Business must come clean quickly on climate: Carney

LONDON, Feb 14 (Reuters) – Bank of England Governor Mark Carney called on the world's businesses to publish strategies for cutting carbon emissions and adopting cleaner power sources by November, when world leaders meet in Scotland for U.N.-led climate talks.

"It's not just green assets and divestment campaigns or certain things are so brown or black. Every company ultimately has to have a plan for a transition and what the opportunities are and where the risks are," Carney said in an interview.

"For Glasgow that must be well on the path. That that is the norm. That the question doesn't even have to be asked because companies are answering that question as part of their strategy.

"And the answer is, it's the transition, stupid," he said,

referencing a phrase coined by former U.S. President Bill Clinton’s election strategist in reference to the U.S. economy.

Carney was speaking to Reuters a month before he leaves his nearly seven-year posting at the helm of Britain’s central bank to take a new role as the United Nations’ envoy for climate.

The Canadian banker, who disarmed the British insurance industry in 2015 when, in a speech called “Tragedy of the Horizon,” he warned of their exposure to climate-related events, has been one of the most vocal public figures to push for better supervision and disclosure of climate risk.

The Task Force on Climate-related Financial Disclosures (TCFD), which he launched in 2015, has become a global standard that more than 1,000 companies, financial firms, governments and other organizations have adhered to.

The intentions behind it also chime with a shift of emphasis by another leading central banker, European Central Bank President Christine Lagarde.

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Carney said November's COP26 climate talks would also be a good deadline for regulators to map out how to make the TCFD framework compulsory.

"One of the things we will look at ahead at for the COP26 is 'should we have pathways to make the TCFD mandatory?' Not overnight, but through listing requirements or securities regulation disclosure standards," he said.

Such an effort needs to be global, Carney said, encompassing regions laying out their own plans for cutting emissions. The European Union recently announced a 1-trillion-euro ($1.08 trillion) effort become carbon neutral by 2050, a strategy that includes introducing a new climate law by next month.

"It would be productive if other jurisdictions that potentially will have mandatory disclosure standards… used more conventional routes than legislation, such as securities regulations or listing standards. Let's have that conversation," Carney said.

Carney could play an outsized role at November's summit, especially in view of a reshuffle of government and other senior positions by Prime Minister Boris Johnson.

Johnson last month sacked former energy minister Claire O'Neill from her role as president of the COP26 talks. Newly appointed Business Minister Alok Sharma was named to the position on Thursday.

Efforts by businesses, investors and financial institutions to disclose climate risk are gathering pace.

BlackRock BLK.N, the world's largest money manager with nearly $7 trillion in assets under management, said this month that

it would take a tougher view of companies that are not properly disclosing their climate risk.

This week, BP <BP.L> set out one of the oil sector's most ambitious targets for curbing carbon emissions, saying it would reduce its greenhouse gas emissions to net zero by 2050. BP plans to give details later this year.

"Last week, very few people would have said BP was Paris-aligned," said Carney, referring to the 2015 global climate agreement, signed in the French capital. "They've jumped from towards back of the queue to the front of the queue."

($1 = 0.9225 euros)

(editing by John Stonestreet)

Landing a Blow Against Climate Change

For the last decade, bioenergy has been confined to the

sidelines of climate-policy debates, owing to the environmental problems associated with its production. But recent innovations have made this option for supplying sustainable, renewable energy not just viable, but necessary.

BONN – In the face of climate change, providing reliable supplies of renewable energy to all who need it has become one of the biggest development challenges of our time. Meeting the international community's commitment to keep global warming below 1.5-2°C, relative to preindustrial levels, will require expanded use of bioenergy, carbon storage and capture, land-based mitigation strategies like reforestation, and other measures.

The problem is that these potential solutions tend to be discussed only at the margins of international policy circles, if at all. And yet experts estimate that the global carbon budget – the amount of additional carbon dioxide we can still emit without triggering potentially catastrophic climate change – will run out in a mere ten years. That means there is an urgent need to ramp up bioenergy and land-based mitigation options. We already have the science to do so, and the longer we delay, the greater the possibility that these methods will no longer be viable.

Renewable energy is the best option for averting the most destructive effects of climate change. For six of the last seven years, the global growth of renewable-energy capacity has outpaced that of non-renewables. But while solar and wind are blazing new trails, they still are not meeting global demand.

