes per year by 2026, a 40% increase. No. 2 Australia has been closing the gap through new gas projects in recent years. China has already agreed to supply deals and invested in producers such as Russia and Mozambique and is keen to diversify from Australian LNG following a deterioration in bilateral ties. Of the foreign partners, Exxon has the highest exposure to Qatar with access to 15.4 million tonnes per year of LNG, representing more than 60% of its LNG sales volumes.

Exxon boosts Guyana target to 800,000 barrels per day by 2025

(Argus Media; May 12) - ExxonMobil has boosted its 2025 forecast for Guyana crude production to up to 800,000 barrels per day with plans for a fourth project on the deepwater Stabroek block, the company said in its latest environmental permit application. The Yellowtail project will be able to deliver up to 250,000 barrels per day, making it the biggest in the South American country, following the Liza-1, Liza-2 and Payara projects on Stabroek.

"Production is expected to begin at year-end 2025 with an expected field life of at least 20 years," ExxonMobil told Guyana's environmental agency. ExxonMobil said earlier it was targeting output of 750,000 barrels per day from Guyana by 2026 with the Yellowtail development accelerating and boosting that target. The floating production,

storage and offloading vessel that will work the Yellowtail and Redtail fields that make up the Yellowtail project will have storage capacity of 2 million barrels.

ExxonMobil operates Stabroek with a 45% stake. Its partners are U.S. independent Hess with 30%, and China's state-owned CNOOC unit Nexen with 25%. Yellowtail is located about 19 miles southeast of Liza-1 from where ExxonMobil started producing crude in December 2019. Current output is 100,000 to 111,000 barrels per day. Liza-2 start-up remains on target for 2022, ExxonMobil has said.

Oil companies unlikely to return to pre-pandemic levels, report says

(Houston Chronicle; May 12) - Oil companies are unlikely to restore steep cuts to their exploration and production budgets even as they recover from the worst oil bust in decades, according to a new report. Oil companies spent $382 billion on exploration and production activities last year, and are expected to spend slightly more — $390 billion — this year, according to Rystad. The Norwegian energy research firm forecasts upstream investment will rise gradually to just over $480 billion by 2025, almost 10% less than the pre-pandemic level of $530 billion.

"Rystad expects the effect of the pandemic to be a lasting one. Even though spending will start growing from 2022, it will not return to the pre-pandemic level," said the report, released May 11. "Growth will be limited and investments will only inch up annually." Although prices have rebounded to about $65 a barrel, it's unlikely spending on new wells will recover to pre-pandemic levels as companies maintain their focus on paying down debt and boosting shareholder returns to woo back investors, the report said.

Energy became the worst-performing sector of the U.S. stock market last year after years of lackluster performance. After crude prices crashed as the pandemic broke out last spring, oil companies swiftly slashed $285 billion dollars collectively from their exploration and production budgets, representing more than half of their spending in 2019, according to Rystad. U.S. shale companies made the deepest spending cuts, shedding $96 billion from their exploration and production budgets, Rystad said.

IEA says global oil oversupply has cleared

(Bloomberg; May 12) - The International Energy Agency said the supply glut created by the global pandemic has cleared, even as demand suffers a blow from a resurgence of the virus in India. Surplus oil inventories in developed nations are now just a fraction of the levels when demand collapsed last year with output cuts by OPEC and its allies draining the excess, the IEA said May 12. Still, the agency sees a temporary setback for global consumption as infections rock India before the recovery resumes later this year.

“Bloated world oil inventories that built up during last year’s COVID-19 demand shock have returned to more normal levels,” the IEA said in its monthly report. “But India’s COVID crisis is a reminder that the outlook for oil demand is mired in uncertainty. Until the pandemic is brought under control, market volatility is likely to persist.” Oil markets have extended their recovery this year as fuel consumption roars back in China and the U.S., buoying international crude prices to about $69 a barrel in London.

