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New arrival

India's efforts to diversify its basket of imported crude are paying off with the arrival of the first shipment of US oil.

Refining rejection

Sri Lanka has rejected a proposal by a Chinese consortium to build a 100,000 bpd refinery near the southern port of Hambantota.

Government aid

Japan is providing diplomatic and financial support to help domestic energy firms maintain their expiring assets and acquire new ones abroad.

Fracking down

After first threatening gas exporters with curbs, the Australian government is now taking a tougher approach in dealing with local authorities that have embraced fracking bans.


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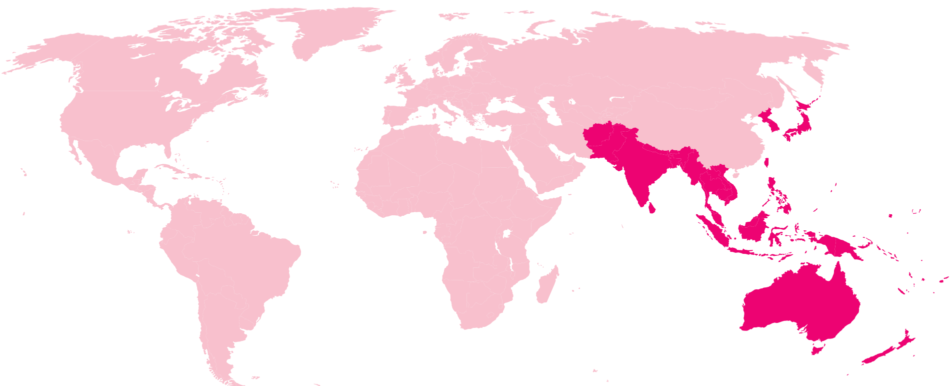

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India receives first shipment of US crude oil

The country's efforts to diversify its basket of imported crude are paying off with the arrival of the first shipment of US oil, writes Siddharth Srivastava

COMMENTARY

WHAT:
State-run Indian Oil has received 1.6 million barrels of US oil at Paradip Port.

WHY:
The refiner is seizing on widening benchmark differentials that have made US crude more competitive.

WHAT NEXT:
India will need to find new supplies from a host of different sources as demand continues to rise.

INDIA received its first shipment of US crude oil earlier this month, with state-run refiner Indian Oil importing 1.6 million barrels at Paradip Port in Odisha State.

India, the world's third biggest oil importer, has now joined Asian countries such as South Korea, Japan and China in buying US crude. The move comes after India became increasingly discontent in recent years about its heavy dependence on Middle Eastern oil and gas.

New Delhi has complained without success about the "Asian premium" charged by Middle Eastern exporters keen to exploit the absence of choice and competitors. Indian refiners have thus been looking at diversifying the country's import basket after former US President Barack Obama lifted a 40-year ban on US oil exports in 2015.

"Including the US as a source for crude imports for refiners will mitigate the risk arising from geopolitical disruptions," the Indian Ministry of Petroleum and Natural Gas' joint secretary for international co-operation, Sanjay Sudhir, said last week.

Supply opportunities

US domestic production grew from a low of 5 million bpd in 2008 to 9.4 million bpd in 2015. In order to take advantage of the consequent supply glut, New Delhi has encouraged local refiners' efforts to diversify their import portfolio. To speed up new contracts, New Delhi allowed state refiners to lease foreign rather than Indian-owned tankers to deliver US and Canadian crude. State refiners typically need to use domestic vessels for their crude imports to save on foreign exchange.

New Delhi also eased the rules around allowing very large crude carriers (VLCCs) into Indian ports. India moved to import US crude this year after it became competitively priced compared with Gulf crude.

The discount for US benchmark crude West Texas Intermediate (WTI) to global benchmark Brent stretched to its widest since 2015, while the differential between Brent and Dubai shrunk as output cuts by OPEC drove up prices of West Asian heavy-sour crude, or grades with a high-sulphur content.

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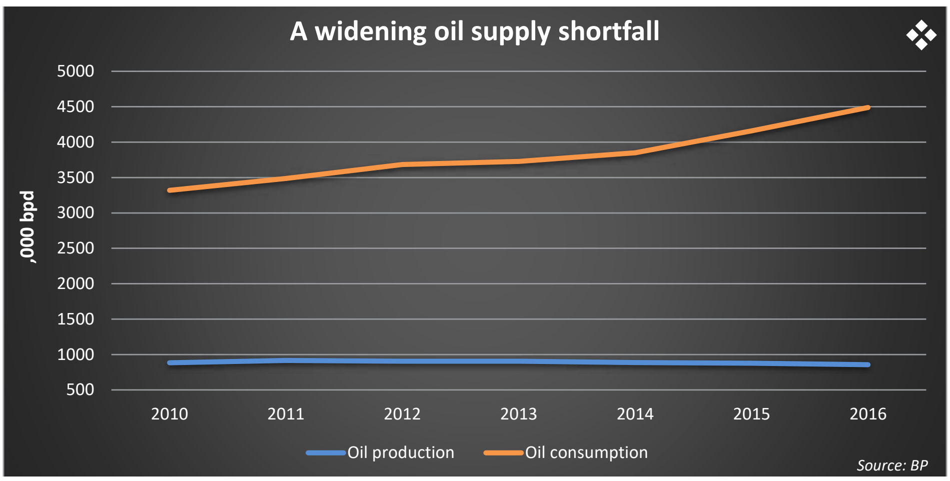
>
> ***Sanjay Sudhir***
> *Joint secretary for international co-operation Indian Ministry of Petroleum and Natural Gas*

▸▸



Forging trade ties

The US crude was delivered by the MT New Prosperity VLCC, which has a 2 million barrel capacity and left the US Gulf Coast on August 19.

Indian Oil said it would process the crude at its refineries at Paradip, Haldia in West Bengal, Barauni in Bihar and Bongaigaon in Assam. It added that it had ordered a total of 3.9 million barrels of US crude in two seperate batches.

In the first, Indian Oil bought 1.6 million barrels of high-sulphur crude Mars from the US and 400,000 barrels of Western Canadian Select oil. In the second it bought 1.9 million barrels from the US, half of it coming from shale projects. The next shipment is expected in November.

State-run Bharat Petroleum Corporation Ltd (BPCL) and Hindustan Petroleum Corporation Ltd (HPCL) have also placed orders for about 2.95 million barrels and 1 million barrels of US crude respectively for their Kochi and Vizag refineries. This brings the total volume of US crude India's state majors have contracted to 7.85 million barrels.