A decade ago, bioenergy was seen as the most likely candidate to close or at least reduce the supply gap. But its development has stalled for two major reasons. First, efforts to promote it had negative unintended consequences. The incentives used to scale it up led to the rapid conversion of invaluable virgin land. Tropical forests and other vital

ecosystems were transformed into biofuel production zones, creating new threats of food insecurity, water scarcity, biodiversity loss, land degradation, and desertification.

In its *Special Report on Climate Change and Land* last August, the Intergovernmental Panel on Climate Change showed that scale and context are the two most important factors to consider when assessing the costs and benefits of biofuel production. Large monocultural biofuel farms simply are not viable. But biofuel farms that are appropriately placed and fully integrated with other activities in the landscape can be sustained ecologically.

Equally important is the context in which biofuels are being produced – meaning the type of land being used, the variety of biofuel crops being grown, and the climate-management regimes that are in place. The costs associated with biofuel production are significantly reduced when it occurs on previously degraded land, or on land that has been freed up through improved agriculture or livestock management.

Under the 1.5°C warming scenario, an estimated 700 million hectares of land will be needed for bioenergy feedstocks. There are multiple ways to achieve this level of bioenergy production sustainably. For example, policies to reduce food waste could free up to 140 million additional hectares. And some portion of the two billion hectares of land that have been degraded in past decades could be restored.

The second reason that bioenergy stalled is that it, too, emits carbon. This challenge persists, because the process of carbon capture remains contentious. We simply do not know what long-term effects might follow from capturing carbon and compressing it into hard rock for storage underground. But academic researchers and the private sector are working on innovations to make the technology viable. Compressed carbon, for example, could be used as a building material, which would be a game changer if scaled up to industrial-level use.

Moreover, whereas traditional bioenergy feedstocks such as acacia, sugarcane, sweet sorghum, managed forests, and animal waste pose sustainability challenges, researchers at the University of Oxford are now experimenting with the more water-efficient succulent plants. Again, succulents could be a game changer, particularly for dryland populations who have a lot of arid degraded land suitable for cultivation. Many of these communities desperately need energy, but would struggle to maintain solar and wind facilities, owing to the constant threat posed by dust and sandstorms.

In Garalo commune, Mali, for example, small-scale farmers are using 600 hectares previously allocated to water-guzzling cotton crops to supply jatropha oil to a hybrid power plant. And in Sweden, the total share of biomass used as fuel – most of it sourced from managed forests – reached 47% in 2017, according to Statistics Sweden. Successful models such as these can show us the way forward.

Ultimately, a reliable supply of energy is just as important as an adequate supply of productive land. That will be especially true in the coming decades, when the global population is expected to exceed 9.7 billion people. And yet, if global warming is allowed to reach 3°C, the ensuing climatic effects would make almost all land-based mitigation options useless.

That means we must act now to prevent the loss of vital land resources. We need stronger governance mechanisms to keep food, energy, and environmental needs in balance. Failing to unleash the full potential of the land-based mitigation options that are currently at our disposal would be an unforgiveable failure, imposing severe consequences on people who have contributed the least to climate change.

Bioenergy and land-based mitigation are not silver bullets. But they will buy us some time. As such, they must be part of the broader response to climate change. The next decade may be

our last chance to get the land working for everyone.

Libya economic experts to study oil revenue sharing, says UN

Libyan economic experts will study the distribution of crucial oil revenue as efforts continue to solve the war-ravaged OPEC member’s political crisis, the United Nations said.

