

# GECF lecture focuses on climate change impact on environment



Doha

The Gas Exporting Countries Forum's (GECF) Monthly Gas Lecture in Doha focused on climate change and was led by two experts from Unesco and Qatar University.

The lecture held at the forum's headquarters was a result of the collaboration between Unesco's local office and Qatar University.

In his introduction, GECF secretary-general Dr Yury Sentyurin said, "It is not because we are in this industry that we are not focused on the environment. Quite the contrary. Natural gas is the cleanest fossil fuel and contrary to what some people's perception is, one of the safest fuels overall. Compared to other fossil fuels, natural gas releases the lowest amount of carbon dioxide into the air after combustion, in fact, 50% less than coal and 20%-30% less than oil."

"We consider it as our duty to act within the limits of our authority to reverse the consequences of climate change," Sentyurin added.

Donia Abdelwahed, programme assistant (Science) at the Unesco Cluster Office for GCC and Yemen provided an introduction on Unesco's work in the field of natural resources management and response to climate change.

Donia said, "We are all to a certain extent responsible for climate change and its impact on the environment. As a society we are all jointly suffering its consequences too."

She pointed out that “it is part of Unesco’s role to urge stakeholders to strike a balance between development and preservation so that future generations can enjoy the same things we have been able to.”

In the light of their work towards achieving the UN’s Sustainable Development goals, an objective shared by the GECF, Unesco’s Qatar office is collaborating with Qatar University on preservation of the coral reef ecosystem in Qatar.

In line with this, the second part of the lecture was done by Dr Radouan Ben-Hamadou, associate professor (Marine Science) and head, Department of Biological and Environmental Sciences at Qatar University.

The lecture entitled “The use of decommissioned oil and gas platforms for the restoration of the coral reef ecosystem in Qatar” was introduced by Donia.

Ben-Hamadou’s presentation explored the feasibility of the ‘rigs-to-reefs’ concept in Qatar, which turns decommissioned oil and gas platforms into artificial reefs.

He said that even though corals can adapt to extreme environments, they have “reached a breaking point” and are “dying at a rapid rate”.

But he also mentioned that before any changes can be suggested, they need to understand the working of the ecosystem.

This is why they have been working for several years in collaboration with all stakeholders, including industry, to see how man-made structures can be turned from a threat into an opportunity.

Great strides have been made in the process and the opportunity could be a win-win situation for all parties

involved, as the rigs-to-reef project will not only restore the ecosystem but could also provide significant savings on decommissioning costs for oil and gas companies.

GECF said, "Considering the forum represents 19 gas producing and exporting countries, jointly covering 70% of the proven global gas reserves, this research is clearly relevant to the GECF. Therefore, in his closing remarks, Sentyurin expressed his support of the initiative and his desire to enhance the Secretariat's collaboration with Unesco's Doha office."

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## **Chevron set to buy Anadarko for \$33bn in shale, LNG push**



Chevron Corp yesterday said it will buy oil and gas producer Anadarko Petroleum Corp for \$33bn in cash and stock in a deal that doubles down on its bet on US shale and propels the company into the ranks of the world's "supermajor" crude producers. The deal makes Chevron the second-largest major by crude production, behind Exxon Mobil Corp, up from fourth. It expands Chevron's role in two areas where US energy output is surging – shale from the Permian Basin of west Texas and New Mexico, and liquefied natural gas (LNG) – which have helped make the US one of the world's largest energy exporters. "Chevron now joins the ranks of the UltraMajors – and the big three becomes the big four," said Roy Martin, senior analyst at consultants Wood Mackenzie. "The acquisition makes the majors' peer group much more polarised. ExxonMobil, Chevron, Shell and BP are now in a league of their own."

US crude production stands at a record 12mn barrels a day (bpd), and the nation is the third-largest producer of LNG, the super-cooled fuel that is seeing record demand as a cheaper, cleaner alternative for countries that still rely heavily on coal for power generation. Chevron's pledge to restrain expenditures has made it a favourite among energy stocks, with its shares up 13.8% this year. It plans to sell some \$15bn in assets over time to offset the Anadarko deal. Still, investors sent Chevron shares down 5.2% to \$119.44 yesterday. Chevron chief executive Mike Wirth called the deal a "great fit" for the company. "This is really about creating shareholder value," Wirth said in an interview. "It's a great combination.

