Global Energy Outlook 2021

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SPECIAL REPORT

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Q1, 2021

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Global Energy Outlook 2021

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October 5th, 2021

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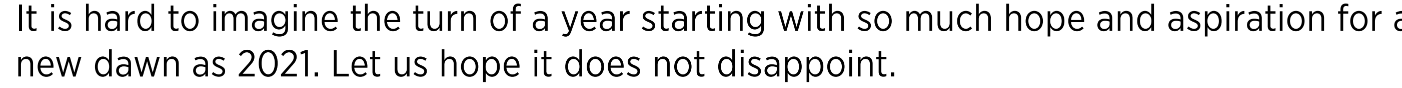
Outlook for the Year Ahead

Sean Evers
Managing Partner
Gulf Intelligence



It is hard to imagine the turn of a year starting with so much hope and aspiration for a new dawn as 2021. Let us hope it does not disappoint.

Much of the second half of 2020 was a battle between glass half-full sentiment and glass half-empty reality, swinging in both directions on a week-by-week basis – salvation vaccines versus 2.0 record infections.

While we have more light at the end of the 2021 tunnel, the New Year pendulum appears to be picking up a more violent momentum in its extremes, as off the charts record LNG prices are banging the ceiling while unprecedented disruption assaults the US body politic.

Everywhere you turn it is a Tale of Two Cities, and one would suspect that if this brand New Year is to carry the weight of the expectation thrust upon it, some of these two cities are going to have to bridge their wide-apart narratives or else I fear all the houses of demand will come tumbling down.

The tale of the Financial city soaring to the beat of trillion-dollar Tesla surely cannot be sustained when it is so extremely dislocated from the reality of the main street city where 100 million people have begging bowls outstretched for $600 government freebies.

China and its Asian neighbors are showing all the discipline of a Victorian tailor in their triumph over the pesky Covid-19 virus, while the wild West is stumbling around barking about not wanting to wear masks and "I-want-to-be-alone" Brexit tiers one-two-five nonsense.

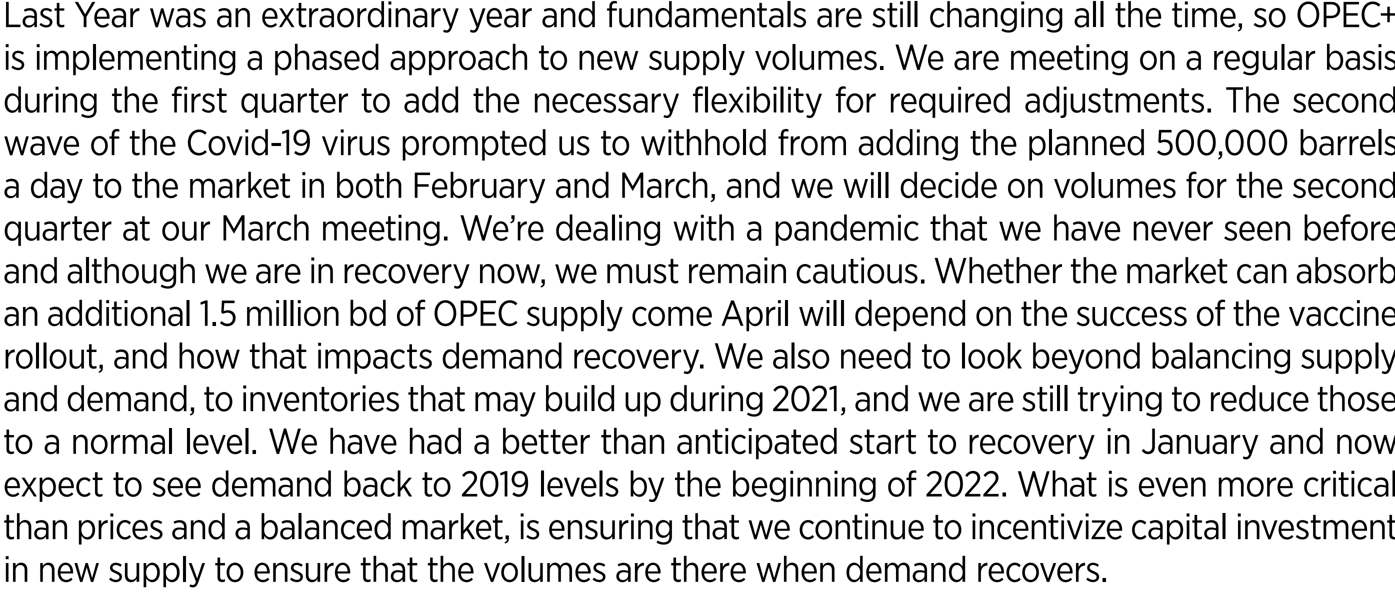
Can the China locomotive once again drag the world forward to growth, while Europe and the US stare down the Japanese barrel of 20-year deflation? This Tale of Two Cities will have to migrate towards an era of balance or the roaring 20s exuberance that everyone and their shoe-shine boy seems to believe will come in the second half of the year, may once again be a mirage of irrational thinking.■

CHAPTER 1

Outlook For OPEC

FEATURE INTERVIEW

"OPEC+ Strategy to be Guided by Success of Vaccine Rollout"



H.E. Eng. Suhail Mohamed Al Mazrouei
Minister of Energy & Infrastructure, UAE

Last Year was an extraordinary year and fundamentals are still changing all the time, so OPEC+ is implementing a phased approach to new supply volumes. We are meeting on a regular basis during the first quarter to add the necessary flexibility for required adjustments. The second wave of the Covid-19 virus prompted us to withhold from adding the planned 500,000 barrels a day to the market in both February and March, and we will decide on volumes for the second quarter at our March meeting. We're dealing with a pandemic that we have never seen before and although we are in recovery now, we must remain cautious. Whether the market can absorb an additional 1.5 million bd of OPEC supply come April will depend on the success of the vaccine rollout, and how that impacts demand recovery. We also need to look beyond balancing supply and demand, to inventories that may build up during 2021, and we are still trying to reduce those to a normal level. We have had a better than anticipated start to recovery in January and now expect to see demand back to 2019 levels by the beginning of 2022. What is even more critical than prices and a balanced market, is ensuring that we continue to incentivize capital investment in new supply to ensure that the volumes are there when demand recovers.

Q: How robust is Asian demand?

H.E. Eng. Al-Mazrouei: This has not been easy to predict following last year. We are working on ensuring that communication between suppliers and consumers is strong and that we produce in a phased manner to cater for any demand increase. I'm confident that this approach will continue, enabling us to balance any demand increase in a more predictable way than before. Let's also remember that Chinese oil companies are investors and part of the producer club.

Q: When can we expect OPEC to recover the market share it gave up in 2020?