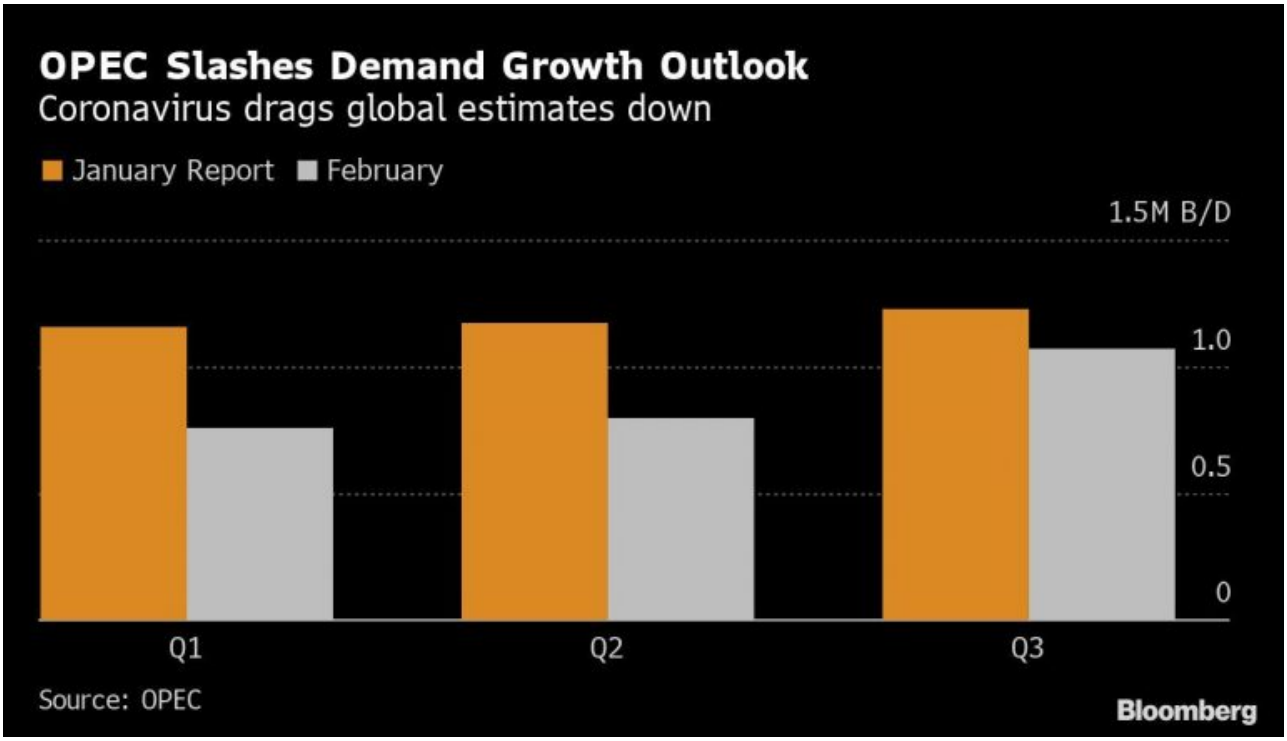
The decision to assign the economic commission to work “on issues of immediate concern,” which also include a banking crisis, came after meetings in Cairo this week attended by representatives from across Libya’s political spectrum as well as economists and other academic experts. The experts agreed to meet again in early March, the UN mission in Libya said Tuesday in a statement.

The oil market had been closely monitoring the talks for any sign of a deal to restore output in the North African nation after supporters of eastern commander Khalifa Haftar forced ports to close mid-January, driving daily output down to about 180,000 barrels, its lowest since the 2011 uprising against long-time leader Moammar Qaddafi.

Imminent large-scale resumption, although unlikely, could add over 1 million barrels per day to the international market, complicating OPEC's efforts to assess the impact of the coronavirus on demand.

The talks were the latest in a series of global efforts to end the conflict between the internationally recognized government in Tripoli and Haftar, whose forces control the oil-rich east and south and in April turned their sights on the capital.

Opec slashes oil demand forecast as virus threatens new glut



OPEC slashed forecasts for global oil demand as the coronavirus hits fuel use in China, leaving the group facing a renewed glut despite its recent production cuts.

The cartel reduced projections for demand growth in the first quarter by 440,000 barrels a day, or about a third, in its monthly report. Oil prices sank to a one-year low on Monday as the infection leaves businesses idle and millions quarantined in the world's biggest crude importer.

Oil's slump has spurred the Organization of Petroleum Exporting Countries' biggest exporter, Saudi Arabia, to press fellow members and allies to hold an emergency meeting and consider new output cutbacks. Yet the proposal has so far met resistance from Russia, the group's most important ally, which is able to weather lower prices more easily.

The report showed that, even though many OPEC members made a strong start with fresh output curbs that took effect last month, the virus' impact on consumption will leave them with a new overhang.

The group collectively pumped 28.86 million barrels a day in January, and if it maintains that rate there will be a surplus

of 570,000 barrels a day during the second quarter, when consumption slows down seasonally. The monthly report is compiled by OPEC's Vienna-based research department.

OPEC doesn't see the effects of the disease confined to the start of the year, bringing down its growth estimate for global oil demand in 2020 as a whole by about 230,000 barrels a day to just under 1 million a day. Still, the increase remains slightly higher than last year's.

Though crude futures have recovered on speculation the spread of the disease could be nearing its peak, prices of about $55 a barrel in London remain well below the levels most OPEC members need to cover government spending.