In March, oil inventories in developed nations stood just 36.9 million barrels above the average level 2015-2019, down from a surplus of about 250 million last summer, the IEA said. Global consumption is on track for a rebound this year of 5.4 million barrels a day, or 6%, after 2020’s unprecedented slump. The recovery will gather momentum in the second half, the IEA said. That will present the 23-nation OPEC+ alliance led by Saudi Arabia and Russia with a choice: Restore more of the production they’ve halted, or continue to tighten global markets to support the higher prices.

OPEC still sees strong recovery in global oil demand

(Reuters; May 11) - OPEC on May 11 stuck to its prediction of a strong recovery in world oil demand in 2021 as growth in China and the U.S. counters the coronavirus crisis in India, an outlook that bolsters the group’s plan to gradually ease output cuts. In a monthly report, the Organization of the Petroleum Exporting Countries said demand will rise by 5.95 million barrels per day this year, or 6.6%, unchanged from last month.

The report’s optimism comes even as it warns of “significant uncertainties,” mainly around the pandemic, and as concern about India weighs on oil prices. Crude fell after the report was released but is still up 30% this year at near $68 a barrel. “India is currently facing severe COVID-19-related challenges and will therefore face a negative impact on its recovery in the second quarter, but it is expected to continue improving its momentum again in the second half of 2021,” OPEC said in its monthly report.

OPEC now sees 2021 world economic growth at 5.5%, up from 5.4% last month, assuming the impact of the pandemic will have been “largely contained” by the beginning of the second half. “The recovery is very much leaning toward the second half,” OPEC said. OPEC and its allies, known as OPEC+, agreed in April to gradually ease oil output cuts from May.

Mexico’s Pemex late in reimbursing partners for crude

(Bloomberg; May 10) – Mexico’s national oil company, Pemex, is racking up millions of dollars in late payments to oil companies as it struggles to generate cash amid skyrocketing debt and weaker crude sales. While Pemex has long sought to stretch its cash further by delaying payments to contractors, people with knowledge of the

situation say it's now also deferring reimbursement to some partner companies in an effort to postpone spending money that's in increasingly short supply.

Some private oil companies in Mexico sell their barrels to Pemex to mix with its own crude for export because the smaller private producers lack the infrastructure and scale to sell the oil on their own, the people said, declining to be identified because they weren't authorized to speak to the media. The state-owned oil giant owed about $60 million as of April 30 for crude and natural gas to Egypt's Cheiron Petroleum and about $4 million as of April 16 to Hokchi Energy, a Mexican subsidiary of Argentina's Pan American Energy, as well as undisclosed amounts to Germany's Wintershall.

Pemex's payment woes underscore the deteriorating state of its finances after more than 15 years of falling output due to underinvestment. It has had negative cash flow every year since 2007, data compiled by Bloomberg show, and has run up $114 billion of debt, far more than peers of a similar size or larger. While deferred payments aren't uncommon among state-owned producers in Latin America, delays in paying partners could erode trust, making it harder for Pemex to recover, said Francisco Monaldi, a lecturer in energy economics at Rice University's Baker Institute for Public Policy.

U.S. lowers forecast slightly for 2021-2022 oil production

(Bloomberg; May 11) - The U.S government has reduced its forecast for oil output through 2022 as drillers across the prolific shale patch pledge austerity over the allure of increasing prices. Oil explorers throughout the country will produce 20,000 barrels a day less than previous forecasts for this year, at 11.02 million barrels. Supply next year is set to reach 11.84 million barrels a day, down from previous estimate of nearly 11.9 million, the Energy Information Administration said in a report May 11. This marks the second straight downward revision for 2021 and 2022 forecasts.

The agency's reduced forecasts come even as U.S. crude futures prices have risen more than 30% this year. Still, pressure from investors has put a lid on any potential supply growth, forcing drillers to increase cash flow and dividends to shareholders. In their quarterly earnings calls last month, the largest U.S. drillers, Chevron, and ExxonMobil, indicated they are holding firm to austerity measures adopted during last year's crisis, easing concerns the price rebuild would spur runaway production growth.