H.E. Eng. Al-Mazrouei: We're not looking at this from a market share point of view. Having said that, as the lowest cost producers, we know that when the situation returns to normal, we could easily retrieve that. Today's focus is to balance the market and incentivize investors to ensure we have enough hydrocarbons in two to three years. If every country was looking at its market share, then we would not be able to balance the market. As an example, the UAE has an installed capacity of more than 4.2 million bd, but we are working with the group to cut significantly from that volume.

Q: Is US shale profitable at current price levels?

H.E. Eng. Al-Mazrouei: All producers need to be careful not to over flood the market. If not, prices will suffer and so will investment. Having said that, it's not going to be easy for US producers to build up output given the inventory levels we see today. They need to be cautious. We have a good dialogue with US shale companies and we appreciate that they also cut volumes in April and May of last year to help balance the market, but I think they would be wise not to jump the gun and overproduce during this recovery year.

Q: Does Saudi Arabia's unilateral output cut in January open the door to less compliance?

H.E. Eng. Al-Mazrouei: Not at all and, in fact, Saudi Arabia has been instrumental in implementing the new rule for countries to compensate for the volumes that they have not complied to. Those countries are doing their best and the message from their ministers is that they are committed to reducing any barrels that were overproduced. As a member of the JMMC, the UAE is also continuing to work to become more than 100 percent compliant. As for Kazakhstan and Russia, they were given some slack to increase production for two months to cater to local winter demand and Saudi Arabia was ready to compensate for that. The key factor here is trust - the decisions made have been cohesive and done through conviction rather than force.

Q: Will the OPEC Plus relationship survive beyond the current agreement?

H.E. Eng. Al-Mazrouei: This is not a temporary relationship. If we have learnt anything in 2020, it is that producers need to work together during difficult times. We have built great confidence amongst ourselves these past years, and that reassures us that we will continue doing so in the future.

Q: Does the UAE not need more independence given its Murban contract launch plans?

H.E. Eng. Al-Mazrouei: Our benefit is to stay within the group. I am also confident that the investments made in Murban and the efficiency improvements done by ADNOC, will enable us to compete because the volumes will be needed. At the end of the day, it's the cost of production that matters and the demand recovery beyond the pandemic is way above what we are producing today.

**Edited transcript*

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Mike Muller
Head
Vitol Asia

Aviation fuel is the biggest single factor determining the return of oil demand

Leisure air travel is at multi-year lows, and likely to remain that way for the next few months. The rollout of vaccines will take at least until Q3 and so sufficient immunization, or herd immunity, probably won't happen until late in the year. That is the point at which we may see a real recovery kick in.

Commodities super cycle vulnerable

The current momentum on most markets is up but we must constantly remind ourselves that super cycles are a function of many things – such as economic growth, shifting demand patterns, health crises, political and geopolitical events, and government policy moves, which include stockpiling and building of strategic inventories. Many of these factors are at play today.

OPEC spare capacity to the rescue?

There is a view that the Biden Administration will seek to reprioritize investment towards cleaner energy. US shale can perhaps respond more promptly to demand with only months needed between decisions on investment and production. But it cannot meet the 6mn b/d of demand recovery expected this year. And with the underlying loss in production from aging oil infrastructure, the world will need to draw elsewhere – that can only come from spare capacity within the club of OPEC+. ■

FEATURE INTERVIEW

"Outlook Global Oil Supply-Demand Balance in 2021?"

H.E. Mohammed Sanusi Barkindo
Secretary General, OPEC

Q: Can the market absorb an extra 2.5 million barrels of oil in April?

H.E. Barkindo: We're taking it step by step in an adaptable approach with supply adjustments, especially for the first quarter. The worst is over for the oil market and we are positioning ourselves for a strong rebound in 2021. Demand will be a combination of many interrelated variables – vaccines, lockdowns, fiscal and monetary stimulus and GDP – and we will have to continuously manage these.

Q: Did you envisage a market approaching $60 a barrel?

H.E. Barkindo: We are not focused on price. We are focused on returning this market to stability, which had eluded us for most of 2020. This has been to the detriment of not only producers, but also consumers and, by extension, the global economy. Despite the measures we took in 2020, we continue to see stocks stubbornly high and we're focused on assisting the market in accelerating the stock drawdown to bring it to balance. OECD stocks are still over 160 million barrels over the five-year average and non-OECD figures are also a concern.

Q: Are you concerned about the speed of the price recovery? Could OPEC have over tightened the market?

H.E. Barkindo: There's no cause for alarm. We are keeping our hands firmly on the driving wheel on a month-to-month basis. The fragility and uncertainties of this market require OPEC and its non-OPEC partners to ensure that the market does not relapse into the huge imbalances that we saw last year.

Q: If the new US administration returns to the JCPOA, is OPEC ready to make room potentially for 1 to 2 million bd of Iranian oil in 2021?

H.E. Barkindo: We have established a record of continuously adapting, being flexible and addressing issues as they emerge. Discussions within the group in December and January were all focused on the fundamentals of the oil market during this unprecedented Covid period. We have never experienced what we saw during 2020, and we remain focused, with all participating countries, led by the kingdom of Saudi Arabia and the Russian Federation, to ensure that we help the market to recover in 2021.

Q: How much of a risk is US shale to OPEC losing control of the market?

H.E. Barkindo: All producers of hydrocarbons have suffered in 2020. We have been in consultations with the US independents and, in fact, established this line of communication in 2017 after the signing of the Declaration of Cooperation. We have seen contraction of non-OPEC supply of about 2.5 million barrels a day in 2020 – US companies were not insulated. It is a shared responsibility to maintain stability in the market and there is an understanding, even with the US independents, that no one group of producers can continuously maintain stability for this huge market.

Q: Is there a split in the OPEC+ relationship in terms of direction?

H.E. Barkindo: When you put 23 sovereign countries together in one room to agree, differences are going to emerge. But in the last four years, we have seen great cooperation and we continue to take decisions together and monitor the implementation of these decisions. We have established a solid relationship at the core of multilateralism, and we are more confident now, that having survived 2020, this relationship will continue going forward.

**Edited transcript*

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Abu Dhabi National Oil Company

Andy Critchlow
Head of News, EMEA
S&P Global Platts

Do you see the upward price trajectory continuing?

The positive price outlook is quite remarkable. There's a lag in demand in China as Lunar New Year kicks in – a 1.2mn b/d drop in consumption in February according to Platts Analytics – that's a big slug of crude to come out of the market at a time when there's a lot of volatility. Lockdowns are in place in much of Europe and a large proportion of the world's long-haul aviation traffic is grounded. On the positive side, we have more US financial stimulus on the way and Saudi Arabia's cuts are obviously starting to impact the market.

What should we expect from OPEC in Q2?