Since the producer group formed an alliance with non-members such as Russia three years ago, the coalition has restrained supplies to offset a surge of production from the U.S. shale industry, and keep prices supported. They embarked on a new round of cutbacks in January.

Last week, a committee of technical experts from the alliance, known as OPEC+, recommended reducing output by a further 600,000 barrels a day to offset the impact of the coronavirus. Russia, however, says it's "studying" the proposal and its energy minister, Alexander Novak, is consulting with oil companies today.

OPEC's latest outlook may encourage them to give greater consideration to taking additional measures.

"Clearly, the ongoing developments in China require continuous monitoring and assessment to gauge the implications," the report said.

Permian gas-flaring is much worse than previously thought

The burning and releasing of vast amounts of natural gas into the atmosphere in America’s top shale basin is much bigger than previously thought when processing plants are included, Rystad Energy found.

Research on the controversial practices of flaring and venting — described by shale pioneer Scott Sheffield as a “black eye” for the Permian Basin — has typically focused on emissions by oil producers at the wellhead.

But gas-processing facilities in the region are receiving more gas than they can handle, so they burned off or released about 190 million cubic feet per day of the fuel last year, raising the total by 30% to roughly 810 million, data from Oslo-based Rystad shows. That’s almost enough gas to supply 5 million

U.S. homes.

“With the inclusion of estimates for gas plant-related flaring, we observe a significant increase in total Permian flaring and venting compared to our previous update,” the consultancy said in a report.

The silhouette of an electric oil pump jack is seen near a flare at night in the oil fields surrounding Midland, Texas.

Flaring has become a major source of negative attention for Permian oil producers in Texas and New Mexico as concerns about greenhouse-gas emissions and climate change grow among consumers and investors. Permian drillers burn or release the gas that comes out of wells as an unwanted byproduct because they lack pipelines to send it where it’s needed.

Rystad, a leading provider of flaring and venting data, uses information from the U.S. Environmental Protection Agency, the Texas Railroad Commission, which regulates oil and gas in the state, and its own estimates.

Ryan Sitton, one of the regulator’s three commissioners, plans to release a first-of-its-kind report on flaring next week to give the public better information. The commission’s reporting has been criticized as “outdated” and “difficult-to-manipulate” by the Environmental Defense Fund.

The dearth of good-quality data means that total flaring volumes are likely underreported, according to Rystad. Of the Permian’s 50 smallest operators, only seven posted any flaring at all, meaning there are “obvious gaps” in the data, the consultancy said.

“This implies energy regulators might need to enforce better waste gas reporting standards to ensure that the market has sufficient fact-based visibility on the total volume of flared gas in the Permian,” Rystad said.

Texas regulators have come under pressure from environmentalists and some larger oil producers for allowing the industry to burn off gas at record levels in the Permian. While safer and cleaner than letting methane vent unchecked into the air, flaring produces carbon dioxide and wastes a useful resource. Opponents say producers should not be allowed to flare at will, and should not be allowed to drill wells unless they have a plan for their gas.

Click here for more on the commission's planned report

The Texas Railroad Commission says the increased flaring is primarily a result of surging crude production in the basin. The amount of gas flared as a portion of total production in Texas is much lower than other major oil producers such as Russia or states like North Dakota, Sitton said last week.

Still, if the Permian were a country, it would have ranked ninth for total volume of flared gas in 2018, ahead of Mexico and Angola and just behind Libya.

Including processing plants, the Permian flares about 5.5% of its gas, down slightly from a year ago, Rystad said.
– With assistance by Rachel Adams-Heard

Why company carbon cuts should include 'scope' check

When a company pledges to cut its carbon emissions, how big a deal is it? That depends on what's being counted. An oil company's direct emissions – those from its trucks, drills and facilities – are only a sliver of the carbon released when the fuel it sells is burned, and an airport vowing to use wind power for its runway lights is making a much smaller commitment than if its promise covered the flights that take off there. As more investors take environmental factors into account, what had been a technical debate is taking on increased importance, as a matter of "scope."

1. What does scope mean?

As the effort to boost green investment has grown, so have efforts to create metrics and standards for accounting and disclosure. Counting emissions isn't as simple as tracking what comes out of a smokestack. Under what's known as the Greenhouse Gas Protocol Standard, emissions are classed as Scope 1, 2 or 3. Scope 1 covers "direct emissions" – those from sources that are owned or controlled by a company, like those oil company trucks. Scope 2 covers emissions from the

generation of energy the company buys, such as electricity or heat. Scope 3 is everything else: the emissions that come from the entire value chain.