Nonetheless, the EIA expects producers to add new wells while oil prices stay above $55 a barrel, but only enough to offset natural declines from existing wells.

Oil sands a problem for Canada's emissions target

(Financial Times; London; May 11) - Justin Trudeau went to President Joe Biden's climate summit in April armed with ambitious targets. Canada's prime minister planned to cut emissions by as much as 45% from 2005 levels by the year 2030. Yet despite his rhetoric, the country still has a high-carbon economy. Over the past two decades, tens of billions of dollars have been invested in Alberta's oil sands — a vast deposit of extra-heavy crude. This has propelled Canada into the upper echelon of global producers and driven economic growth, accounting for about 10% of its gross domestic product.

The government's pledge to slash emissions does not appear to be a barrier to decades of further oil growth. Even in a scenario where global climate actions continue to accelerate, the government expects Canada to pump nearly 6 million barrels a day of crude by the mid-2030s, up from today's 5 million, according to the Canada Energy Regulator. Environmental groups, which have long campaigned against the oil sands industry, have excoriated the growing output, saying it undermines the climate agenda.

Working the oil sands is highly energy-intensive. A study from Pembina, an energy-focused think-tank, estimates that oil sands production releases 70% more greenhouse gases than the global average barrel of oil. Andrew Leach, an associate professor at the University of Alberta, said the industry has reduced emissions, but the improvements have come from the most carbon-intensive projects — and the industry as a whole remains a laggard. International investors have pulled back over environmental concerns. Over 50 banks and financial institutions have pledged not to finance new oil sands projects, according to the Institute for Energy Economics and Financial Analysis.

U.S. Virgin Islands refinery released oil, sulfur dioxide into the air

(Washington Post; May 12) – A troubled refinery in St. Croix announced May 12 it would temporarily halt operations after raining oil on local residents for the second time in just over three months. Limetree Bay Refining, which showered a fine mist of oil over houses more than two miles away just three days after restarting operations on Feb. 1, spewed oil and sulfur dioxide into the air May 12. The accident triggered an islandwide alert from the U.S. Virgin Islands government, which warned residents there was a "gaseous odor" and urged those with respiratory illnesses to stay inside.

The company acknowledged in a statement that the "incident resulted in a release of oil droplets which traveled directly west," affecting the neighborhood of Enfield Green, an affluent, gated community, as well as some industrial sites. "In response to today's incident, Limetree Bay has decided to temporarily suspend production activities until further notice," it added. The plant, which received approval to operate under the Trump administration, has come under close scrutiny since President Biden came into office.

In March, the Environmental Protection Agency revoked one of the permits the last administration granted the refinery just before Trump stepped down, and it is now investigating whether it poses “an imminent risk to people’s health.” The refinery has experienced multiple accidents over the past three months that have sickened local residents and forced schools, as well as local government offices, to close. While it ranks as one of the U.S. Virgin Islands’ largest private employers and sources of tax revenue, many on St. Croix have begun to question the refinery’s effect on their health.

Saudis look to burn more gas for power so they can export more oil

(S&P Global Platts; May 11) - Saudi Arabia is expected to turn to natural gas that comes up with crude oil production for power generation to profit as OPEC+ eases back on its oil output cuts this month, allowing the kingdom to divert more crude to exports rather than burning it for power generation during the summer months. Saudi Arabia typically burns more crude for power generation as temperatures rise in summer months, boosting demand for electricity to run air conditioners and for water desalination.

Last year, crude burn for use in the kingdom peaked at 702,000 barrels per day in August and was down to 335,000 by February 2021, according to the Riyadh-based Joint Organizations Data Initiative. Fuel oil and natural gas can also be used for power generation. "Compared with last summer, we estimate that Saudi Arabia will likely slow crude burn this summer as there will be more supply of associated gas as OPEC+ cuts ease," said Zhuwei Wang, lead Middle East analyst at S&P Global Platts Analytics.