The Indian Foreign Ministry dubbed the arrival of the US crude as "a new chapter in the history of Indo-US trade" emerging from the "strategic partnership of global significance" that would promote "price stability" and contribute to "energy security". The US Embassy in India, meanwhile, said crude oil shipments to India had the potential to boost bilateral trade by up to US$2 billion.

Follow the leader

Following in the footsteps of the national oil companies (NOCs), private players are also now looking to tap the US export market.

Quoting unnamed sources, Reuters has reported that privately owned major Reliance Industries Ltd (RIL), which operates the world's biggest refining complex at Jamnagar in Gujarat, has bought US crude for the first time. RIL has reportedly bought 1 million barrels of WTI Midland and a similar-sized cargo of Eagle Ford crude, both of which are expected to arrive in November. US producer Occidental Petroleum reportedly sold the WTI Midland cargo.

Meanwhile, the first shipment of LNG derived from US shale gas is scheduled to arrive in India in early 2018. Indian companies, both state-owned and private, have invested about US$5 billion in US shale assets and have signed up to buy 5.8 million tpy of US LNG.

What next

US President Donald Trump and Indian Prime Minister Narendra Modi's June meeting in Washington, DC was likely a key driver in facilitating Indian Oil's US crude contracts, which were signed in July.

But regardless of the strategic importance of the talks, the fact remains that Indian refiners' decision to buy US crude was driven by commercial and transactional factors. As long as benchmark differentials allow US producers to compete against Middle Eastern suppliers in the Asian market, then US shipments will continue to head to Asia.

That is not to say India can or wants to sideline Middle Eastern suppliers such as Saudi Arabia, Iran, Iraq, Qatar, UAE, Kuwait, countries with which it has signed long-term oil and gas supply contracts.

While US oil makes for a valuable bargaining chip, the Middle East will remain vital to India's energy mix given the region's dominance of global oi and gas export market. Most projections, including those from official think-tank National Institution for Transforming India (Niti Aayog) and the International Energy Agency (IEA), point to India's dependence on imported oil remaining well over the 80% mark for a long time to come.

In fiscal 2016-17, India imported 214 million tonnes (4.28 million bpd), 5.4% higher than the previous fiscal period. Given rising demand, India will need to continue to lock down new supplies from Latin America and Africa as well as from North America and the Middle East.❖

Sri Lanka turns down Chinese refinery proposal

POLICY

> “The firms were denied permission to sell locally but were advised to participate in tenders from local suppliers if they wanted to sell fuel in the Sri Lankan market

THE Sri Lankan government last week rejected a proposal by a Chinese consortium to build a 100,000 bpd refinery near the southern port of Hambantota, which is slated to be a strategic piece in China's One Belt, One Road (OBOR) initiative.

Citing competition for the local market with two Sri Lanka fuel distributors, the government said the Chinese proposal could cause the local firms to suffer with the introduction of a new competitor.

China Huanqiu Contracting & Engineering, a subsidiary of China National Petroleum Corp. (CNPC), and privately owned refiner Shandong Dongming Petrochemical entered a joint bid some 18 months ago to build a US$3 billion refinery in Sri Lanka. The venture had asked the government's permission to sell refined products produced at the plant in the local market.

Denied entry

The Chinese companies proposed building the refinery on 500 acres (2 square km) near the southern port of Hambantota, which is operated by China Merchant Port Holding (CMPH) under a 99-year contract signed in July. CMPH is also planning the creation of an 11-square km special industrial zone located adjacent to the port.

A Sri Lanka government spokesman said the firms had been denied permission to sell locally but suggested that they should participate in tenders from local suppliers if they wanted to sell fuel in the Sri Lankan market, according to a report by Reuters. Another official said the government feared control of the US$6 billion annual market would be taken over by the Chinese consortium.

Ceylon Petroleum Corp. (CPC) and Lanka IOC, a subsidiary of India's state-owned Indian Oil, dominate the island's fuel product distribution sector. Sri Lanka has one ageing refinery located near Colombo and operated by CPC that was originally designed to process Iranian crude. International sanctions against Iran created problems with the refinery, which switched to running Malaysian and Abu Dhabi crude.

The Sri Lankan Petroleum Resources Ministry unveiled plans last year to expand the CPC refinery to 5 million tpy (100,000 bpd). In October 2016, the ministry said it would build a second refinery at Trincomalee with 100,000 bpd of capacity in partnership with Indian Oil. Lanka IOC operates a fuel storage facility at the southeastern port where most of 99 storage tanks that are there are unused.

It remains unclear, however, if the Chinese proposal is entirely dead or whether it could still go ahead if the Chinese companies accept the Sri Lankan government's refusal and opt to export the entirety of the proposed refinery's production.

Chinese ambitions

The position taken by Colombo may be political in that there is opposition in Sri Lanka and India over China's expanding role in the Indian Ocean region. The CMPH-managed port will likely figure prominently in the future distribution of Chinese-made goods throughout the Subcontinent, as the special industrial zone would serve as a regional base for Chinese manufactures.

Prior to signing the contract for port operation earlier this year, a Chinese official based in Sri Lanka commented that the port on its own would be of little interest to China if there were no industrial zone nearby. To this end, CMPH is drawing up a master plan for the zone. It includes an oil bunkering facility, Chinese manufacturing plants and logistic companies.

Sri Lankan unions are also playing a role in the future of the country's refining sector. They have in the past protested about government plans for the Trincomalee project with Lanka IOC and the Chinese refinery proposal, demanding that Colombo put its energy into revamping CPC and its refinery in the capital city.

A refinery at Hambantota would serve CMPH and China's OBOR project well, giving the port the ability not only to supply fuel to ships arriving at the port, but also to generate electricity for the port and surrounding area, and provide feedstock to industries that establish themselves in an industrial zone.

The deepwater port at Hambantota was built by Chinese companies at a cost of US$1 billion for the Sri Lankan government and has been operated by the country's Port Authority. But it has struggled under local management, losing some US$300 million since it opened seven years ago. With the resources available to CMPH – its total assets amount to US$855 billion – the port is expected to experience a significant change.

The port operations licence cost CMPH US$1.1 billion and to secure the special economic zone (SEZ), the company promised US$5 billion in investment from Chinese firms and 100,000 new jobs.❖

Southeast Asia's service sector struggles on shifting sands

PERFORMANCE

THE sands are shifting beneath financially distressed Southeast Asia oil and gas service companies as they struggle to deal with a severe decline in demand for their services and products.

A number of companies have left or are in various stages of leaving the scrutiny of the market, either towards privatisation or dissolution.

