Oil and Gas News Briefs
Compiled by Larry Persily
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Energy economists say Europe is overbuilding LNG import capacity

(Bloomberg; Sept. 12) - Europe has likely reached peak consumption of liquefied natural gas yet it continues building import terminals and related infrastructure, raising the risk that those works sit idle and become stranded assets, according to an energy think tank. Europe's LNG imports are on track for an 11% decline this year, and that drop should accelerate to 37% by decade's end, the Institute for Energy Economics and Financial Analysis (IEEFA) said in a new report. With some nations still planning more terminals, three-quarters of the continent's import capacity risks being unused by 2030.

Europe plowed billions of dollars into LNG the past two years as it replaces Russian pipeline gas in the wake of the Kremlin's war in Ukraine. But during the first six months of this year, half of the European Union's LNG terminals had utilization rates below 50%. A prime example is Germany, which rented multiple floating terminals to bring in gas from suppliers such as the U.S. and is now building onshore LNG facilities. Yet demand for the fuel is threatened by the nation's expansion into wind and solar power.

Germany's LNG regasification capacity "will almost triple by the end of the decade," Ana Maria Jaller-Makarewicz, lead energy analyst for Europe at the IEEFA, said by email. "As increased electrification and renewables deployment help Germany continue to reduce gas consumption, it is unclear whether it will need so much." The nation's gas demand fell 4% in the first half of this year, compared with a year earlier, she said. The outlook for industrial demand is also bleak as the energy crisis has crippled operations and forced some plants to shut down or relocate where fuel is cheaper.

French gas distributors forecast 20% drop in demand by 2030

(Reuters; Sept. 12) – Natural gas consumption in France is expected to drop by almost 20% by 2030 under changes aimed at meeting climate targets and efforts to curb costs, French gas grid operators said on Sept. 12. France is one of Europe's largest energy consumers and its gas consumption influences the region's trade flows and prices. A study by GRDF, GRTgaz and Terega forecasts that efficiency gains and cost-saving initiatives will lead to slightly larger demand reductions than previously estimated.

Recent significant drops in electricity demand due to the cost of energy should rebound over the next decade, but the effect on gas demand would be offset by increased energy efficiency and a switch to other power sources, the study said. Some 20% of the gas consumed in 2030 is expected to come from renewable or low-carbon sources, such as biomethane, the study also said.

However, demand for renewable gas is currently limited due to its high cost. The need for gas will also depend heavily on the availability of the nuclear fleet — France's primary energy source — and the deployment of renewable energy in France and neighboring countries, the study added.

The Hague bans ads for fossil fuel products or services that use them

(Bloomberg; Sept. 14) - The Hague became the world’s first city to ban advertisements promoting fossil fuel products and carbon-intensive services including cruise ships and air travel. The Dutch city’s local council passed legislation Sept. 13 to take effect Jan. 1. The decision follows a call from U.N. Chief Antonio Guterres for governments to abolish such ads, similar to actions against tobacco that began in the 1960s.

“The Hague wants to be climate neutral by 2030. Then it is not appropriate to allow advertising for products from the fossil industry,” said Leonie Gerritsen, a member of the city council for the Party for the Animals. Gerritsen was one of the backers of the new law. The Hague is the administrative center of the Netherlands, hosting the country’s parliament, ministries and supreme court. It’s also home to key international organizations like the U.N.’s top court, the International Court of Justice, the International Criminal Court and the European Union law enforcement agency Europol.

The latest move by The Hague could inspire other cities and governments to follow suit, according to Femke Sleegers, coordinator of the Dutch climate action group Fossil Free Advertising, which was among the campaigners for the local ban.

Scotland’s only oil refinery will close next year

(BBC; Sept. 12) - Scotland's only oil refinery is to close by the summer of next year, with the loss of close to 400 jobs. Petroineos said the closure of the Grangemouth refinery is due to its inability to compete with operations in Asia, Africa and the Middle East. The company said it would "safeguard fuel supply for Scotland" by converting the site into a terminal able to import petrol, diesel, aviation fuel and kerosene into Scotland — but would require a workforce of fewer than 100 employees compared to the current 475.

The company announced last November it intended to close the plant, but union leaders hoped the facility could remain open longer to provide time for a green alternative to be established at the site. First Minister John Swinney said he was "deeply disappointed" at the news of the closure. The BBC understands the refinery — the oldest in the U.K.

— is losing about $500,000 a day and is on course to lose around $200 million in 2024. Petroineos said it expects the new import hub to open by early summer 2025.