2. What does that mean?

Scope 3 covers emissions from all of a company's non-energy inputs, like steel for a drilling rig or cement for its buildings, and from all the uses to which a company's products are put, like the fuel an oil company sells. It's the complete supply chain, which means that for almost all companies, Scope 3 is far bigger than the other two scopes combined.

3. What's the purpose of breaking it down this way?

To add meaning to company pledges about becoming more climate friendly, and to give investors more objective measures for evaluating how a company or sector is doing on going green. The hope is that disclosure will give the market the opportunity to reward or pressure companies depending on their performance.

Calculating Carbon

Oil companies' carbon footprints are mostly due to scope three emissions

4. Where did this approach come from?

The first investor to measure the carbon footprint of a portfolio may have been Henderson Global Investors in 2005, but the idea gained momentum following the 2015 Paris Agreement on climate change, in which countries pledged to set specific targets for emissions cuts to slow down the threat of global warming. The Task Force on Climate-Related Financial

Disclosures, an industry-led group set up that year to encourage companies to put details about their environmental risks in the public domain. It encourages investors and executives to disclose the scope 1 and scope 2 emissions of their portfolios, and scope 3 “if appropriate.” (The task force was founded and is chaired by Michael R. Bloomberg, the majority owner of Bloomberg LP, the parent company of Bloomberg News.)

5. Is it working?

To an extent. Some companies are beginning to clean up supply chains that they’ve left to their own devices for decades. They’re questioning how their raw materials are manufactured and, among other things, are moving to develop greener, cleaner ways of making steel or cement and transporting goods. Vestas Wind Systems A/S, the world’s largest maker of wind turbines, promised to eliminate all waste in the production of its machines by 2040 as part of its drive to hit carbon neutrality by the start of the next decade. Big emitters like Royal Dutch Shell Plc, BP Plc and Equinor ASA have committed to carbon-emissions targets that include Scope 3, that is, the end use of the products they sell, while Repsol SA pledged to eliminate all emissions from its operations and fuel sold to customers by 2050.

6. What kind of problems are there?

Climate disclosure is voluntary, and among the companies that are making pledges on emissions, there are no requirements about what kind of scope needs to be covered. For instance, last year National Grid Plc, the U.K.’s power network operator, unveiled a plan to hit net zero emissions by 2050, but the plan only covered Scope 1 and 2, which together made up only 18% of emissions when Scope 3 was included.

7. Can that change?

Maybe. The Science-Based Targets Initiative, a non-profit group that encourages companies to set emissions targets based on the latest available scientific pathways, has said that if any member company’s scope 3 emissions account for 40% or more of its total emissions, it should set a target covering scope 3. Companies also face growing pressure from asset owners, such as pension plans and sovereign wealth funds, as well as their employees, lawmakers and activists. Money managers from Amundi SA to BlackRock Inc have pledged to use their vast resources to combat climate change. Non-profits like CDP, a U.K.-based group, are pushing for increased transparency, working with thousands of companies around the world including Bloomberg to help them be more open and better understand their environmental impact.

Norway vows to keep pumping gas as prices fall

Europe’s second-largest gas supplier plans to keep pumping natural gas even after prices dropped to their lowest in more than a decade. The region’s benchmark slid 50% in the past year after a mild winter left inventories brimming and more cargoes of liquefied natural gas flooded the market. Yet that’s not putting off Equinor ASA, the Norwegian state-owned producer, which delivers about a fifth of the European Union’s pipeline gas imports. “If someone is hoping for supply relief coming from Norway, we will have to disappoint them,” Tor Martin Anfinnsen, the state-owned company’s senior vice-president for marketing and trading, said in an interview in Essen, Germany. “We will be the last ones to turn off the taps. We are far away from reducing flows.” The unwillingness to cut flows may seem surprising, considering that Equinor is one of the most exposed oil companies to European and US spot