Gas accounts for about 60% of power feedstocks in the Middle East, with crude, gasoil and fuel oil making up 20% to 30%, he estimated. OPEC+ has begun easing quotas that had largely been frozen since January, lifting caps by 350,000 barrels per day for May. Saudi Arabia is also unwinding its extra 1 million barrels voluntary cut by 250,000 barrels per day for the month. More increases are scheduled for June and July, in anticipation of rising global demand. Additional oil production in Saudi Arabia also results in higher volumes of associated gas from the same fields.

China looks to Turkmenistan for more natural gas

(South China Morning Post; May 12) - China is looking to Turkmenistan to expand natural gas supplies as it cuts back on Australian energy imports. Wrapping up a May 10 meeting with his Turkmen counterpart Rashid Meredov and the country’s deputy prime minister Serdar Berdymukhamedov, Chinese Foreign Minister Wang Yi said cooperation on natural gas was the “ballast stone” of the bilateral relationship.

At least two of China’s small liquefied natural gas importers were instructed by government officials not to make new purchases from Australia over the next year,

Bloomberg reported on May 10. Diversifying gas and oil imports to ensure energy security is a cornerstone of China's latest development plan, which runs until 2025. Turkmenistan is the biggest supplier of gas to China.

Since the pipeline opened in 2009, China has imported almost 8.5 trillion cubic feet of gas from Turkmenistan, accounting for more than 70% of China's total gas imports, according to a report by the State Grid Corporation of China. But the relationship has not always been smooth. In 2018, China and Turkmenistan were embroiled in a dispute over the price and supplies of the resource, prompting Turkmenistan to dramatically cut flows to China. But the levels gradually recovered the next year.

Australia accounted for about 46%of China's LNG imports last year, according to industry data. "As the tensions with Australia escalate, China needs to beef up energy imports from Central Asia to ensure its overall supply," said Sun Qi, an international relations specialist at the Shanghai Academy of Social Sciences.

Market could tighten with delays in Mozambique LNG projects

(Natural Gas Intelligence; May 10) - Anticipated delays in developing liquefied natural gas export projects in Mozambique could cause the global LNG market to tighten even more than expected later this decade, with forecasts flipping from surplus to deficit in 2029, according to a new report from Rystad Energy. The Norwegian consultancy said it now expects a supply deficit of 5.6 million tonnes per year in 2029 if the delays materialize, compared to its previous forecast of a surplus of 2 million tonnes.

But the signs of an undersupplied market may become apparent before then, as Rystad now expects the delays to cut into supply starting by 2026. The analysis means an even longer era of tightness in the market, which is expected to contract between now and 2024 or 2025 as global demand grows. Rystad released the report following Total's decision last month to stop work and declare force majeure at its Mozambique LNG site under construction as escalating violence in the region poses a growing security threat.

ExxonMobil, meanwhile, has delayed a final investment decision on its Rovuma LNG project in Mozambique. Together, the two projects represent 28 million tonnes of annual LNG production capacity. With the delays, buyers may need to look for other sources of supply, according to the report. "This is likely to create upward pressure on prices as end-users search for alternative suppliers and portfolio players seek to cover short positions." Rystad expects Asian spot prices to reach $8.50 per million Btu between now and 2024 as the market tightens, and then decline but stay above $6 in 2027.

China’s smaller LNG importers told to avoid buying Australia gas

(Bloomberg; May 9) - At least two of China’s smaller liquefied natural gas importers have been told to avoid buying new cargoes from Australia, a further example of the impact on trade from souring ties between the two countries. The firms have received verbal orders from government officials to avoid purchasing additional LNG from Australia for delivery over the next year, according to people with knowledge of the directive who asked not to be identified as the details aren’t public.

Larger state-owned importers that carry out almost 90% of China’s purchases haven’t received any guidance and plan to continue buying Australian LNG, separate traders said, signaling that the impact on imports may be limited. China’s second-tier LNG buyers account for about 11% of the Asian nation’s total imports, according to BloombergNEF. Large state-owned firms make up the rest.