BP opened the refinery in 1924. It expanded into petrochemicals in the 1950s and serves as the primary supplier of aviation fuel for Scotland's main airports, while being a major supplier of petrol and diesel ground fuels. It accounts for about 14% of the U.K.'s refining capacity and supplies almost two-thirds of demand for refined oil products in Scotland. Ineos acquired the site in 2005 and is responsible for the entire operation, while the refinery is owned by Petroineos, a joint venture of Ineos and PetroChina.

Federal judge blocks new U.S. rule to reduce gas flaring

(Associated Press; Sept. 15) - A federal judge in North Dakota has temporarily blocked a new Biden administration rule aimed at reducing the venting and flaring of natural gas at oil wells. “At this preliminary stage, the plaintiffs have shown they are likely to succeed on the merits of their claim the 2024 Rule is arbitrary and capricious,” U.S. District Judge Daniel Traynor ruled Sept. 13, the Bismarck Tribune reported.

North Dakota, along with Montana, Texas, Wyoming and Utah, challenged the rule in federal court earlier this year, arguing that it would hinder oil and gas production and that the Interior Department's Bureau of Land Management is overstepping its regulatory authority on non-federal minerals and air pollution. The bureau says the rule is intended to reduce the waste of gas and that royalty owners would see additional payments if it was enforced. But Traynor wrote that the rules "add nothing more than a layer of federal regulation on top of existing federal regulation.”

When pumping for oil, natural gas often comes up as a byproduct. Gas isn't as profitable as oil, so it is vented or flared unless the right equipment is in place to capture. Methane, the main component of natural gas, is a climate “super pollutant” that is many times more potent in the short term than carbon dioxide. Well operators have reduced flaring rates in North Dakota significantly over the past few years, but they still hover around 5%, the Tribune reported. Reductions require infrastructure to capture, transport and use that gas. North Dakota politicians praised the ruling.

Slowdown in China drives lower oil demand forecast

(Wall Street Journal; Sept. 12) - A rapid slowdown in Chinese oil-demand growth is driving down global consumption, reinforcing expectations that demand will peak by the end of the decade, the International Energy Agency said. The organization forecasts this year’s global demand to grow by 903,000 barrels a day, down from 970,000 barrels previously — marking its second consecutive downward revision in two months — while growth estimates for next year were left broadly unchanged at 954,000 barrels a day.

The IEA’s projections remain substantially lower than those of the Organization of the Petroleum Exporting Countries. The group of oil-producing countries slightly trimmed its forecast earlier this week, but still sees demand growth at a healthy 2.03 million barrels a day this year and 1.74 million barrels a day next year. In the first half of this year global demand growth continued to decelerate, with gains of 800,000 barrels a day on year, the lowest since 2020, according to the agency.

“The chief driver of this downturn is a rapidly slowing China,” the IEA said. In the world’s second-largest economy, consumption contracted for a fourth straight month in July by 280,000 barrels a day, compared with the roughly 1 million barrels a day average pace of growth over the year prior. “The abrupt halt to Chinese oil demand growth since the start of the year is having a profound impact on oil markets,” the IEA said, citing the country’s prolonged real-estate slump and the rising share of electric vehicles.

China’s oil imports up in August, but still down 7% from year ago

(Reuters; Sept. 12) - China's crude oil imports staged a rebound in August, rising to the highest in a year, but the increase is largely due to earlier lower prices rather than any recovery in consumption. The world's biggest crude importer saw arrivals of 11.56 million barrels per day, according to customs data released on Sept. 10. This was the highest monthly total since August last year, and also a strong gain on the 9.97 million barrels per day seen in July, which was the weakest monthly total for almost two years.

While the August imports look strong, it's worth noting that they are down 7% from the same month in 2023, and imports for the first eight months of this year are 3.1% below those for the same period last year. The question for the market is whether August's rebound in imports is the start of a recovery in China's demand or a reflection of the lower oil prices that prevailed when August-arriving cargoes would have been arranged.

The buying pattern of China's refiners is that they tend to increase imports when they deem prices to be at a competitive level, and conversely they pull back when they believe prices have risen too high, or too quickly. Since August, Brent has fallen sharply, to $68.68 a barrel during trade on Sept. 10, the lowest since Dec. 21. The current weakness in global crude prices suggest that China's refiners may boost imports, and any increase would show up in arrivals in November, December and even into January.

Traders need to adjust to less oil demand growth from China

(Bloomberg; Sept. 12) - For the first time in two decades, China no longer looks like the engine driving global oil demand, which is uncharted waters for many of the traders and executives at the Asia Pacific Petroleum Conference in Singapore this week. China's economic situation is dire, with its property market in the doldrums and consumer confidence weak as it struggles to recover from a pandemic-induced slowdown. Add to that structural changes from an aging population, the energy transition and a growth model that leans less heavily on big-ticket infrastructure, and it's bad news for oil.