natural gas prices, according to Sanford C Bernstein & Co, which sees the company's gas earnings fall by about €300mn ($326mn) in 2020 if prices don't change from current levels. But both Equinor and its larger Russian rival Gazprom PJSC may be focusing on preserving market share as competition heats among LNG suppliers. Equinor's gas production "is very cost-competitive," Anfinnsen said. The company said it continues its normal practice, which is to optimize prompt versus forward markets according to demand signals within the flexibility limits under its license permits. Norway's pipeline exports of natural gas to continental Europe and the UK fell to 107bn cubic meters in 2019 from 114bn cubic meters the year before as Equinor and other producers choose to hold back volumes amid the bad market conditions, according to Norwegian Petroleum Directorate. Benchmark next-month gas in the Netherlands has dropped to about €8.70 a megawatt-hour ($2.75 a million British thermal units), the lowest since August 2009. Norway's marginal production cost is about €6 a megawatt-hour and Russia's is around €8, according to six traders and analysts consulted by Bloomberg since Tuesday at the E-World conference in Essen, Germany. "Even if prices achieve levels below Norway and Russia's marginal cost of production, these countries usually have long-term strategies for gas supply," Frank van Doorn, head of trading at Sweden's Vattenfall AB, said in an interview in Essen. "I am not sure if they would have a quick answer to low prices." Even the coronavirus may weigh down on European gas if more Chinese buyers declare force majeure on LNG supplies, leaving the potential for increased imports of the chilled fuel into the region, van Doorn said. "It is hard to find a bullish factor for natural gas right now," he said. "It can take more than two years until we see an upside move."

Focus on Exxon, Chevron after BP pledges to be carbon neutral

BP's pledge to zero out all its carbon emissions by 2050 deepens the divide between major European and American oil producers on climate change, increasing the pressure for Exxon Mobil Corp. and Chevron Corp. to do more.

The U.S. giants have committed only to reducing greenhouse gases from their own operations. On Wednesday, BP followed Royal Dutch Shell and Equinor in pledging to offset the carbon emissions from the fuels they sell. Known as Scope 3, the emissions from cars, homes and factories are responsible for 90% of fossil fuel pollution.

"If we do see capital flowing into BP, that may force the U.S. majors to rethink the speed at which they move on carbon reduction targets," said Noah Barrett, a Denver-based energy analyst at Janus Henderson, which manages $356 billion.

The growing outcry against human-made global warming is

increasingly making its way into mainstream business and investment strategies. It has already reshaped the way European oil producers operate by actively engaging in the transition to cleaner energy sources.

Exxon and Chevron agree with the goals of the Paris Climate Agreement, support a carbon tax and are committed to cleaning up emissions from their vast network of wells, refineries and pipelines. They joined the Oil and Gas Climate Initiative later than their European rivals but are still fully paid-up members. They even lobbied against President Trump's plan to roll back Obama-era emission standards.

But the fundamental difference with European peers is that neither has any plan to allocate a chunk of their multibillion-dollar capital budgets toward proven low-carbon energy sources where they have no competitive advantage. The chief executives of both companies said last year that they remain committed to their core oil and gas businesses and have no plans to chase the crowd into lower-margin renewables such as wind and solar.

That puts them in an increasingly isolated position when compared with BP and Shell, whose executives have vowed to lead the energy transition.

BP went further than any other oil giant by pledging to become net zero, meaning it's aiming to completely offset its emissions with renewable energy. Spain's Repsol recently made a similar commitment.

Even so, environmentalists shouldn't get their hopes up. "I don't see Chevron or Exxon adopting a BP-like strategy in the near future," Janus' Barrett said. "The U.S. majors have historically been less aggressive in their shift away from traditional oil and gas."

When asked about potentially following Shell into the power sector, Chevron CEO Mike Wirth was clear.

“It’s a business we haven’t chosen to go in,” he said in a February 2019 interview. “And it’s inherently lower-return than the other things we could invest money in.”

Chevron is investing in early-stage technologies that could aid carbon capture and energy storage, but they are small fraction of its budget.

Effectively reducing Scope 3 emissions requires a combination of well-designed policies and carbon pricing mechanisms, Chevron said in a response to questions. Exxon said Scope 3 emissions are not within its direct control, but rather a function of energy demand and consumer choices.