Stocks are drawing down and we will continue to see that as we get more accommodative economic environments and potentially more demand. The incentive then for all the major producing countries, will be to pump more oil. Everyone wants to maximize the revenue opportunity and win back market share. OPEC has historically always found it harder to come back down the hill than to climb up it. Add to this the potential of Iranian crude coming back and the fact that oil today is still $15 to $20 below the fiscal breakeven price for most GCC producers, and we could be entering into a challenging time for OPEC.

Are we on the doorstep of another commodity super-cycle?

Definitely – the weaker US dollar is incentivizing China to buy more commodities – from iron ore to copper and corn. Copper hit a record high last week with Australian mining seeing a lot of demand into China. This trend is only going to continue as we get more economic stimulus coming through. ■

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Christophe Sassolas
President, Total E&P UAE
& Total Country Chair, UAE

Long-term net zero ambitions are very important, but the pace of global carbon emissions decrease will also be driven by the customers and the setup of efficient regulations by the consuming nations

Given the long cycle nature of its investments, our industry is always trying to anticipate possible changes in regulations or consumer demand when it comes to launching new projects.

Next steps

Technologies are a critical component to achieving net zero. Many are already developed but need to be brought to scale – whether it be on the electrification of processes, cheaper capture of CO_2, demand management, photovoltaic technology, or AI-driven processes. With this technology, the first obvious step is to act on what is under our control as an industry – namely Scope 1, Scope 2 and operational efficiencies on CO_2 emissions. Another necessary aspect is to have an industry standard to compute and price carbon emissions, whether used by regulations or to track CO_2 emissions to the end user; this has definitely been lacking and needs immediate attention. None of these goals can be met without true partnership and continuous engagement with clients, transporters, regulators and financiers.

R&D focus on carbon capture

Lowering the cost of carbon capture is where we need most R&D resources today. We do see producing companies working on this but CCUS is still at 65% of the cost of storage and it's a complicated business to get to scale commercially. ■

CHAPTER 2

Outlook for Oil & Gas Companies

FEATURE INTERVIEW

"Outlook for Oil Majors & the Low-Cost Producer in 2021?"

Sir Mark Moody-Stuart
Chairman, Global Compact Foundation & former Chairman of Royal Dutch Shell

Q: Does a $55 oil price mean demand can absorb both OPEC and shale output?

Sir Mark Moody-Stuart: We're at a bit of a turning point and have been for many years. Low-cost producers dominate most commodity markets. The oil market has also been managed by those same producers, but they have restrained their supply to keep prices up. That works very well if demand continues to grow but when it flattens, there has to be a change. OPEC can't go on restraining production as it has done for 45 years or else it will lose market share. The drastic drop in demand brought on by Covid has brought forward this potential change. As prices rise above $50, shale production will increase. There is a little bit of an amber light as international oil companies have cut back radically on their investment in conventional oil, providing space for the lower cost producers to fill any decline gap.

Q: Will it be low demand or low investment that dominates in the end?

Sir Mark Moody-Stuart: In three years' time there will be a supply shortfall arising from the drastic cut in investment, which continues to this day. That could lead to a price spike and could also lead to the low-cost producers using their spare capacity to bump up market share. Demand recovery is going to be slower than we think. OECD oil demand has been declining for quite a while and has been offset by growth in China and developing economies, but I'm still not optimistic about demand coming back rapidly over the next two or three years.

Q: When do you expect we will see peak oil demand?

Sir Mark Moody-Stuart: It will be in this decade and, in fact, may have peaked already. Demand will rise and fall and will not collapse, but what is certain is that it will be flat for a very long time, so the macroeconomic impact will be more or less the same.

Q: How will this demand plateau impact producers?

Sir Mark Moody-Stuart: Low-cost producers simply cannot continue cutting production to make space for high-cost producers. They have very wisely invested in spare capacity so that at moments of high prices, they can fill the gap and grow their market share. What will be a challenge however for countries like Saudi Arabia, is the cost of investing further in additional capacity while having major budgetary demands. The production side will be cash-flow constrained.

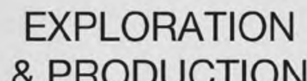
Q: Are they prepared for the impact of low prices on revenues?

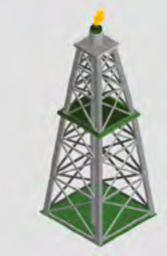
Sir Mark Moody-Stuart: They have not had a long-term strategy for that. The shortage of cash is going to be painful. The answer could be to look at alternative low-rate methods of financing for the additional production while reserving their oil revenue for other uses. The UAE and Saudi Arabia have begun to do that with pipelines and could do the same with production.

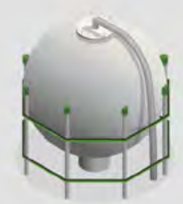
Q: Will renewables be challenged at all with cheaper oil and gas?

Sir Mark Moody-Stuart: The international oil industry has massive capacity, cash flow and skillsets, which should allow some companies to make the transition very successfully. Hydrogen is an obvious area for IOCs to focus on, though it is currently still expensive to produce. But all forms of renewable energy also produce free energy at intervals, and that surplus energy can be stored and used towards hydrogen. Oil and gas companies are scrambling to see how they can make money out of renewable energy. It is true that returns are lower, but they are also more consistent.

**Edited transcript*







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Hatem Al Mosa
CEO
Sharjah National Oil Corporation

Expect an increased focus on gas' long-term journey once the intensity of the Covid-19 pandemic has passed. Will the value of gas be derailed by a radical shift towards greening the entire basket, with renewables taking the vast proportion of the energy mix in the medium-term? Or will gas survive as the nominated bridging fuel for the great energy transition, making it very useful until mid-century and perhaps even beyond?

Building the bridge

For many, the answer is clearly the latter. Will global gas production stop by 2050? I do not think so. Hitting carbon neutral targets is going to be a very expensive journey and it needs the support of well-established markets like gas, especially as the gas and LNG markets are starting to green their supply chains more proactively. We all agree that renewables are the obvious choice for the energy ecosystem over the long-term, everything being equal. But of course, everything is not equal. Every nation has a different outlook, different capabilities, and resources. One solution will not work for all. Gas markets provide much-needed flexibility and volume so that all countries have as much stability as possible.

Playing the long game

Out of all the fossil fuels, gas is considered the 'greenest'. It is also abundant, has major infrastructure already in place, is relatively affordable, and is not subject to weather conditions, like many renewable energy projects. But it is still a fossil fuel and so it is still 'dirtier' than renewables. Where does this leave investors, producers, and others in the value chain? Should we all keep pumping money into the gas market while knowing that it may very well 'die' eventually? Of course! Because that 'death' is very likely to still be several decades away. That is long enough for any investment. The need for energy security on a global basis – including the nearly 1bn people worldwide who still do not have access to electricity – means gas' role will remain pivotal for the long-term. ■

FEATURE INTERVIEW

"Outlook for Africa/Nigeria's Oil & Gas Sector in Post-Covid Era?"