Some of the market anxiety can be laid at the feet of the global trend towards sector consolidation and layoffs, as exemplified by the GE-Baker Hughes and Technip-FMC tie-ups. Added to this is existing firms' shift in service offerings from oil and gas to renewables. SBI Offshore, for example, initially started in providing offshore services but has diversified into solar energy investments.

Hardest hit

After enjoying about 10-15 years of rampant growth in the Southeast Asian service industry, the first to fall has been engineering and construction service provider Swiber. Several of its subsidiaries are now in different stages of judicial management and liquidation.

This was followed by several rounds of refinancing by companies ranging from EMAS-affiliated companies to Triyards and, most recently, Ezion Holdings' request to bondholders last week to wait for another 6-10 years before its US$575 million debt is repaid in full. Oil majors' spending cuts have hurt Ezion, with it calling for refinancing on the back of a lack of working capital and much-needed liquidity to maintain a the fairly young fleet and continue existing construction projects.

Malaysia's Perisai Petroleum is also under judicial management and has been highlighted as a going concern – the drilling rig service provider was hit by Petronas' capital expenditure cuts and has not been helped by Singaporean partner EMAS' debt woes.

Even before 2014's oil price crunch, the Southeast Asian market was not an easy one to win in. After all, it is less lucrative in terms of sheer size when compared to the West African, Middle Eastern and, more recently, Indian markets.

The sector's struggles with razor sharp margins have also squeezed regional financial institutions, with the three main Singaporean banks – DBS, OCBC and UOB – noting last year that the non-performing service sector was a risk to their own bottom lines.

Market clearing

Despite conditions having improved slightly since the oil price stabilised above US$50 per barrel this year, the market is still weeding out its weakest performers.

Swissco Holdings, which remains uncertain over its future operations, has found a buyer for its offshore support vessel (OSV) business unit in investment company Asian Strategic Turnover Ventures, which has offered US$28.5 million. Swissco's drilling unit was liquidated, with several units held for auction in the US and Africa.

Interestingly, two Singapore-based companies announced their decision to de-list in early October 2017. Mainboard-listed Jaya Holdings will be delisted from the Singapore Exchange, following a failed attempt to make a reverse takeover of Papua New Guinea (PNG) finance firm Heduru Moni. The company is expected to make an exit offer to shareholders in the following weeks that may include a voluntary liquidation of the company's assets and distribution of cash back to shareholders. Trading continues until November 1, after which it will remain suspended until completion of the exit offer.

Petrochemicals infrastructure contractor Rotary Engineering and an investment arm of the Oman government have made a cash bid of US$0.46 per share via Orochem to privatise the company, at a premium of more than 25% on previous three-month trading, according to local reports. Orochem is 64.7% owned by the Oman Investment Fund.

According to Rotary, the delisting will allow shareholders to realise their investments at a premium over historical prices, allowing an exit option owing to the low trading liquidity of the shares. The delisting will also enable Orochem greater operational flexibility to manage the business of the company, optimise the use of management and capital resources and facilitate operational changes.❖

Shell cancels sale of Thai assets to KUFPEC

FINANCE & INVESTMENT

ROYAL Dutch Shell had to sidestep one of its divestment plans last week after it was forced to cancel the planned sale of its share in Thailand's Bongkot field and adjoining offshore acreage to the Kuwait Foreign Petroleum Exploration Co. (KUFPEC). Announced at the beginning of the year, the sale had been expected to be finalised during the first quarter.

Shell and KUFPEC had agreed on the sale of two Shell subsidiaries: Shell Integrated Gas Thailand (SIGT) and Thai Energy Co. (TEC), which own a combined 22.222% stake in the Bongkot field in the Gulf of Thailand. The sale would also have included acreage in Blocks 15, 16, 17 and G12/48. Other stakeholders in the asset include Thai operator PTT Exploration and Production (PTTEP) with 44.445% and France's Total with 33.333%.

The sale would have been worth US$900 million to Shell, which is in the midst of an asset selloff designed to raise cash and reshape the company following the 2016 acquisition of BG for US$70 billion. Shell wants to divest US$30 billion of assets between 2016 and 2018 and currently has arranged some US$25 billion in divestments.

In explaining the cancellation of the sale, a Shell spokesperson said that while Shell and the Thai government had worked closely on the sale, Shell and KUFPEC could not resolve the manner in which the share transaction was to be made. As a result of that, the two companies had decided to shelved the transaction.

Shell said SIGT and TEC would continue to support PTTEP in the current operation and future development of the Bongkot field. SIGT also intends to participate in an upcoming licensing round for the next phase of the Bongkot concession.

Thailand last week announced that it would delay by a month new auctions for Bongkot and the Erawan field where Chevron is the operator. The licence of Bongkot expires in 2023 and for Erawan in 2022. Bidding is now due to open in November and winners will be announced in mid-2018. The postponement is owing to the fact that the government has not yet completed its production-sharing contract (PSC) review.

Together, the fields produce an average of 2.2 bcf (62.3 mcm) per day of gas, about 76% of the gas extracted from the Gulf of Thailand. ❖

EAST ASIA

Hokkaido Gas moves to diversify LNG suppliers

PROJECTS & COMPANIES

A year after expanding its sole LNG import terminal, Japan's Hokkaido Gas has signed a long-term LNG purchase contract with major domestic general trading house Mitsui & Co. as part of efforts to diversify its LNG suppliers.

Under the deal signed last week, Sapporo City-based Hokkaido Gas will buy about 200,000 tpy of LNG from Tokyo-based Mitsui over 10 years from fiscal 2019, which starts in April 2019.

The LNG to be supplied to Hokkaido Gas will come from Mitsui's global LNG portfolio and be delivered to the Ishikari LNG import terminal on an ex-ship basis, the two companies said.

Hokkaido Gas built the Ishikari LNG import terminal in Ishikari City as the first such large-scale facility on Hokkaido, the northernmost of Japan's four main islands. The terminal started operations in November 2012.

Hokkaido Gas currently has two LNG storage tanks at the terminal – the 180,000 cubic metre No. 1 tank and the 200,000 cubic metre No. 2 tank, which came online in September 2016.

Hokkaido Electric Power, also based in Sapporo City, is building the terminal's 230,000 cubic metre No. 3 and No. 4 LNG storage tanks, which are scheduled to be completed in August 2018 and October 2020 respectively.

Hokkaido Gas has already been buying 400,000 tpy of LNG from Tokyo Gas, Japan's biggest gas supplier, since fiscal 2012 under an 11-year contract signed in August 2011. The deal will expire in fiscal 2022.

The LNG supplied by Tokyo Gas to Hokkaido Gas is part of Tokyo Gas' LNG procurements from overseas projects in Russia, Australia and elsewhere.