That's what drives this." The deal is the oil industry's largest since Royal Dutch Shell bought BG Group in 2016, and it sparked speculation that other shale producers are in play. Shares of Apache Corp, which also has extensive acreage in the Permian Basin, rose 1.8%, while Pioneer Natural Resources Co jumped 9%. With oil prices surging this year, Chevron and larger rival ExxonMobil have been increasing investment in the Permian Basin, the most prolific shale oil field in the country. Their efforts coincide with a pull-back by the smaller companies that revolutionised the industry through advances in horizontal drilling and hydraulic fracking. They have had to curtail spending due to investor dissatisfaction with weak returns. Chevron, which already has 2.3mn acres in the Permian Basin, said the Anadarko deal would give the combined company a 75-mile (120-km)-wide corridor across the Permian's Delaware basin, on the Texas-New Mexico border. "We will now see Chevron emerging as the clear leader among all Permian players, both in terms of production growth and as a cost leader," said Rystad Energy head of analysis Per Magnus Nysveen, noting that Anadarko's acreage is in the "sweetest spot" of the Permian's Delaware Basin. Anadarko also has a Mozambique LNG project, part of one of the industry's largest planned current investments, which Wirth said he

still expects to move to final approval “sooner rather than later” this year.

Expenses from that project are expected to reach \$4bn over several years. The tie-up with Anadarko adds to Chevron’s deepwater investments in the Gulf of Mexico and gives it a stake in growing oil and gas production in the US Rocky Mountains in Colorado. At the end of 2018, Exxon and Chevron accounted for about one-fifth of Permian output, where producers pump around 4mn barrels per day (bpd) currently. IHS Markit expects it to hit 5.4mn bpd in 2023, more than the total production of any Opec country other than Saudi Arabia. “It will be a continuous shift toward larger companies in basically all segments of the shale industry,” said Artem Abramov, head of shale research for Rystad Energy. Shares of Anadarko surged 32% yesterday morning, reflecting the 39% premium offered by Chevron compared to Thursday’s closing market price. The \$65 per share offer was structured as 75% stock and 25% cash. The deal includes taking on \$15bn of Anadarko’s debt.

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## **Climbing Oil Prices Put India’s Benign Inflation Outlook at Risk**



A rebound in oil prices poses a risk to India’s benign inflation expectations that last week allowed the central bank to deliver its second rate cut of 2019.

With crude at a five-month high, many investors are turning less confident about the Reserve Bank of India’s pace

of monetary easing, though a slowdown in economic growth and subdued inflation still support an easing bias.

The low headline print gave Governor Shaktikanta Das and the rate-setting panel the space to cut rates by 25 basis points each in February and April to support the economy. Some economists see room for one more reduction provided food and fuel costs don't spike. Data on Friday showed headline inflation quickened to a five-month high of 2.86 percent in March from 2.57 percent in February.

The RBI last week cut its inflation forecast to a range of 2.9 percent to 3 percent in the April-September period, compared with a February projection of 3.2 percent to 3.4 percent, while seeing price growth this year within its 4 percent medium-term target. It separately cut economic growth forecast to 7.2 percent for the year that began on April 1, down from 7.4 percent previously.

"The recent rise in crude prices, if sustained," could pose a challenge to both economic growth and inflation outlook, said Dharmakirti Joshi, chief economist with Crisil Ltd. in Mumbai.

Forecast for Brent, the benchmark for half the world's oil, has been lifted on the back of production cuts, and the RBI sees prices being pushed up further should the U.S.-China trade tensions be resolved swiftly. The two sides are nearing a trade deal, with talks aimed at clinching one within the next month continuing.

A recent study by the central bank showed a \$10 rise from \$65 a barrel will lead to a 49 basis points increase in headline inflation, while a similar increase from \$55 a barrel would give around a 58 basis-point boost to consumer prices.