Mele Kyari
Group Managing Director,
Nigeria National Petroleum Corporation

Q. Has the oil market got ahead of itself since November?

Mele Kyari: Demand is picking up, but it won't come back to anywhere near pre-Covid levels until the end of 2022. New habits have formed in transportation and in working remotely and we also have the decline in aviation fuel consumption. All of these will be difficult to retrieve – but we might see a marginal increase in demand by the end of this year.

Q: Is there is a risk of compliance fatigue with this kind of a rally on our hands?

Mele Kyari: For many countries, including Nigeria, compliance is the obvious choice that we have to make. We also can't just change production overnight – there are technical considerations in transitioning levels of production. It's all about balancing the market and making sure that supply doesn't exceed demand, so there's no incentive for any country to leave OPEC+.

Q: How is the OPEC+ alliance impacting NNPC?

Mele Kyari: It has been a very convenient balance for us. By mid-April of last year, Nigeria had attained crude oil and condensate production of 2.49 million barrels a day. That's huge. But today, we have seen a substantial decrease – to 1.6 million b/d, obviously translating into a drop in government revenues. Still, the OPEC+ cut is the right thing to do because market balance is required by all, including consumers. We will get the best out of this situation by complying.

Q: Will Nigeria meet its compliance number of 1.517 million b/d for Q1 2021?

Mele Kyari: Absolutely. We actually had some overcompliance in November, so we are having no difficulty remaining compliant. We are looking at new assets that can produce more into the market and which are not curtailed by the quotas, such as condensate supply. Those levels today are 270,000 to 300,000 b/d.

Q: How do you see OPEC+ evolving at the end of this agreement?

Mele Kyari: In terms of the global market, we will probably end up seeing more members on this platform and participating in this quota business, including the US, which could possibly participate in a different way. For many US producers, they will see that if they produce more into a market that cannot absorb it, they're better off reducing that production. They don't have to be part of any coalition – they just need to reduce volumes.

Q: What's the biggest risk factor for the market in 2021?

Mele Kyari: Getting people back to the workplace and travel. Most people and companies don't want to go back so there's going to be a shortage in demand for transportation, fuel and aviation - that's a big challenge for us. One solution we are adopting is switching to gas – which will be more in demand with more people at home. Gas in general is increasing much faster as a part of the energy mix – Nigeria is also taking that direction and also exporting production very seriously.

Q: What does the new Biden administration mean for the oil industry?

Mele Kyari: It will pay attention to the environment, making sure that oil is a benefit and not a cost, particularly for developing countries - instituting rules to reduce flaring and carbon footprint, for example. We are also excited to work on infrastructure initiatives designed to cut down the carbon footprint of our business.

Q: How has the instability of the pandemic impacted the bigger investment narrative for Nigeria and West Africa?

Mele Kyari: We see it as an opportunity. Nigeria has the largest reserves of oil and gas in Africa - a continent with a fast-growing middle-class economy. Nigeria is geographically central in Africa, in terms of distance to markets and to consumers. We have an opportunity to produce more oil and becoming the hub for chemicals and refining. A number of large-scale projects are going on in West Africa and people are looking to us to fill the gap of distance that exists in the market. Many refineries all over the world are shutting down and we can fill some of that gap. In the next three years, we might dominate the flow of trade from Nigeria to other countries.

**Edited transcript*

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Martin Houston

Vice-Chairman & Co-Founder, Tellurian Inc.

2020: An Extraordinary Year for US LNG Exports

Gas and LNG grew throughout 2020, which was one of the most extraordinary years of our lifetimes. Demand increased in India, China, and other Asian nations by significant amounts. US exports showed a V-shaped recovery. We finished December with exports of 11.5 bcf/d, up from the low points in August at 2 bcf/d. All of this is also occurring within the backdrop of the great energy transition. As we look towards the future, consumption for energy is increasing and it is increasing more in non-OECD countries than OECD countries. We must consider the needs of the total global population.

Change in the Global Energy Mix

Society is calling for big changes in the energy mix. The pressure has been exacerbated by the Covid-19 pandemic. The incoming US administration is calling for significant changes to the energy industry. In some ways it remains to be seen how that will manifest itself, yet we have already seen a huge flight of capital from the energy sector. However, we must hold our nerve in the industry. We must stay focused on the fact that gas, or hydrocarbons in general, will be a key part of the net neutral energy mix by 2050 because there is no other way to serve the needs of an energy hungry world, especially in growing economies that don't have the luxury expensive substitutes. The world's citizens need security of low-cost energy supply that does not pollute their air. Of course, we must continue to invent and deploy new technologies and ensure scalability. At the same time, we must also ensure we make energy reliable, affordable and equitable across the globe. Natural gas paves that path and will continue to play a crucial role in the future overall energy mix.

Where is LNG Demand Coming From?

We have had a tight squeeze over the last few weeks, which is impacting how people are thinking about the next few years. We're seeing some significant changes as demand dynamics evolves that we at Tellurian have always predicted would come upon us. Demand is coming from the growing economies across the world. It's coming from India, China, and Europe. LNG from the US now competes in Europe and the current cost structure allows it to do so. It is not a destination of last resort. It is a competitive fuel into those markets. ■

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Peter Zeilinger

Senior Vice President, Exploration, Production & Development
OMV

Digitalization is more than an adoption of technology – it's a change in mindset

Investing in digital tools such as automation, the cloud and AI is no longer a choice. It is essentially sensible and sustainable. Moreover, oil and gas companies cannot develop digital solutions alone – they should seek expert advice. This is now starting to happen.

Knowledge-sharing across disciplines critical

So much can be done on efficiencies, health and safety, and climate change through digitalization; 40% of cumulative emissions reductions rely on technologies that have not yet been commercially deployed in the mass market. A plethora of data – such as that on methane emissions gathered by satellites – can be harvested and analyzed and we need to enable digital tools to have access to start measuring and sharing such things seamlessly.

Pandemic pushing digitalization agenda

Despite posing the obvious challenges to business, the pandemic has, in fact, pushed companies to accelerate their digitalization agenda. Companies like OMV had ambitious targets before the pandemic – digital rigs of the future, for example – the Covid crisis has certainly shed a spotlight on the need to push these novel solutions. Digitalization can also help companies access and tap into more technical resources and talent from a larger remote network than was possible in the past. ■

CHAPTER 3

Outlook for the Energy Transition

FEATURE INTERVIEW

"What is the Outlook for Integrated Oil & Gas Companies as the Energy Transition Accelerates?"

Dr. Rainer Seele
CEO, OMV

Q: How can integrated oil and gas companies tackle the transition while keeping an eye on profits?