In March, Hokkaido Electric signed LNG purchase contracts with domestic peer Kansai Electric Power and a subsidiary of Malaysia's state-owned Petronas.

The LNG from Kansai Electric and Malaysia LNG (MLNG) will be used at Hokkaido Electric's first LNG-fired power plant to be built at a site adjacent to the Ishikari LNG import terminal. The plant is scheduled to start operations in February 2019.

Hokkaido Electric is to purchase up to 200,000 tpy of LNG from Kansai Electric and up to 130,000 tpy of LNG from Malaysia LNG over 10 years from April 2018 on an ex-ship basis.

Hokkaido Electric will be the last major Japanese power firm to start LNG-fired thermal power generation. ❖

Japan doubles down on oil and gas drive

POLICY

THE Japanese government is providing diplomatic and financial support to help domestic energy firms maintain their expiring assets and acquire new ones abroad.

Tokyo is stepping up efforts to ensure the country's energy security by sending Economy, Trade and Industry Minister Hiroshige Seko to the resource-rich Middle East. Seko made a four-day trip to Abu Dhabi in the United Arab Emirates (UAE) on October 7-10 to ask local leaders to a renew offshore oil concessions held by Japanese firms.

At the same time, Seko's Ministry of Economy, Trade and Industry (METI) has asked the government to approve a 9.1% year-on-year increase in its international energy investment budget for fiscal 2018, which ends on March 31, 2018. METI wants to direct 83.6 billion yen (US$744.7 million) this fiscal period towards efforts to ensure Japan's energy security, up from 76.6 billion yen (US$682.4 million) in fiscal 2017.

Oil and gas account for more than 60% of Japan's primary energy mix, but the country imports almost all of its fossil fuel needs. More than 80% of Japan's oil consumption comes from the politically volatile Middle East.

In a bid to ensure stable supply lines, Tokyo has set an ambitious target of raising the percentage of Hinomaru, or Rising Sun, oil and gas – energy developed by Japanese firms – to 40% of the country's total imports by 2030.

The ratio of Hinomaru oil and gas stood at 27.4% in fiscal 2016, up slightly from 27.2% in fiscal 2015. The volume of Hinomaru oil and gas in fiscal 2016 amounted to 1.47 million boepd.

Diplomatic approach

Seko's Abu Dhabi trip comes at a time when negotiations between Japanese firms, including top energy developer Inpex, and Abu Dhabi National Oil Co. (ADNOC) on the future of the Asian companies' offshore oil concessions are entering a crucial phase.

The UAE is the second largest oil supplier to Japan after Saudi Arabia and Abu Dhabi is home to about 40% of Japan's Hinomaru oil. More than 60% of the offshore oil concessions held by Japanese firms in the emirate are due to expire in March 2018.

Japan imported about 3.34 million bpd of oil in 2016, with 820,000 bpd – or 24.5% – of that amount coming from the UAE. Some 200,000 bpd of oil, or a quarter of Japan's imports from the emirate, are said to be at stake in the current negotiations.

US and European oil majors and other companies in Russia, China and South Korea are also said to be interested in acquiring the expiring oil concessions in the Persian Gulf.

Japan effectively secured an extension of Inpex's concessions on two small oilfields off Abu Dhabi – Satah and Umm Al Dalkh – for another 25 years through Seko's previous visit to the emirate in January.

But the future of several other large offshore oilfields, such as Lower Zakum and Umm Shaif, remains uncertain.

After holding talks with some Abu Dhabi officials, Seko told reporters on October 8: "I have received a reply that they will positively consider [my request for a renewal of the Japanese offshore oil concessions]."

The Abu Dhabi leaders include UAE Minister of State Sultan Ahmed Al Jaber, who is also ADNOC's CEO.

Abu Dhabi is expected to make a final decision on whether to renew the concessions held by Inpex and other Japanese players by the end of this year or in early 2018.

Government aid

In addition to increased diplomatic activities, the Japanese government is also boosting financial support to help domestic companies take advantage of lower for longer oil prices and acquire overseas upstream assets.

METI-affiliated Japan Oil, Gas and Metals National Corp. (JOGMEC) has played a key role ▸▸

in providing financial and other support for Japanese companies looking to buy foreign assets.

In November 2016, Japan's parliament enacted a bill to revise the JOGMEC law to expand the organisation's support functions significantly. JOGMEC can now provide financial assistance to help domestic companies acquire foreign resource developers and develop large-scale, technologically difficult oil and gas fields. JOGMEC can also acquire equity stakes in foreign national oil companies (NOCs).

Of METI's recent budget request for 83.6 billion yen to go to international investment efforts, 60.9 billion yen (US$542.3 million) is earmarked for JOGMEC-led efforts to promote Japanese energy asset acquisitions overseas. This figure represents a 10.5% increase on the 55.1 billion yen (US$490.7 million) included in the ministry's fiscal 2017 budget.

METI's fiscal 2018 budget request has yet to be fully discussed with the Finance Ministry and subsequently approved at a cabinet meeting at the end of this year.

The slump in oil and gas prices since 2014 has hammered energy producing countries' finances. Prices of foreign energy developers' stocks and assets have also declined, making it easier for Japan to acquire them.

"The current slump in crude prices provides a good opportunity for Japan to acquire upstream oil and gas assets. We will enhance the international competitiveness of domestic energy developers while utilising the revised JOGMEC law," Seko said earlier this year.❖

Tokyo Gas refuses LNG contracts with destination clauses

PROJECTS & COMPANIES

JAPAN'S second largest LNG importer, Tokyo Gas, will no longer accept long-term supply contracts that stipulate where the gas is delivered or sold, company president Michiaki Hirose said last week during a briefing on the company's mid-term business plans.

Tokyo Gas is currently in the process of renewing its gas supply contracts and intends to use an anti-monopoly ruling made earlier this year by Japan's Fair Trade Commission (FTC) against contracts with restriction clauses during negotiations with LNG suppliers. The company also intends to increase its number of short-term contracts and spot market purchases to up to 30% of its annual demand, which should make it more responsive to market volatility.

"We have no intention of signing new contracts unless the destinations are free," Reuters quoted Hirose as saying.

The company purchases 14 million tpy of LNG and has a power generation capacity of 1,600 MW. It is considering raising its generation capacity to 5,000 MW at some point next decade and is working to expand its retail power accounts to 2.2 million by 2020. It is also looking to expand its business throughout Southeast Asia, where demand for LNG is growing.