For crude oil merchants and analysts, that means a big adjustment. "I've had the discussion internally with my traders. I asked them one question: How long have you been trading? They'll say 10 years," said Janet Kong, chief executive officer of Hengli Petrochemical International, a trading arm of one of China's largest private refiners. "My reply is, you haven't really traded a world where China is not a bullish factor."

China's evolution into the world's biggest oil importer has supported global crude prices for decades and provided business opportunities for merchants from Shanghai to Dubai and London. An informal Bloomberg survey of 10 analysts and traders on the sidelines of the conference found that oil consumption in China is expected to grow by no more than 300,000 barrels a day in 2025. That's in line with the latest projection from the International Energy Agency, which cut its expectations this week, and lower than estimates by the Organization of the Petroleum Exporting Countries.

U.S. Export-Import bank considering loan for Mozambique LNG

(Bloomberg; Sept. 12) - The U.S. Export-Import Bank is considering funding a liquefied natural gas project led by Eni off the coast of Mozambique, years after investing in an onshore facility to produce the fuel which has been delayed by security issues and opposed by environmental groups. Eni's planned Coral North floating LNG plant is listed by the official export-credit agency of the U.S., known as Ex-Im, as a pending project. "The financing amount would be disclosed upon final board approval," the bank said in an email, declining to give a timeline. It finances overseas projects that create U.S. jobs.

As the U.S. ramps up efforts to engage on the African continent and compete with China for critical minerals needed for the transition to cleaner energy, Ex-Im has faced greater scrutiny. An audit in May by the inspector general criticized it for not having a clear strategy for growth in the region, something the bank denied. Ex-Im's earlier gas investment hasn't gone according to plan. The bank in 2020 helped finance what would become TotalEnergies' Mozambique LNG project along the country's northern coast with a $4.7 billion loan that it said at the time displaced funding by China and Russia.

The bank's own analysis warned of security risks before it granted the loan, and violent attacks by insurgents later halted construction at the site. The situation for

TotalEnergies' project has since improved and it may be able to move forward with construction by the end of the year, CEO Patrick Pouyanne said in July. Ex-Im hasn't yet dispersed any funds to Mozambique LNG, according to the bank. Even though floating projects are located offshore from potential security threats, financiers of Coral North could face scrutiny from environmentalists targeting oil and gas developments.

U.S. natural gas prices at lowest annual average since 2020

(Wall Street Journal; Sept. 13) - A hot summer hasn't been nearly enough to offset the surplus of natural gas that has accumulated over the past two warm winters in the U.S. Absent a cold winter, signs are pointing to another season of misery for producers. Front-month benchmark Henry Hub prices have averaged $2.19 per million Btu so far this year, the lowest average through this time of year since the pandemic demand-shock seen in 2020. Spot prices for August were the lowest they have been since 1998, according to the U.S. Energy Information Administration.

"The market really has been under a deluge of supply for the entirety of 2024," said Eli Rubin, energy analyst at EBW Analytics. It started last winter, when U.S. gas production surged to record levels despite already full storage. Unusually warm winter weather led to demand that wasn't nearly robust enough to work through the excess natural gas. By the time spring arrived, there was about 40% more gas in storage than the trailing five-year average. While that gap has narrowed, gas inventories still remain about 9.6% higher than the five-year average, according to federal statistics.

Drillers have cut back on gas production but not enough to completely work through the surplus. S&P Global Commodity Insights estimates U.S. gas output from April through October will average 101.7 billion cubic feet a day this year, 1 bcf a day below a year earlier. Oil prices have been high enough that producers in the Permian Basin keep pumping oil — and gas along with it — and they are willing to pay someone to take gas off their hands. Gas pricing at the Waha hub near the Permian has been negative for more days this year than any other year that S&P Global has tracked that pricing.

Asia's LNG importers increasingly seek flexibility in supply contracts

(S&P Global; Sept. 12) - Asian LNG importers are increasingly using flexibility in LNG contracts to manage supply security such as adjustment of offtake volumes during weak demand or due to uncertainty around alternative fuels and energy transition, executives at the Asia Pacific Petroleum Conference said in Singapore on Sept. 11. Flexibility on a range of terms and conditions were initially built into LNG supply contracts to manage seasonal fluctuations and over time provided traders with optionality to move LNG cargoes around to profit on various types of arbitrage.