Dr. Rainer Seele: In considering energy transition investments, we should always look at the rate of return and competitive advantage for long-term success in the energy and power markets. At OMV, we have decided to transform the company into the value chain of chemicals. If we look at 2020, that side of the business was already looking robust, with strong demand from packaging and healthcare. Our acquisition of a majority shareholding in Borealis last year – one of the leading companies in polyethylene and polypropylene, and the biggest producer of gasoline and propylene in Europe – has already demonstrated growth by one third. Nearly half of our capital allocation is now in chemicals. When we talk about sustainable transformation, it must also be accompanied by a heavy engagement into recycling, and as a company, we are preparing for that.

Q: Any plans to expand into east Asia?

Dr. Rainer Seele: We have very strong partners in the Middle East such as ADNOC and our focus remains on that region. We hope to expand further into Abu Dhabi with our Borouge partnership. When supplying the Asian market out of the Middle East, having a competitive advantage is critical, and sitting on a gas field with a cracker source nearby enables this and avoids large logistical costs.

Q: How have the challenges of 2020 impacted forward energy investment?

Dr. Rainer Seele: Last year was a challenge for the entire industry. Operating cash flows were heavily impacted, limiting investments and the room to maneuver for companies. Investment was cut mainly in upstream and a little bit in refining. But the financial and bond markets were not negatively affected by the pandemic so money was available for investment into the transmission. Green policies, especially by the European Commission, are an incentive for expenditure into renewable energy but we must always have an economic case. The industry can't survive if we build only on subsidies in the long-term.

Q: When do you see real demand returning to the market?

Dr. Rainer Seele: Our industry is going to face a difficult first half 2021 and despite a good start to the year in terms of prices, we don't expect oil demand to recover to the 2019 levels of 100 million barrels per day till at least mid-2022. We could see some recovery in refining in the second half of 2021 – that is more of a concern than upstream. It's all about jet fuel and when the vaccination programs will kick in and get mobility back to normal. We already see naphtha being priced on much better terms so some refined products in this first half of the year might give us a little bit of a tail wind. ■

**Edited transcript*

Dr. Axel Wietfeld
Chief Executive Officer
Uniper Hydrogen

Hydrogen is the only fuel that can decarbonize most sectors. Just as oil was crucial to building a new world economy in the 20th century, hydrogen will provide the base for a whole new world of jobs and growth in the 21st century. In a nutshell, predictions and forecasts about hydrogen demand suggest that the consumption of hydrogen will more than triple within the next 30 years. So, one question is: who is using hydrogen currently? It is mainly the refining industry, the transportation sector, and there will also most likely be more use from the wider industry. Hydrogen will also be used to produce synfuels and ammonia production.

Clean hydrogen: what is next?

A global commodity market for clean hydrogen will develop and be driven by regions with a large potential for low-cost renewables. The Middle East and northern Africa, among others, are promising locations. Still, there are challenges that need to be overcome within the decade. For example, a challenge for the Middle East might be the use of desalinated water for electrolysis, especially as water is a scarce resource in the region. We, for one, have developed pilot plants and we are now following a scheme to develop various projects in Europe, as well as being open to doing the same in other regions.

Strengthening the architecture

A next step would certainly see industrial sectors and industrial customers making more use hydrogen. Now we need legislative actions. We already have certain stimulus packages across the globe due to Covid-19, which also target clean hydrogen. In the next few years, these packages, policies, and strategies need to translate into detailed legislative procedures that companies can use to boost the economy. Because right now, for example, hydrogen is not economically viable. ■

Walter Simpson
Managing Director
CCED

Digitalization is critical for the progression of the energy industry

The Covid-19 pandemic forced us to use digital tools to work remotely. They weren't new tools and they have been around for years, but we saw organizations leap to use them. For CCED, I was surprised at the level of uptake and the efficiency we managed to operate at while working remotely. This past year has given us an opportunity for the future. We must leverage the spike in digital awareness where people can change the way they work and collaborate with their colleagues moving forward. We have a chance to maintain momentum and evaluate how we consistently use digital tools effectively.

Points for success in 2021

I look at points for success through the lens of a smaller independent operator. There are three things that are important for us in the future. We want to be a low-cost operator, maintain a small environmental footprint, and be a valued member of the community. Where should we focus our digital tools to achieve this? We should focus on minimizing the cost per barrel and emissions per barrel produced. From the emissions side, clearly CO_2 is a part of it, but water is also a critical element of focus, which can have huge impacts on the environment if you don't manage it properly. There is a huge opportunity for digitalization in terms of how well you use energy. Digital tools can be used to increase efficiency and fill gaps in the market. But we should also be looking at how to develop our staff by utilizing digital tools and make sure they get access to the best resources to do so no matter where they are located. Cleary, those three points are interlinked because good staff means you can do things more effectively. That is what we are focusing on for digital changes throughout our organization in 2021. ■