Earlier this year, the FTC ruled to ban clauses in LNG supply contracts that prevented customers from reselling the fuel. Following an investigation into the practice, the FTC said companies should adjust their business practices. The commission

said in July that Japanese customers were anticipating excess supply of LNG, with more fuel coming from the US, Australia and Africa in the years ahead. This has led customers to express concern to the commission that they would not be able to resell excess LNG in Japan or in foreign markets owing to those clauses.

Japanese LNG buyers have traditionally had to sign strict long-term contracts to secure supplies. The country's biggest suppliers are Australia, Qatar, Malaysia, Indonesia, Russia, Brunei and the United Arab Emirates (UAE).

But changes in the LNG market, and global oil market, have seen the price of LNG fall in the Far East in the face of oversupply. This is leading to market liberalisation.

The commission's survey found that 48% of Japan's free on board (FOB) contracts required the sellers' permission to sell a cargo outside Japan and that 22% had restrictions of the resale of LNG. The commission said it had discovered a number of practices that likely violated Japan's anti-monopoly laws. The Japan ruling is expected to influence other LNG customers in the Far East who purchase LNG under similar contracts.❖

Australia hardens position on gas supply

After first threatening gas exporters with curbs, the federal government is now taking a tougher approach in dealing with local authorities that have embraced fracking bans, writes Graham Lees

COMMENTARY

WHAT:
Canberra has threatened states that have blanket bans on fracking with punitive financial action.

WHY:
The federal government believes greater CBM development can alleviate domestic gas supply pressure.

WHAT NEXT:
The anti-fracking drive is opening the door to alternatives such as CTG projects, which are still a long way off and cannot help ease gas price pressure before 2022.

AUSTRALIA'S burgeoning exports of liquefied coal-bed methane (CBM) appear to have been spared threatened restrictions by the federal government, but states refusing to lift bans on hydraulic fracturing for CBM and shale gas could still face punitive financial action.

The industry groups that have pushed Australia into global second place for LNG exports, fuelled by CBM pumped out of Queensland fields, averted formal export curbs by signing an agreement with the Canberra government last week guaranteeing to supply domestic markets to ensure that a forecast shortage in 2018 is avoided.

The Australian Energy Market Operator (AEMO) had warned in September of an up to 2.8 bcm shortfall in 2018. This was blamed in some quarters on rising LNG exports coupled with onshore drilling bans for unconventional gas resources in five states.

The fracking bans range from a permanent block in Victoria to 12-month halts in the Northern Territory and Western Australia pending government-commissioned studies into the technique – the latest of more than a dozen similar inquiries across the country in recent years.

The bans imposed by state governments follow vigorous anti-fracking campaigns by a combination of anti-fossil fuel activist groups and farming lobbies concerned about possible pollution risks to water tables.

But Australian Prime Minister Malcolm Turnbull said last week after signing supply agreements for 2018 with the LNG exporters that his government would continue to put pressure on the fracking ban states to permit the development of unconventional gas resources on a case-by-case basis rather than maintaining blanket bans.

Fracklash

Canberra is threatening to reduce consumer tax rebates to the states and autonomous territories with fracking bans. These are WA, Victoria, Tasmania, NT and New South Wales where selective curbs are in place.

The Turnbull government has yet to spell out how far it might penalise repayments to the states that come from a national goods and sales tax (GST). In the 2015-16 financial year, GST raised almost A$59 billion (US$45.8 billion), according to federal Treasury statistics.

The states have reacted angrily to the threat of financial penalties.

The Victorian government said it would not be intimidated into rescinding its total ban on all onshore drilling, while WA and NT – which have been seen changes of government following ▸▸

Santos' GLNG export project has been under pressure to provide more gas to domestic buyers.
Image: Santos

recent elections – said they could not interfere with ongoing fracking inquiries.

The moratorium on fracking in WA was only introduced in September. The Australian Petroleum Production and Exploration Association (APPEA) said a state inquiry there in 2015 had unanimously found that fracking posed "negligible risks" and warned that the new ban had halted investment of about US$300 million in several projects by a number of firms, including Mitsubishi of Japan, AWE and Buru Energy.

The APPEA told The Australian newspaper there had been more than a dozen other inquiries in Australia and countless independent reviews and studies that had all found that fracking was safe.

Supply ambitions

Turnbull reportedly signed domestic gas supply guarantee agreements with Royal Dutch Shell and Australian companies Santos and Origin Energy.

Earlier this month, Origin announced it was selling its mostly conventional oil and gas assets in Queensland to smaller player Beach Energy for US$1.24 billion in order to concentrate on its CBM resources in Queensland. It is also keeping hold of shale gas assets in NT's Beetaloo Basin.

Wood Mackenzie told *NewsBase Intelligence (NBI)* that retention of the shale assets indicated Origin believed the NT ban would be lifted in the longer term.

"It is not costing the company much to hold the acreage, so it could be seen as an option-type investment," Wood Mackenzie's Chris Meredith said. "For the Cooper Basin [assets], which Origin has just sold to Beach, it is a different story. Here, wells are often fractured. However, this will be Beach's issue to deal with any potential ban, as it has committed to contracts to supply gas to Origin. So, Beach is taking the upstream risk."

The Cooper Basin straddles Queensland and South Australia but there are no restrictions in place there at present.

Santos, meanwhile, is still awaiting a decision from the NSW government on its proposal to develop a large CBM field at Narrabri. Although there are some fracking bans in place in the state, the Sydney government does still assess plans on a case-by-case basis. Santos submitted a US$2.75 billion, 20-year CBM production plan for Narrabri in February, saying it would provide 1,300 jobs and supply 50% of NSW's gas needs after 2019. The Santos plan, which involves drilling 850 wells, is strongly opposed by anti-fracking groups in the state.

Santos as well as Origin has seen project plans in NT frozen since the temporary fracking moratorium was introduced there last year.

Meanwhile, former Santos chairman Stephen Gerlach has put forward a plan for a coal-to-gas (CTG) project he hopes will circumvent any long-term bans on unconventional drilling in NT.

Exploring alternatives

Gerlach is now chairman of Ebony Energy, a small private business with plans to mine coal from an isolated field it owns at Andado in the Perderka Basin southeast of Alice Springs. Gas from the CTG project would be piped to the Moomba distribution hub in South Australia, a distance of more than 650 km. Gerlach told local media last week the plan would deliver 1.34 bcm per year for 25 years.

"This project is designed by us to make sure we do not get caught up by various drilling moratoriums," the Australian Financial Review quoted him as saying. "We are not fracking, we are not drilling coal seams, we are not going to dig a large open pit and our underground footprint will be traditional and small."

But CTG projects do not come cheap. ABC Radio quoted Ebony as saying the Andado scheme would cost A$3 billion (US$2.33 billion).