But gas-based power utilities are now grappling with growing risks related to energy transition and decarbonization policies, and flexible LNG contracts are helping them hedge some of these risks. In many agreements, the so-called destination restrictions have been lifted, and if you buy too much LNG you can easily divert the surplus cargo to the market or trade out your cargoes, Jane Liao, vice president at Taiwan's CPC, said.

"We will contract and maybe slightly over contract just to make sure we have some form of security. That's why we ask for optionality inside some of our buy contracts out there because we don't know (the demand uncertainties)," said Fabian Kor, executive vice president for Asia at international energy company SEFE. But there has also been a trend of buyers giving away a lot of flexibility in some of their contracts, mostly for the short term and in exchange for a big discount to pricing, Kor said.

Vietnam may look to nuclear to meet increasing demand for electricity

(S&P Global; Sept. 13) - Vietnam is considering resuming nuclear power development and boosting solar power capacity as it faces challenges in expanding coal, gas, wind and hydro power. In a recent meeting, the central government directed the Ministry of Industry and Trade to conduct a review of projects outlined in the power development plan over 2021-2030 with a vision to 2050, according to a statement late Sept. 12.

The implementation plan to 2050 was approved only five months ago in April, following prolonged discussions and delays, and the ministry is expected to conduct another review due to the slow progress, particularly in liquefied natural gas imports and offshore wind power. Delays to these projects could impact the power supply needed for Vietnam's economic growth which, projected at over 7% per year, requires 12% to 15% annual increases in power generation, the government said.

To expedite the legal framework for power projects, the government has established a working group led by Industry and Trade Minister Nguyen Hong Dien, with the heads of state-owned energy companies Petrovietnam and Vietnam Electricity. This group has been tasked with conducting a final review of the draft electricity law expected to be submitted to the National Assembly for approval in October. The revised law will incorporate regulations for developing renewable energy including new energy sources.

LNG imports proposal in Australia out for public comment

(Sydney Morning Herald; Sept. 12) – A plan for Australia to start importing shipments of liquefied natural gas has been resubmitted for environmental approval amid growing concerns that gas-connected homes and businesses in the southeast could be headed for an energy crisis. Viva Energy, one of Australia’s largest fuel suppliers, wants to extend a pier from its Geelong oil refinery to park a floating vessel able to receive cargoes of LNG to supply to the nation’s biggest gas-consuming state, Victoria.

The project is billed one of the last remaining solutions to what authorities warn is an imminent shortage of domestic gas in Victoria, New South Wales and South Australia by as early as 2027-2028, as the vast 50-year-old oil and gas fields in Bass Strait continue rapidly depleting. Viva Energy’s environmental studies went on exhibition Sept. 12 and will be open for public scrutiny for 30 days before a hearing in December. If the Victorian government gives the green light, the project could start construction by 2026 and deliver gas by 2028, in time for the most severe risk of shortfalls, the company said.

Although gas is a key source of planet-warming carbon dioxide and methane emissions, it remains widely used in heating, cooking, power generation and manufacturing across the nation. Opponents of the idea of importing LNG from other parts of Australia or overseas say it is absurd to consider the proposal, given Australia is one of the largest global LNG exporters. More should be done to hold back gas destined for the export market and reduce household gas demand rather than boost supplies, they say.

Australia wants big role in hydrogen exports

(Bloomberg; Sept. 13) - Australia, one of the world’s biggest liquefied natural gas exporters, expects to start shipping green hydrogen abroad by the end of this decade, seeking to spur sluggish progress in a global trade for the low-emissions fuel. Government incentives of about A$8 billion (US$5.4 billion) over the next decade are expected to unlock A$50 billion in private investment, according to an updated National Hydrogen Strategy released Sept. 13.

That would allow annual production of at least 500,000 tons of hydrogen made with renewable energy and minimum exports of 200,000 tons by 2030. Australia has sought to kick-start production of green hydrogen — a key to cutting emissions in energy-intensive industries such as steelmaking. While its open spaces give it a geographical advantage to build the solar farms and wind turbines needed to power the electrolyzers, Bloomberg expects the U.S., Europe and China to account for 80% of supply by 2030.

Australia has struggled to develop a green hydrogen sector. Billionaire Andrew Forrest — the founder of iron ore miner Fortescue and one of the fuel’s biggest advocates — in July put on hold a target to produce 15 million tons a year by 2030, citing high energy prices. Demand is also lagging. Only about 12% of production capacity planned to be commissioned by the end of the decade currently has an identified offtaker, and just a small percentage of those deals are binding, BNEF said in a May report.