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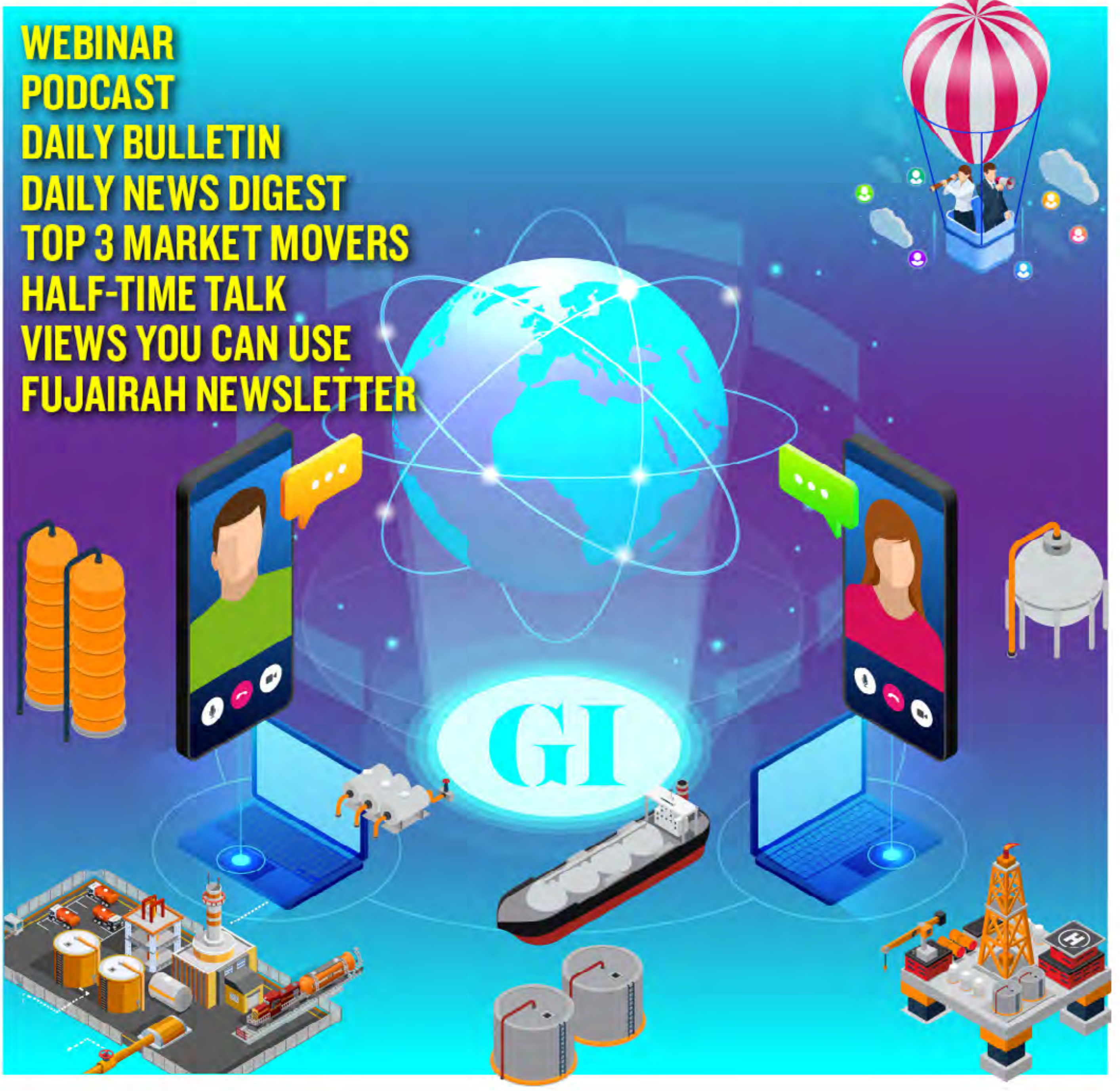


Jose-Ignacio Sanz
Vice President for Gas, Renewables & Power & Country Chair, India, TOTAL

The ongoing energy transition cannot happen overnight

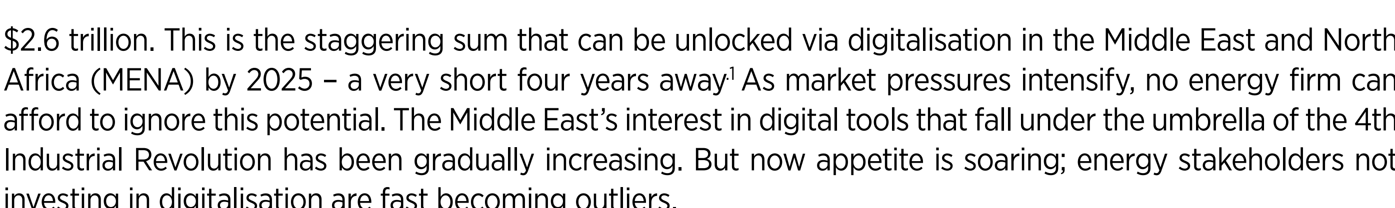
Gas is part of the equation as a current and bridging fuel for the global supply of energy. We must also simultaneously focus on clean electricity and renewables. It's a balanced approach. The structure of contracts and infrastructure in the gas sector is maturing at a sufficient pace, attracting interest and funding. We should always take a long-term view on gas investment and not base decisions on short-term price sensitivities.

Indian demand back on track

India's economy is recovering fast from the pandemic crisis. The economy is set to grow by 6-8% this year. It had one of the toughest lockdowns in the world last April and May, with gas demand dropping to about 20% of previous expectations for the period. By December, consumption had mostly recovered, and we are now seeing the beginning of a growth over pre-lock down levels. To tackle and meet the demand for energy, authorities are continuing to prioritize gas and renewables. Gas use in the country's primary energy mix is set to rise from 6% to 15% by 2030. That's an ambitious target but developments and regulations are being set to make this happen, such as heavy investment in a gas pipeline network. In parallel, India is also targeting 450 gigawatts of renewables by 2030. ■

OPINION EDITORIAL

"Energy Firms' Digital Focus Pays Off"



Badar Chaudhry,
Senior Vice President,
Sector Head – Energy, Mashreq Bank

$2.6 trillion. This is the staggering sum that can be unlocked via digitalisation in the Middle East and North Africa (MENA) by 2025 – a very short four years away[1] As market pressures intensify, no energy firm can afford to ignore this potential. The Middle East's interest in digital tools that fall under the umbrella of the 4th Industrial Revolution has been gradually increasing. But now appetite is soaring; energy stakeholders not investing in digitalisation are fast becoming outliers.

This is especially true in times of strain – and have no doubt, this is certainly one of them. Oil prices continue to hover in the $50s/bl range and the International Energy Agency says at least $1 billion must be spent per year in the near-term to create an environmentally friendly energy economy. Meanwhile, the International Monetary Fund warns of a 'long and difficult ascent' out of the global economic plunge that is being spurred by the Covid-19 pandemic. The squeeze on economics, operational norms and talent development is very real, particularly for nations that have had restricted travel and lockdowns over the last year.

Pandemic bounce-back?

These difficulties only emphasise the value of investing in digitalisation. For example, digital tools and technologies thread into each of the three traits that the Boston Consulting Group said the companies best able to rebound from the pandemic have: end-to-end supply chain transparency, agile operations and quickly digitised customer interactions.

The unpredictability wrought by Covid-19 has put many energy companies on a level playing field in the Middle East and beyond. But it has made it clearer than ever that the size of an energy company is not everything – its smarts are. With that, firms' growing appetite to ramp up digital growth together as they rebuild their economic robustness could organically nurture a digital ecosystem in the region. It makes sense to leverage each other's expertise to accelerate progress as the global clock for energy security and decarbonisation ticks on relentlessly. Therein lies the rapid rise of digitally orientated partnerships across the region.

A+ for progress

Many are now vigorously walking what has long been just digital talk in the GCC. In January, Saudi Aramco – the world's biggest oil producer – launched Dammam 7, a new supercomputer which is among the top ten most powerful in the world. This boost for exploration and development marks the next step in Aramco's digital transformation. Plus, Saudi Aramco Development Company, a subsidiary of Aramco, signed a deal with Cognite to establish a new company that will focus on digitalisation in Saudi Arabia and the broader MENA.

In the UAE, energy leader ADNOC has saved $2 billion over the past five years by leveraging advanced technologies and digitalisation to enhance drilling efficiencies and optimise operations. It has also recently awarded a $519 million contract to further expand the world's largest 3D seismic survey. And most recently, ADNOC teamed up with ExxonMobil to jointly identify areas where advanced technologies can further increase operational efficiencies and unlock value.