Andado does not offer a short-term solution to Australia's gas shortages, which have helped push up prices and raised electricity costs. Ebony estimated it would be 2022 before gas could begin flowing to eastern and southern domestic markets.

Santos' Narrabri project offers a firmer solution to growing East Coast gas demands, but the vociferous and well-organised anti-fracking lobby looks more likely than not to derail the project and further exacerbate Australia's fractured gas market.❖

Study shines light on Australia's energy opportunities

PERFORMANCE

A new report has been published that seeks to alleviate some of the concerns surrounding the challenging outlook for Australia's oil and gas market.

Growing competition from alternative fuel and energy technologies comes at a time when crude oil prices remain weak amid a global glut. But the Commonwealth Scientific and Industrial Research Organisation (CSIRO) has published a new report that lays out a roadmap for the sector, offering guidance on how it might tap future growth opportunities while improving cost-efficiency and its environmental footprint.

Feedback for improvement

Energy companies need to improve their use of infrastructure, data collection and technology to enhance basin productivity, according to "Oil and Gas: A roadmap for unlocking future growth opportunities for Australia", which was the product of around 80 interviews with government agencies and oil and gas consultants, technology experts and managers.

Advanced environmental solutions such as reducing greenhouse gas (GHG) emissions and improving the efficiency of decommissioning projects also represent a growth opportunity for the industry, according to CSIRO.

Investing in advanced environmental solutions would also help energy companies find ways to improve water quality and re-use, reduce or completely cut GHG emissions and explore new ways to decommission assets such as wells and offshore platforms.

The industry also needs to become more efficient at exploring and producing oil and gas with a view to extending the life of existing assets. Employing less environmentally damaging methods such as waterless fracturing and reservoir rejuvenation using microbes are possible options.

The use of robots, automation, artificial intelligence (AI) and digital supply chains could be used to help improve digital operations and maintenance, as well as safety and efficiency, the report said.

Renewable push

Industry leaders should also proactively pursue new products to diversify revenue streams by integrating renewable technology into existing operations, the report argued.

Solar photovoltaics (PV) and energy storage offer alternative avenues in which oil and gas companies might invest, the report says. This is particularly timely during in a year in which 40% of companies involved in the exploration and production of petroleum look likely to move away from oil and gas.

Integrating renewables into operations in an effort to cut the cost and carbon intensity of energy operations will also help energy companies develop more sophisticated offerings in the longer term.

Hybrid solar and gas micro-grids could, for example, be marketed to developing countries, allowing them to skip investing in costly, centralised power grid infrastructure and move straight to clean, cheap distributed energy.

More efforts should be made towards expanding the case for using natural gas – the least carbon intensive of fossil fuels.

Fuel for thought

Demand for LNG as a transport fuel is expected to grow four-fold by 2030 to 100 million tonnes, with the maritime sector a big driver of this. Finding ways to meet demand for LNG as a shipping fuel could represent a major opportunity for Australia, the report found. This would require investment in bunkering infrastructure such as terminals.

Australia could also focus on creating higher-value products, for example by converting gas to higher-margin refined products such as diesel or chemicals like methanol or dimethyl ether.

To make such conversion technology economically viable, more investment is needed. This would be particularly strategically valuable to Australia given its lack of national domestic fuel reserves.

Australian resource companies are also advised in the report to invest in infrastructure to improve the production and transport economics of hydrogen fuel, which can be produced from gas but could also be made from solar-powered electrolysis of water – an attractive option given Australia's abundant supplies of both water and sunshine. Investments could be directed towards the development of efficient technologies that can convert hydrogen carriers such as ammonia to hydrogen at the point of use, the report argued.❖

SOUTH ASIA

Pradhan tells OPEC: India expects 'reasonable' crude oil price

Union Minister of Petroleum and Natural Gas Dharmendra Pradhan told Secretary General of OPEC Sanusi Mohammad Barkindo that India expects reasonable crude oil price from OPEC member countries. Barkindo is in India to attend the first CERAWEEK India Energy Forum. He held a meeting with Pradhan here wherein they discussed the current scenario of oil and gas industry of the world and exchanged notes on the recent developments.

Briefing media about the meeting, Pradhan said, "I have reiterated in the meeting that India as an emerging and big market expects reasonable price. We know for the continuous production, there must be price stability. Price stability must also be in the interest of consumers. This is the consistent stand India is taking."

The minister hoped that OPEC will understand India's point of view.

During the meeting, Pradhan reiterated that OPEC should work towards "Responsible Pricing" which is important for India for socio-economic and developmental reasons. Pradhan highlighted that in today's oversupplied market, it was important for producers to understand the perspective of consuming countries and the changes that have taken place in these demand centers.

ANI (INDIA), October 8, 2017

RIL sells US shale asset for US$126 million

Indian oil-to-telecoms conglomerate Reliance Industries Ltd has agreed to sell a shale oil and gas block in the US for US$126 million, a third of the price it paid seven years ago, amid a downturn in global oil prices. BKV Chelsea LLC, an affiliate of energy investment firm Kalnin Ventures LLC, bought the asset, located in the Marcellus shale in northeastern and central Pennsylvania, from Reliance, the Indian company said in a statement, adding it could further receive US$11.25 million based on changes in natural gas prices.

Reliance bought the Marcellus asset in 2010 for US$392 million. The US shale market has since become highly competitive and companies have cut costs to stay afloat after a slump in crude oil and gas prices. Houston-based Carrizo Oil & Gas Inc, the operator of the Marcellus asset, also exited its investment, Reliance said.

The deal reduces the number of Reliance-owned US shale assets to two. Reliance may look at selling its other US shale assets, which have also been losing money, analysts said. It had invested just over US$2 billion in 2010 to purchase the three assets, which were operated by its joint-venture partners.

REUTERS, October 6, 2017

Cairn Oil and Gas to invest US$4.6bn in new exploration

Cairn Oil and Gas, part of Vedanta Ltd., will invest 300 billion rupees (US$4.6 billion) in exploration projects off India's east coast and in the onshore fields of Barmer in the west, its acting CEO said.

The company expects approvals to be in place by the end of October, Sudhir Mathur told Reuters on the sidelines of the India Energy Forum in New Delhi, as Cairn undertakes a fresh investment plan after the extension of its production contract until 2030.

No debt will be raised for the investment, Mathur said, adding that the money will be spent over a period of three to four years.

Cairn Oil and Gas was formerly known as Cairn India before it merged with Anil Agarwal's Indian mining major Vedanta Ltd. The business received got a shot in the arm in March when the government approved the extension of its production-sharing contract in the Barmer basin in Rajasthan.