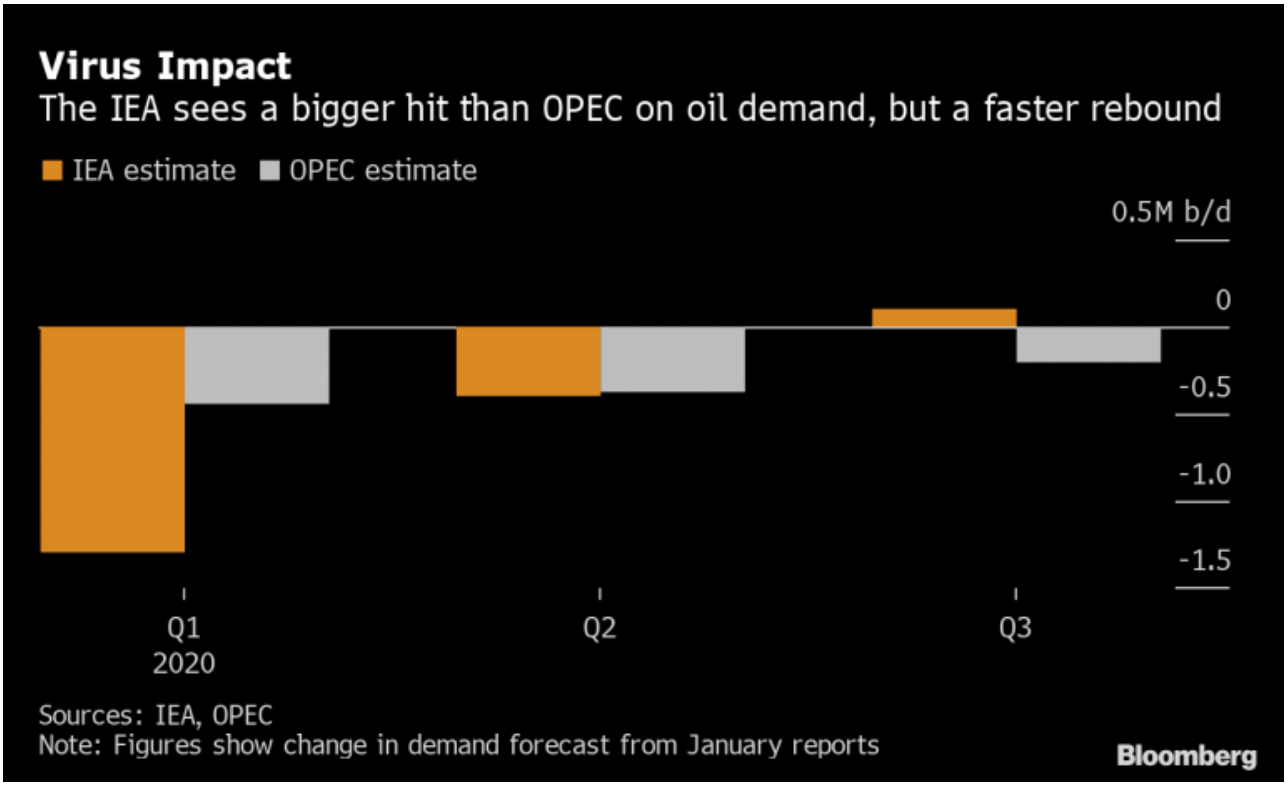
Exxon CEO Darren Woods sees the answer to climate change as essentially a technology problem that has not yet been solved.

The oil giant is working on proprietary technologies that would reduce emissions in areas such as aviation, heavy-duty vehicles and industrial processes. “We can bring more value in the space where we don’t know what the solution is but we need one,” Woods said in an April interview.

This approach probably will come under attack at this year’s round of annual general meetings in May. Both companies are being asked by Dutch activist shareholder group Follow This to align their strategies with the Paris agreement. Exxon is asking the Securities and Exchange Commission to exclude the proposal from the ballot, arguing it “seeks to micromanage” the company.

Chevron shares rose 0.7% on Wednesday. Exxon shares climbed 1.2%.

IEA sees first global oil demand drop in a decade on coronavirus



Global oil demand will drop this quarter for the first time in over a decade as the coronavirus batters China's economy, the International Energy Agency said.

The agency said that the consequences of the outbreak for oil demand "will be significant."

The new estimates show that oil markets face a major surplus despite the latest production cuts by OPEC and its partners. The impact of the epidemic will be felt throughout the year, the agency said.

"Demand has been hit hard by the novel coronavirus and the widespread shutdown of China's economy," the Paris-based IEA said. "The crisis is ongoing and at this stage it is hard to be precise about the impact."
World fuel consumption – which had previously been expected to

grow by 800,000 barrels a day during the three-month period, compared with a year earlier — will instead contract by 435,000 a day, the IEA said in its monthly oil market report.

For 2020 as a whole, the virus will curb annual growth in global consumption by about 30%, to 825,000 barrels a day, the lowest since 2011. The effects will be more significant than those of the 2003 SARS epidemic because of China's increased importance and integration within the world economy.