To the east, Petroleum Development Oman (PDO), the sultanate's largest oil and gas exploration and production company, has wrapped up phase three of its Information Management digital transformation journey with Hexagon. This includes a single platform where all the lifecycle information is centralised for more than 4,100 employees and contractors – bolstering transparency and efficiency in one go.

Keeping pace

The Middle East's push is well-timed, for its progress is key to sustaining global competitiveness on both the energy and digital stage. For example, 50% of oil and gas respondents of a survey by Deloitte said their company is already investing in energy efficiency, cleaner fuels to power field operations, and acquiring businesses outside their core focus. And another 50% of industry respondents said they would invest in digital technologies to boost energy efficiency and in operational technologies, such as carbon capture to reduce future emissions.[2]

Another area that the region needs to keep abreast of? Cyberthreats. Globally, across all industries, a staggering 36 billion records were exposed in data breaches in the first half of 2020, according to a report detailed by Risk Based. And last year was already the "worst year on record" by the end of Q2 in terms of the total number of records exposed. Plus, Saudi Aramco was just one of many energy firms that has reported a recent rise in attempted cyberattacks.[3]

Far more digital sheriffs are needed to safeguard operations, especially as cybersecurity is fast being woven into energy companies' competitiveness. Greater transparency and accountability are increasingly coveted by digitally aware investors. What were daily, or even weekly, checks must now be done on a minute-by-minute or second-by-second basis. Especially in these times of both uncertainty and great growth, there is no such thing as excessive diligence.

The same applies to exploring and applying digital solutions. Considering 1 billion people worldwide still lack access to electricity and that we are lagging on the Paris Agreement goals, our exploration of digitalisation to streamline efficiency and bolster scalability should know no bounds. ■

1 DHL – https://bit.ly/3assxbK
2 Deloitte – https://bit.ly/36Gtqwu
3 Reuters – https://reut.rs/3rfx7Ro

CHAPTER 4

Outlook for Energy Markets

FEATURE INTERVIEW

"Outlook for Commodity Trading as Banks Retreat in Post-Covid World 2021?"

Russell Hardy
Group CEO, Vitol

Q: What is your outlook for demand recovery in 2021?

Russell Hardy: Demand is going to make a significant recovery that will be supportive for prices. The market is already racing ahead, factoring in the positive news of a vaccine, which is expected to lead to a better second half of the year. However, there are still large inventories in a very well-supplied market, European economies are locked down again and people are not moving around freely. The next two or three months across Europe, and possibly the US, will witness the spread of the disease-fighting against the vaccination program.

Q: To what extent will geography impact the pull in demand?

Russell Hardy: No particular region is at an advantage because the oil market is very global. Still, the east will continue to attract barrels as it is a deficit region for energy. A significant part of demand that's been lost is within aviation so that's going to be an important part in how the oil market plays out in 2021. Today, there are about 300 transatlantic daily flights versus typically 1,200 pre-pandemic. The restoration of people, movement and business travel has a way to go yet.

Q. Is the market going to predominantly hedge around jet fuel demand?

Russell Hardy: When the virus had abated somewhat last summer, demand bounced back quickly for road transport, and that same behavior should happen again this summer. However, the aviation picture is more complicated. Airlines have been forced to cut capacity permanently so we need to be cautious about expectations on how quickly it will come back and to what extent. It might take a couple of years to build back from here, rather than an immediate bounce-back. We will likely exit 2021 with one to two million barrels of jet demand still to recover. And let's also remember that it's not only an airline capacity issue - there are a number of unknowns that might slow things down, such as the possible requirement for vaccination certificates for country-entry or for air travel. The world will not be fully vaccinated by December.

Q: What do you make of Saudi Arabia's decision in January to cut output unilaterally?

Russell Hardy: It's been a tough year for all OPEC+ producers. The Saudi cut has probably had the required effect in giving the market a little bit of a spur at a time when it's struggling for demand. In Europe, we see sideways trade for the next two or three months. Any pickup in demand will only start in the second quarter, so the temporary cut by the Saudis fit what the market needed at the time.

Q: Is the market correct to be front-running demand or does it risk tightening supply?

Russell Hardy: Demand is expected to increase by 6 to 6.5 million barrels a day this year – that's an enormous change and makes it very difficult to pinpoint accuracy. Demand will be covered by additional OPEC oil later in the year. The market is fast-forwarding to that point – where demand starts to catch up to where it was in 2019 and, with that, we're going to need more OPEC oil. We may even need more US shale, so the market is anticipating that and getting ahead of that potential supply problem later on in the year.

Q: Will the recent spike in gas prices continue?

Russell Hardy: It's a typical cyclical effect. Gas shortages have been going on for a couple of months. Supply problems have left inventories a little bit shy of where they need to be in Asia, so that's driven prices higher. We've got an illiquid market at the moment with a lack of buyers and sellers, so trying to pin exactly where fair value is, is proving tricky. But there has been genuine need for product among Asian utilities, pulling LNG from Europe and the US to the extent that it possibly can. And with limited shipping in the LNG market, Europe is now lacking cargoes, which has led to repricing there, reducing demand for gas and encouraged the use of other fuels within the power sector.

Q: How has the trading scandal in Asia affected the business overall?

Russell Hardy: This affected the banks badly – it's important that going forward the banks look to their client base and ensure that they lend to those they're comfortable with. There has been a little bit of a flight to quality and some changes in flows, but the markets haven't really felt it yet. That will be more evident when we have higher prices. Most companies are operating with lower working capital requirements because prices are relatively low. The need for debt will increase as prices go up and that's the point at which we may hit some ceilings for some of the firms, in terms of what they can do because of a lack of liquidity. Some of the smaller players may face issues as prices move higher.

**Edited transcript*

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Lars Liebig
Managing Director
Uniper Energy Dubai (UED)

We came to the UAE in 2015 with a plan to install a refinery to produce 0.1% sulfur fuel oil, and then serve the SECA 0.1% marine fuel market in Singapore and Europe. At the time, the 0.5% sulfur limit ruling that would come from the International Maritime Organization (IMO) in January 2020 was not guaranteed. In fact, the feel in the broader market was that a 0.5% limit would come in 2025, or perhaps not at all. So, while we hoped for 0.5%, we planned for 0.1%. As IMO 2020 became clearer, we saw demand for our products rising – more than tripling.

Fujairah's springboard

Our tremendous growth rate in a relatively short time was largely possible due to the set-up in Fujairah. For one, the interconnectivity between terminals meant we were able to contract extra storage in different terminals, operating out of three, sometimes four, terminals simultaneously. This made it much easier for us to adjust to market dynamics and needs, scaling up or down.