An array of commodities imports from Australia have been targeted by Chinese tariffs or curbs as relations between the two nations have deteriorated in recent years, particularly after Australia sought a probe into the origins of the coronavirus pandemic. China imports more than 40% of its LNG from Australia, one of the world’s biggest suppliers, and there aren’t any signs that deliveries are being diverted, according to ship-tracking data compiled by Bloomberg. Australia last year shipped A$13 billion ($10 billion) worth of LNG to China, which would be challenging to replace.

India’s COVID outbreak cuts into demand for LNG cargoes

(S&P Global Platts; May 11) - India's deadly COVID-19 outbreak and widening localized lockdowns have soured the country's economic growth outlook, stifled its natural gas demand and resulted in more LNG carriers being diverted from delivering to India, an analysis by S&P Global Platts showed. On May 8, the southern Indian state of Tamil Nadu — one of the country's most industrialized — imposed a two-week lockdown amid growing COVID infections, joining other states that have taken similar measures.

Tamil Nadu is home to Petronet LNG's Kochi terminal with a capacity of about 5 million tonnes per year, and market participants expect the lockdown to hurt industrial and city gas demand similar to other gas-consuming states like Gujarat and Maharashtra. An Indian gas aggregator estimated that city gas demand had dropped 40% to 50%, and demand from the industrial sector could drop 20% to 25%.

Meanwhile, more LNG carriers have been diverted from India. Ship tracking service Kpler said that an increasing number of vessels were also exhibiting floating storage behaviors such as circling in their trajectory, idling at anchorage, or slowing down their speed, in line with Indian buyers curtailing their spot LNG purchases of about three to four spot LNG cargoes per week.

Liquid hydrogen is even colder than LNG and will need new tankers

(Reuters; May 11) - Hydrogen is touted as a green fuel of the future. Tell that to the people who will have to ship it across the globe at hyper-cold temperatures close to those in space. Yet that is exactly what designers are attempting to do. In the biggest technological challenge for merchant shipping in decades, companies are beginning to develop a new generation of vessels that can deliver hydrogen, betting plants worldwide will convert to the fuel and propel the transition to a lower-carbon economy.

There are at least three projects developing pilot ships to test transporting the fuel in Europe and Asia within the next three years, the companies involved told Reuters. The major challenge is to keep the hydrogen chilled at minus 453 degrees Fahrenheit — only 20 degrees above absolute zero, the coldest possible temperature — so it stays in liquid form, while avoiding the risk that parts of a vessel could crack.

That is almost 200 degrees Fahrenheit colder than temperatures needed to transport liquefied natural gas, which required its own shipping revolution about 60 years ago. Japan's Kawasaki Heavy Industries has already built the world's first ship to transport hydrogen, Suiso Frontier. It told Reuters the prototype vessel was undergoing sea trials, with a demonstration maiden voyage of some 5,600 miles from Australia to Japan expected in coming months. "There is the next phase of the project already running to build a commercial-scale hydrogen carrier by the mid-2020s, with an aim to go commercial in 2030," said Motohiko Nishimura, Kawasaki's vice executive officer.

Australia wants to tax industry for abandoned offshore rig

(The Guardian; May 12) - Offshore oil and gas producers are fighting an Australia government decision to impose a levy on the entire industry to fund a potential A$1 billion remediation of a floating rig and associated fields in the Timor Sea formerly operated by Woodside Petroleum. A different option put forward by the Australian Petroleum Production & Exploration Association include taxpayers footing the bill.

The government said May 11 that it would levy the industry for as long as it took to pay the cost of decommissioning the rig, the Northern Endeavour, and remediating the Laminaria and Corallina oil fields where it operated. It did not disclose the cost of the project, citing “commercial sensitivities,” but estimates range from $200 million to $1 billion. Laminaria-Corallina and the Northern Endeavour belonged to Woodside until 2016 when it sold the aging fields and rig to Northern Oil & Gas Australia, for an amount small enough that it did not have to be disclosed to Woodside’s shareholders.