Oil's charge higher has also offset any gains from a rising currency on imported inflation. The rupee climbed 2.3 percent against the dollar in March, making it the best performer in Asia. The currency is up more than 7 percent from its October

low, leading to a view among economists like Kotak Mahindra Bank Ltd. Economist Upasna Bhardwaj that some of the impact from the rising currency could help ease inflation.

A 2018 working paper, co-authored by Monetary Policy Committee member Michael Patra, showed that a 1 percent change in the exchange rate translates into a 15 basis-point move in headline inflation over a period of five months.

“We see room for 25 basis points of rate in 2019 given the benign near term headline trajectory,” Bhardwaj said. “Nonetheless, the trajectory on crude oil price increase needs to be watched closely.”

Still, others see the rupee’s role being countered by oil.

“It appears on balance that the recent hardening of oil prices would have negated the impact of rupee appreciation to a large extent,” said Gaurav Kapur, chief economist at IndusInd Bank Ltd. in Mumbai.

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## **Oil’s big reset: Energy majors learn to thrive after price crash**



Bloomberg/London

When Opec started an oil-price war in late 2014, most people believed US shale was doomed. In reality, the giant oil majors suffered most – burdened by expensive mega-projects, Chevron Corp, BP Plc and the rest struggled to adapt to the fall in energy prices.

Slowly, those companies figured out how to survive in the lower-for-longer price era. They cut costs and, more importantly, learned how to stop them from rising again. In an industry that favoured tailored solutions for every project, companies started to talk about standardisation. At closed-door sessions in Davos, Switzerland, Big Oil bosses didn't waste time on self-important talk, but instead discussed how to share the design of anything from underwater valves to pumps.

Nearly five years after the crash, the cultural change is starting to work. The world's major energy companies have managed to press the reset button, allowing them to make profits today similar to what they did in a world of \$100-plus a barrel oil prices.

"Big Oil has been able to re-emerge from this downturn stronger and lower on the cost curve," said Michele Della Vigna, the top oil industry analyst at Goldman Sachs Group Inc, who had been a critic of the majors.

The level of spending at the world's eight largest integrated oil and gas companies fell last year to \$118bn, down 45% from a pre-crisis peak of \$215bn in 2013, according to data compiled by Bloomberg News.

But their business model has changed a lot in the process. The reliance on multibillion dollar projects in far-flung corners of the world has been reduced and the majors are pouring billion into Texas's Permian Basin, once dominated by independent exploration and production companies. Other strategies include trying to build new projects closer to existing ones and reusing old infrastructure to reduce costs. They've also re-discovered the joys of integration, investing in refineries and petrochemical plants that make money even when prices are low.

To the surprise of many in the industry, lower costs haven't translated into slower development. In fact, projects have often come ahead of expectations.

The industry got a lot of help from its suppliers. According to Exxon Mobil Corp, the cost of 3D seismic technology, used



to find underground reservoirs, and the deep-water rigs needed to exploit them has fallen more than 50% from the 2013 level. The new era means combining projects that pay back quickly, whether in US shale or elsewhere, with some traditional larger projects. In the oil industry, it's a model called short-and-long oil cycle, because some projects pay back in as little to two-to-three years, compared to as long as 10 years for conventional projects.

"Big Oil now wants a diversified portfolio with short-and-long cycle oil," said Daniel Yergin, the oil historian that this week hosts the annual CERAWeek energy conference in Houston. "Before the oil crisis in 2014-15, the mere concept of short-cycle oil didn't exist in Big Oil."

Short-cycle oil has a one big advantage over mega-projects: companies can dial them up and down quickly to respond to changes in oil and gas prices.

The other significant change is natural gas. Big Oil had already embraced gas before the crisis, with companies like Exxon investing in massive projects in Qatar. But today some executives suggest gas is gaining the upper hand. "Gas is the fastest growing hydrocarbon," said Bernard Looney, chief executive for upstream at BP. "It's the future."

Despite the significant reduction in spending and much lower energy prices, returns haven't suffered, according to data compiled by Bloomberg. The biggest oil companies posted return-on-capital-employed – a traditional yardstick used by investors – of about 8.7% last year, higher than the 8.4% of 2014.