Next on the list?

Biofuels are going to play an increasingly big role, as will hydrogen. It will not be imminent, but it will come. In this vein, Fujairah must think about how to establish itself as it did for conventional oil products. This willingness to evolve is one of the many ingredients, which will help Fujairah's influence and portfolio grow even further. Plus, putting down investment requires straightforward processes and geographical stability – both of which Fujairah has. ■

FEATURE INTERVIEW

“Will Murban Crude Contract to Launch on ICE Boost Market Transparency?”

Stuart Williams
President of ICE Futures Europe Intercontinental Exchange

Futures markets are by design the most democratized and accessible market structure. Murban crude is used by a broad range of physical players in Asia; putting it alongside the globally distributed benchmarks that we already host on the ICE platform is a very powerful proposition. The distribution of that transparency is going to be significant. It effectively puts Murban pricing on the desktop of every oil trader, linking it to capital efficiencies in the financial community. One of the lessons that was reinforced to all of us in 2020 was the importance of the ability to access real-time pricing for risk management and also executable liquidity as markets move about.

Q: Do you have all the regulatory approvals needed to set up the new exchange?

Stuart Williams: We’ve made very good progress. We have approval from the Bank of England in the UK, which is a big milestone, and also from the Monetary Authority of Singapore, alongside those received last year, which include the Abu Dhabi Global Markets, the US and Switzerland. We’ve also completed the relevant analysis for other jurisdictions such as the Netherlands, France, Norway, Australia, Japan, and South Korea, so an increasing number of people will be able to access ICE Futures Abu Dhabi and the Murban contract.

Q: What about the technical mechanics?

Stuart Williams: From a technology perspective, the distribution network is ready to go and we are working very closely with the trading community and clearing house that manage the positions. Everything is lining up well for the launch at the end of March. The contract will also track the same trading hours and calendar as other global benchmarks. So, when Brent or WTI are open, Murban will be too.

Q: What significance does the contract have on pricing US crudes?

Stuart Williams: ICE has signed contracts with Chevron, Trafigura and Occidental, which have used Murban crude as a benchmark for US crude moving into Asia. US producers have become an important part of the global crude market. We are seeing that across the board in terms of discussions on what is the right pricing mechanism for US exports, and particularly highlighted through some of the events of 2020. What we are seeing is that once US crude hits the water in the Gulf Coast, it prices with reference to instruments related to Brent. So, from a strategic perspective, putting Murban in an exchange and clearing infrastructure that provides offsets against the Brent complex, makes that a very viable pricing alternative for crude that gets exported from the US Gulf Coast into Asia.

Q: Does the contract bring any advantage to arbitrage trade?

Stuart Williams: From a quality and pricing perspective, if one thinks about how arbitrage is managed between various locations and what instruments are used, we see Murban as being an attractive instrument not just for Middle Eastern exports to Asia, but also for crude moving from the US Gulf Coast to Asia. That was the logic of engaging with US exporters and we will continue doing so to make that happen. They and other producers are all active on the ICE platform – getting them involved in the activity on the Murban contract will contribute to building the liquidity and the global relevance of this is as a price market.

**Edited transcript*

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As the UAE’s only emirate on the Arabian Sea coast, Fujairah is at the heart of the new energy corridor opening up East of Suez to Asia. The emirate is already established as a world-scale storage and bunkering center alongside Rotterdam and Singapore and is set to benefit in the next few years from companies’ plans to expand crude and petroleum product facilities to avail of the state-of -the-art physical infrastructure on offer

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FEATURE INTERVIEW

"Outlook for Energy Storage in 2021?"

Rob Nijst
CEO, VTTI

Q. The contango for most of 2020 must have been positive?

Rob Nijst: Everybody always talks about contango being good for terminal companies but it's only good if you have contracts that need to be renewed. We were in a very fortunate position that last year in March and April we had quite a few contracts coming up for renewal so we benefitted from the contango structure because we could renew contracts at better rates. But even in hindsight now, yes, we did see a lot of stock building through our sites globally in 2020, but we did not see a dramatic change in throughputs – they were roughly the same as 2019 – and that is usually the cream on the cake in our industry. We haven't seen that worldwide, and that was also as expected – the drawback of contango is that people don't move their product that much.

Q. How was the market impacted by the IMO bunker fuel sulphur directive last year?

Rob Nijst: There was a lot of expectation that marine gasoil would be coming in quite heavily, but we didn't see that. So, we made some big adjustments in terms of our terminals' infrastructure in Rotterdam, Fujairah and Singapore. We ended up with 50% of bunker fuels in Rotterdam as low sulphur fuel oil (LSFO) and about 75% LSFO in Panama and Singapore. For storage companies that is a fantastic opportunity because blending means more components, and that means more capacity, more infrastructure, and more services. If this continues for the next few years (and it will depend to an extent on how it all moves with scrubbers being installed on vessels), it's a nice add-on for terminals. Also, in Europe and other parts of the world, biofuels are a next step that we are looking forward to expanding into. In that case, there would be great opportunities for terminals to firstly, carve out niche sectors in infrastructure to host the biofuels, but it also gives fantastic blending opportunities going forward.

Q. Where are the opportunities for storage companies to add value from what the current market structure is offering?

Rob Nijst: One thing to bear in mind is that we never build terminal infrastructures for a particular market structure – for example, for contango – because then you lose out for the most part of the year. We build our terminals because there's a functional need for blending and for imports. Our type of business is impacted negatively in terms of pricing pressure if there is overbuild in certain regions. Looking ahead, we need to make the turn into a more sustainable business so we will be looking to move more into LNG as a transition fuel and confirm a few projects. In addition to more focus on biofuels, we're going to dip our toes into the hydrogen pool – we need to understand what it does for the industry and what it does for infrastructure companies like ours. And lastly, as we have done in China in 2020, we are looking at diversification outside of hydrocarbons into chemicals. In addition, we will continue to invest in oil storage where there is a functional need.

Q. What's the outlook for floating storage in 2021?

Rob Nijst: Crude and middle distillates have come down quite a bit to about 40 million barrels compared to 100 million barrels last year. We always have some floating storage but it's never a real competitor to flexible terminals. It has limitations and you can't do blending as well as you would want to. In addition – and this is a message to ports around the world – you don't want a lot of manipulation being done on products offshore. You want to do that in a secure and safe environment in the terminal onshore.

Q. What's on the horizon in terms of new acquisitions and geographies?

Rob Nijst: The move into China has been a very deliberate strategy to start to roll out a more ambitious growth into chemicals. With the support of ADNOC and VITOL, we've decided to move into chemicals in China, Southeast Asia, and Europe. We have also embarked on making sure that we get the first projects completed into LNG. These regions, and the Middle East, are still very much growth areas for us in the future.

**Edited transcript*

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