In July 2019, the floating rig was shut down by federal regulators over safety issues. The owner collapsed into administration in 2019 and the government took control of the Northern Endeavour, putting it into a state of care and maintenance. The government says it will “impose a temporary levy on offshore petroleum production to recover costs

of decommissioning the Laminaria-Corallina oil fields and associated infrastructure." The levy proposal has caused anger among offshore oil and gas companies that do not want to contribute to the cost of remediating a facility formerly operated by Woodside.

Pipeline shutdown drives up charter rates for tankers

(Bloomberg; May 10) - Oil tanker charter rates have skyrocketed in the U.S., with refiners scrambling for ships to store fuel that has nowhere to go due to a cyberattack on the country's main pipeline. Companies such as Marathon Petroleum, Valero Energy, and Phillips 66 were in the process of chartering several tankers for floating storage, according to shipbrokers who asked not to be identified. Ships can serve as offshore tanks during unexpected oversupply situations, such as last week's shutdown of the Colonial Pipeline that halted flows from refineries to customers along the East Coast.

"There's no longer a market," shipbroker Simpson Spence Young said in a May 10 report. It's become "a smash-and-grab scenario with charterers focusing on securing tonnage." With the pipeline closure, close to a dozen tankers of different sizes were provisionally booked or fixed to move so-called clean petroleum fuels such as gasoline and diesel from the Gulf Coast to destinations trans-Atlantic, or to other regions such as the Caribbean, Far East, and also Brazil, according to the report.

The flurry of interest sent rates through the roof on Monday, extending a spike in activity seen late Friday. The widely-referenced TC-14 route for medium-range tankers from the U.S. Gulf Coast to European Continent climbed 54% on May 10. The TC-18 route from Gulf Coast to Brazil also surged. Vessels being considered for floating storage were provisionally booked on short-term charters at between $20,000 to $30,000 per day.

Higher Brent prices draw in other supplies to Europe

(Bloomberg; May 9) - Soaring prices for North Sea oil have led to an influx of crude cargoes into Europe from other exporters throughout the Atlantic Basin. Producers from countries including Nigeria, Brazil, and the U.S. loaded almost 1 million barrels a day more crude for European buyers last month than they did in March, according to tanker tracking data compiled by Bloomberg. That included a late April jump in cargoes from terminals in the U.S. Gulf of Mexico.

North Sea oil prices have fetched hefty premiums this year on the back of a tentative demand recovery in Europe, as well as heavy second-quarter maintenance at fields that supply crudes for the Dated Brent benchmark. That's made grades from outside the

region more attractive in Europe. Dated Brent is calculated based on the most competitive price of five grades of North Sea crude.

“The increasing demand from Europe could be tied to anticipation of easing up on lockdowns in the months to come,” said Emmanuel Belostrino, a Houston-based analyst at shipping-intelligence firm Kpler. In addition, North Sea loadings will slump to about 600,000 barrels a day next month, the lowest in at least 13 years, because of maintenance on the pipeline that carries the biggest stream of crude. Brent averaged a premium of $3.20 a barrel over Dubai crude in April, the highest since November 2019.

BP decides to stay with U.S. oil and gas lobbying group

(Reuters; May 10) - BP said May 10 it will remain a member of the American Petroleum Institute after the largest U.S. oil and gas trade lobby group addressed some differences with the British energy company over climate change. BP, which plans to sharply cut its oil output and boost its renewable energy capacity over the next decade, said in a report that despite "uneven progress,” API was "heading in the right direction.”

API has faced growing pressure from members and activists to change its policies relating to climate change and drilling regulations. The trade group started to shift some of its positions as the climate-focused Biden administration came to power this year. In March it said it supports a carbon price as one measure to mitigate climate change risk.

BP said it was "encouraged" by API's support for federal rules on limiting emissions of methane, a potent greenhouse gas, and API’s support for carbon pricing as well as improving the organization’s transparency. "API's progress has been uneven at times but, on the whole, the organization has moved considerably over the past year and is heading in the right direction," BP said. London-based BP last year quit the main U.S. refining lobby and two other trade groups but stuck with API.