The outbreak has shuttered businesses and prompted the quarantine of tens of millions of people in China, which imports the most crude in the world. The country accounted for about 75% of last year's oil-demand growth, according to the IEA, which advises most major economies.
U.S. crude futures have fallen 17% this year as traders assessed the impact of the epidemic. Consumers are unlikely to benefit from the drop in fuel prices because the disease will inflict damage on the wider economy, the IEA said.

The outbreak has prompted Saudi Arabia, the world's largest oil exporter, to push its allies in the Organization of Petroleum Exporting Countries and beyond to consider an emergency meeting and further production cuts. However, Russia, the kingdom's most important partner in managing supplies, has so far resisted the initiative.

Even though the group launched new supply curbs at the start of this year, the slump in demand threatens markets with a surplus of about 1.7 million barrels a day during the first quarter and 560,000 in the second. Last month, OPEC was already pumping the least crude since the financial crisis of 2009, according to the IEA.

The OPEC+ alliance had already faced an oversupply in the first half of 2020 because of the ongoing output surge from U.S. shale-oil drillers, the agency said. That industry is likely to remain resilient against the price slump until later in the year, it predicted.

Given the abundance of supply, disruptions in OPEC members such as Libya and Nigeria are having little impact on prices, the agency said.

France’s Total rejects force majeure notice from Chinese LNG buyer

ABERDEEN/SINGAPORE (Reuters) – French oil major Total rejected a force majeure notice from a liquefied natural gas (LNG) buyer in China, the first global energy supplier to push back publicly against a firm trying to back out of a contract amid the coronavirus outbreak.

The move by the Chinese buyer is likely to increase concerns

that Chinese importers, or even exporters of product parts to global firms, could use force majeure certificates to get out of long-term contracts, trade sources said.

Companies invoke force majeure when they cannot meet their contractual obligations because of circumstances beyond their control.

The effect is being felt in the spot crude oil and LNG market as sales have slowed into China, the world's top energy consumer, increasing supplies and depressing energy prices.

Last week, a Chinese international trade promotion agency said it would offer force majeure certificates to companies struggling with the epidemic to give to their overseas partners.

So far, most of the applications for the certificates had been from Chinese exporters, although there were a few inquiries from importers, a source familiar the matter said.

The outbreak, which has claimed more than 630 lives and infected over 31,000 people, has forced companies to shut factories and stores across China and led to flight cancellations as governments and firms curb travel.

"Some Chinese customers, at least one, are trying to use the coronavirus to say I have force majeure," Philippe Sauquet, head of Total's gas, renewables and power segment, said on Thursday.

"We have received one force majeure that we have rejected."

Sauquet did not disclose the name of the buyer.

Total has about 10 LNG cargoes due to land in China this month and at risk of force majeure, according to a person familiar with the matter. Among 35 LNG tankers scheduled to land this month, Royal Dutch Shell and Qatargas, a unit of Qatar Petroleum, also have large Chinese exposures, the person said.

Total, Shell and Qatargas did not immediately reply to requests for comment on the cargoes at risk.

China National Offshore Oil Corporation (CNOOC), which sources said is among Total's biggest LNG customers, declared force majeure on some prompt deliveries with at least three suppliers, Reuters reported on Thursday.

CNOOC did not respond to a request for comment.

"This rift has the potential to become quite ugly because of the contractual precedent it threatens to set," said Ira Joseph, head of global gas and power analytics at S&P Global Platts.

Guangxi Nanguo Copper, a smelter in Southwest China, on Friday also declared force majeure on copper concentrate shipments, two sources briefed on the matter told Reuters.

MISUSE?

Prices of LNG supplied from long-term contracts are currently more than double the cost of spot cargoes.

Chinese companies including CNOOC were offering to resell LNG cargoes in the spot market even before the outbreak, as they struggled to shift high inventory amid weak demand due to a slowing economy and a milder winter.

"There is a strong temptation from some long-term customers to try to play with the force majeure concept," Total's Sauquet said. "To say I cannot take my cargo under the long-term contract, but I would like to buy spot is contradictory."

LNG contracts are typically governed by English law which spell out events constituting a force majeure and some may include the epidemic clause, lawyers told Reuters. Serving the force majeure notice is the first step in a drawn out process, they said.

Also, the onus to demonstrate a force majeure is on buyers to prove that they are not physically able to receive the cargo. For instance, if there are port closures or if workers are unable to get to the ports due to the virus.

“Force majeure is usually aimed at dealing with events such as unforeseen operational outages, rather than changes in broader economic circumstances, such as LNG demand or exchange rates,” said Rob Patterson, partner at law firm Haynes and Boone.