REUTERS, October 9, 2017

Saudi Aramco exploring investment options in India: CEO Amin Nasser

New Delhi: State-owned energy firm Saudi Arabian Oil Co. (Saudi Aramco) is exploring opportunities for investments and joint ventures in India, including in the 60 million tonne oil refinery that Indian state-run firms are setting up, president and chief executive officer Amin Nasser said.

Nasser's confirmation of intent to invest in India's energy sector comes after Prime Minister Narendra Modi held a meeting of global energy industry executives earlier in the day in which oil minister Dharmendra Pradhan, Niti Aayog vice-chairman Rajiv Kumar, and other senior officials were present.

Nasser said at a conference in New Delhi that Saudi Aramco would hold discussions with Indian businesses for partnerships as demand for fuel was robust in India and its petrochemicals industry was booming. "India has all the signs of a prosperous economy. I am very optimistic about our investments in India because India is a very important market. Investing in India is a priority, not a choice any more," said Nasser.

Later, at the sidelines of the conference, Nasser said Saudi Aramco's investment interest included the 60 million tonnes oil refinery that Indian Oil Corp. Ltd, Bharat Petroleum Corp. Ltd and Hindustan Petroleum Corp. Ltd are setting up in Maharashtra, expected to be the world's largest. The three Indian state-run firms already have signed an agreement to create a company that will execute the US$35-40 billion project with a provision for inducting one or more strategic investors at a later stage.

MINT (INDIA), October 9, 2017

54,000 fuel pumps across India may go on strike

As of now, it's certain that 54,000 petrol, diesel pumps across India will go on a day-long (24 hours) strike on October 13. But, it's also possible that all these 54,000 pumps will go on strike for an indefinite period from October

27. The United Petroleum Front (UPF) has announced that there will a nationwide strike of dealers on October 13 to press for various demands including better margins and inclusion of petroleum products in the Goods and Services Tax.

Not only this, United Petroleum Front has also warned that if the demands were not met at the earliest, fuel dealers will be forced to stop, indefinitely, purchase and sale operations from October 27, according to a report in news agency PTI.

United Petroleum Front represents over 54,000 dealers from the Federation of All-India Petroleum Traders, the All-India Petroleum Dealers Association and the Consortium of Indian Petroleum Dealers.

The strike is to press for long-pending demands ignored by the state-run oil marketing companies (OMCs) since an agreement was signed last November.

The demands include upward revision of the dealer margins every six months, better terms for return on investment, resolution of manpower issues, a fresh study of handling losses, and resolution of issues related to transportation and ethanol blending.

FE ONLINE (INDIA), October 9, 2017

Indian Oil says willing to acquire GAIL or Oil India

Indian Oil Corp is willing to buy state-owned GAIL (India) Ltd or Oil India Ltd, the company's head of finance, A.K.Sharma, said.

Indian Oil also plans to open offices in Bangladesh and Myanmar in the next 4-6 months, Sharma told reporters at the India Energy Forum by Ceraweek in New Delhi.

REUTERS, October 9, 2017

ONGC Videsh hasn't heard from Iran on US$11 billion offer for Farzad-B gas field

ONGC Videsh Ltd, the overseas arm of state-owned Oil and Natural Gas Corp (ONGC), today said it hasn't heard from Iran on the US$11 billion 'best offer' it gave for developing the Farzad-B gas field. "We are ready to invest provided we get reasonable returns," OVL Managing Director Narendra K Verma told reporters here.

OVL has offered to invest about US$5.8 billion in developing the Farzad-B gas field and another US$5 billion to build a liquefied natural gas export facility, he said.

Iran wants a high price of the natural gas, making the investment practically unviable. "We will get the project the day we accept their conditions. But for me to go ahead and make such investments, it has to bring reasonable returns and making economic sense," he said without elaborating.

Iran had earlier this year signed an initial pact with Russia's Gazprom for developing the OVL-discovered gas field of Farzad B but has kept the door open for awarding it to the Indian firm. "We have given them our best offer. Now, it is up to them to agree or not agree," Verma said.

With Tehran delaying the award of rights to develop the 12.5 tcf gas field to its discoverer ONGC Videsh Ltd India decided to cut oil imports from Iran by a fifth in 2017-18. Iran retaliated by first cutting by one-third the time it gave to Indian refiners to pay for oil they buy from it as also raising ship freight rates, and then by signing a memorandum of understanding (MoU) with Russian gas monopoly Gazprom.

PTI (INDIA), October 9, 2017

SOUTHEAST ASIA

Petronas' Canadian unit says looking to sell oil and gas asset in Alberta

Progress Energy, the Canadian unit of Malaysian state energy firm Petroliam Nasional Berhad, said it was looking to sell its Deep Basin oil and gas asset in the Canadian province of Alberta. Reuters reported that Petroliam Nasional, or Petronas, had enlisted BMO Capital Markets to advise on the sale of the asset, citing documents on the bank's website.

"Progress regularly reviews its assets to ensure alignment with the company's strategy," it said in an emailed statement to Reuters, adding that it decided to sell its Deep Basin asset following the most recent evaluation.

The sale would allow Progress to focus on future investments in its North Montney assets in Canada's province of British Columbia, which represents "significant growth opportunity" for the company, it said. The potential sale marks a further retreat by Petronas in Canada after it scrapped plans for the US$29 billion Pacific NorthWest liquefied natural gas export project in British Columbia in July. While Progress' Alberta asset produces oil and gas, the North Montney asset is rich in gas resources. Petronas acquired Progress Energy for US$5.87 billion in 2012.

REUTERS, October 5, 2017

Phoenix expands its rebranded LPG business

Its newly branded liquefied petroleum gas (LPG) is seen soaring high next for listed firm Phoenix Petroleum Philippines, with a targeted nationwide base of retailing to customers. The company's LPG products are being rebranded into "Phoenix Super LPG", following the completion of its acquisition from Malaysian firm Petronas in a 6.0 billion pesos worth of transaction sealed months back.

Phoenix Petroleum Vice President Raymond T. Zorrilla said "we are in the process already of rebranding the product and tanks," explaining further that "we have been given a specific period of transition."

The company previously told media that it has been casting next on its investment agenda the expansion of its LPG venture to retail networks in Luzon. Phoenix Petroleum Chief Operating Officer Henry Albert R. Fadullon indicated that while Petronas just had its operations in Visayas and Mindanao then, the target will be to "expand it in Luzon soon."

"Part of the capex (capital expenditure) that we have is definitely to grow our portfolio in LPG…we're still planning on how to get it to Luzon," he stressed.

MANILA BULLETIN (PHILIPPINES), October 6, 2017

Vietnam has first foreign-invested filling station

Vietnam's first wholly foreign-owned filling station has become operational in the capital city of Hanoi, its owner said. The filling station branded Idemitsu Q8 in Thang Long Industrial Park belongs to Idemitsu Q8 Petroleum LLC, a joint venture between Japan's Idemitsu Kosan, a major shareholder of Vietnam's biggest oil refinery, and Kuwait's Kuwait Petroleum International.

Idemitsu Q8 Petroleum LLC plans to develop filling stations along National Road No. 5 linking Hanoi and northern Hai Phong city. Vietnamese firm Petrolimex currently dominates the local petrol and oil retail market with a market share of 50%, followed by PV Oil, Saigon Petrol and Mipec.

Vietnam imported over 9.7 million tonnes of oil and petroleum products totalling US$5.1 billion in the first nine months of this year, seeing respective year-on-year surges of 11.4% and 42%, according to its General Statistics Office.

XINHUA (CHINA), October 6, 2017

EAST ASIA

Chinese fishermen die as boat collides with tanker in Japan waters

Thirteen Chinese fishermen died after their boat collided with a Hong Kong oil tanker in international waters off Japan, state media Xinhua reported, citing sources at China's consulate in Osaka. Three people were found alive after Thursday's collision. It was not known if there was any damage to the tanker or what caused the accident.

The two vessels collided 400 km (240 miles) north of the Oki Islands in the Sea of Japan, also known as the East Sea, east of North Korea, state media reported. The identities of the victims have not yet been confirmed, Xinhua reported.

The 290-tonne Chinese fishing vessel Lurong Yuanyu 378 had 16 people on board, according to the South China Morning Post. All 21 crew members aboard the 63,294-tonne Hong Kong ship, Bright Oil Lucky, were safe, it said.

REUTERS, October 6, 2017

South Korean shipbuilders to post positive earnings in Q3

South Korean shipbuilders are expected to post positive earnings in the third quarter mainly due to cost cutting and restructuring measures undertaken to cope with challenging market conditions, industry sources said. Hyundai Heavy Industries Co., Samsung Heavy Industries and Daewoo Shipbuilding and Marine Engineering Co. (DSME), the country's leading shipyards are all expected to be in the black for the July-September period, market watcher predicted.

They, however, said that with many yards struggling with dearth in orders, resulting in workers not building ships, sales and net earnings will be smaller compared to previous years. FnGuide Inc., a local financial industry tracker, said market consensus for Hyundai Heavy stood at little over 4.03 trillion won (US$3.51 billion) in sales with an operating profit of 94.5 billion won in the three month period.

One of the largest shipbuilders in the world had posted profits for the first time in 10 quarters in the first three months of 2016, and has stayed in the black for seven straight quarters. The market researcher said numbers for Samsung Heavy should remain in positive territory as well for the fifth consecutive quarter for the three months that ended in September, with sale hitting 1.81 trillion won and operating profit of 31.8 billion won.

It, however, said earnings for the two yards are partly the result of stringent restructuring efforts that include workers returning part of their salaries, and the selling off of non-core assets.

YONHAP (SOUTH KOREA), October 9, 2017

AUSTRALIASIA

Chevron starts LNG output at Australia's Wheatstone

Chevron Corp said it has started producing LNG at its Wheatstone project in Australia, slightly later than expected, and plans to ship its first cargo soon. The LNG market will be focused on how smoothly Wheatstone progresses following the troubled start-up at Chevron's bigger Gorgon LNG project. Both projects are fed from natural gas fields offshore the state of Western Australia.

"The first cargo is on track to be shipped in the coming weeks," Chevron Corp said in a statement. It had originally hoped to start exporting from Wheatstone in the middle of 2017. Wheatstone is the sixth out of eight projects in a A$200 billion Australian LNG construction boom that is now in its final stretch. The two remaining ones are Royal Dutch Shell's Prelude floating LNG project and Ichthys, led by Japan's Inpex.

This massive expansion, which has suffered numerous delays, has propelled Australia past Malaysia to become the world's second-biggest LNG exporter. Once all the mega-projects are completed, Australia will challenge Qatar for the top spot.

REUTERS, October 9, 2017

Origin CEO demands policy certainty for energy industry

Origin Energy chief executive Frank Calabria says the clean energy target is not the best or only solution to Australia's energy woes but should be backed by the federal government because it is "better than no solution at all".

Calabria told the national energy summit in Sydney that the CET would provide a trajectory for the industry to invest in new low-emissions capacity.

"There are always other ways of getting to the same place. But the bottom line is we really need a signal to invest with confidence and in a planned way," Calabria said. "With a signal in place, the market will respond with timely investment and deliver the lowest cost outcomes, which ultimately delivers the lowest prices to energy users."

The comments follow indications yesterday from Federal Energy Minister Josh Frydenberg that the government could abandon the signature recommendation of chief scientist Alan Finkel to instead focus on affordability and reliability.

Frydenberg indicated the rapid fall in cost and rise in capacity of renewable energy sources meant the might no longer need subsidisation, as has occurred under the renewable energy target.

But Mr Calabria, whose company is one of the biggest generators and retailers of electricity as well as the owner of one of three giant LNG export terminals, said the industry could not address reliability and affordability without also dealing with emissions reduction.

THE AUSTRALIAN (AUSTRALIA), October 10, 2017

OG Oil & Gas has sweetened its partial takeover bid for New Zealand Oil & Gas

The oil and gas division of Ofer Global Group will pay 78 cents per share to lift its NZOG stake to a maximum of 70%, with an offer document expected to be released to the NZX this week and mailed to shareholders next week, the New Zealand firm said in a statement. That's up from the 77 cents per share bid OGOG initially floated, and still trumps the 72 cents per share offer by rival Zeta Resources. The new OGOG bid won over NZOG's independent directors who unanimously recommend shareholders accept the revised offer.

"We are pleased that OGOG's vision for New Zealand Oil & Gas aligns strongly with our own strategy," chair Rodger Finlay said. "Personally I think it is important that the OGOG offer succeeds, so I will accept the OGOG offer for all of the New Zealand Oil & Gas shares that I own or control (comprising approximately 0.5% of the total New Zealand Oil & Gas shares)."

OGOG threw in its rival bid to preserve NZOG's exploration opportunities and has named the Barque prospect off the Canterbury coast as too interesting to ignore. If it wins over shareholders it plans to find international partners for the deepwater prospect, which was ranked ninth among the world's top oil and gas targets in a survey presented to a recent petroleum conference in New Zealand.

BUSINESSDESK (UK), October 9, 2017