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**LNG      Canada      CEO      sees      no**

# scenario that would stop its project



Bloomberg/Vancouver

The head of LNG Canada said he does “not see a single scenario” that would stop the nation’s largest infrastructure project from getting built, dispelling concerns that the \$30bn gas export facility is at risk of mounting opposition from pipeline foes.

The liquefied natural gas project in northern British Columbia was approved by Royal Dutch Shell Plc and four Asian partners in October after obtaining the support of the province and 20 First Nation groups. But it continues to face a legal challenge disputing the constitutionality of the project’s approval, as well as protests by a group of indigenous holdouts.

“I do not see a single scenario that would cause the construction of this pipeline to be stopped,” Andy Calitz, LNG Canada’s chief executive officer, said in an interview in Vancouver.

TransCanada Corp is planning to build the pipeline that will carry the gas from western Canada’s prolific Montney shale formation to the coastal export facility in Kitimat. The whole project – including the gas fields, pipeline and liquefaction terminal – fall within British Columbia and was authorised by the provincial regulator.

But a private citizen in Smithers, Michael Sawyer, mounted a legal challenge saying the pipeline is a federal undertaking and should have sought approval from the National Energy Board. The federal regulator agreed in December to consider the jurisdictional challenge and has requested evidence from the parties involved with final oral arguments set for March.

“It’s a complex world – the paths are not clear,” Calitz said.

Any decision by the federal regulator could later be appealed in the courts. “But what I am clear about is that this pipeline, by the time that happens, will be in advanced construction.”

Separately, TransCanada is seeking to sell a stake in the pipeline project. That move was long contemplated and doesn’t indicate that there are growing concerns about the project’s risks, Calitz said.

“It has always been a part of the financing strategy for the project,” Calitz said. “It has no impact on either the construction or the capacity or any other aspect of the project.”

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## Russia eyes greater energy dominance as Novatek taps Arctic



Bloomberg Moscow/London

Almost 1,500 miles from Moscow, the tiny port of Sabetta nestles in a desolate Russian Arctic peninsula. A former outpost for Soviet geologists, it’s now the site of Russia’s most ambitious liquefied natural gas project, operated by a company that only entered the market just over a year ago.

Several times a week, a giant tanker leaves this remote place carrying the super-chilled fuel to buyers in Europe and Asia. It’s not the only LNG plant beyond the Arctic Circle, but it’s by far the largest.

Novatek PJSC, the main shareholder of the Yamal LNG plant, says plans for further projects will transform Russia into one

of the biggest exporters of the fuel within a decade. Already the world's top exporter of pipeline gas and second-biggest shipper of crude oil, exports from Sabetta are giving Russia another conduit into the world economy for the country's unrivalled energy resources.

"Russia can be in the top four main LNG exporters," Novatek's chief financial officer Mark Gyetvay said in an interview in London.

Novatek has demonstrated that it's possible to produce and liquefy the fuel in such harsh conditions at competitive prices and ship it to markets thousands of miles away in Europe and Asia. That's helped by receding Arctic ice which is allowing a specially built fleet of strengthened tankers to ship fuel along Russia's northern coast.

President Vladimir Putin has been a long-standing supporter of developing oil and gas resources locked under the region's permafrost. When opening the first production train of the Yamal LNG project in late 2017, Putin said the region gives Russia the opportunity to take up the fuel's "niche it deserves."

"We can boldly say that in this century and the next, Russia will expand thanks to the Arctic," he said at that time.

Novatek, whose biggest shareholders include Russian billionaires Leonid Mikhelson and Gennady Timchenko, as well as French energy giant Total SA, became Russia's top LNG producer after starting up its plant in the Yamal peninsula almost two years ago. The facility reached its full capacity at the end of 2018, ahead of schedule, doubling Russia's share of the global LNG market to 8%.

The gas producer has aggressive plans to command a 10th of the global market by 2030, Gyetvay said, and position Russia as one of the world's largest exporters alongside the US, Qatar and Australia.

All three of Yamal LNG's production units, with a combined actual capacity of 17.5mn tonnes a year, are now online. Novatek is attracting partners for a second plant, the so-called Arctic LNG 2 project, which is expected to come online

in 2022.

The company is also considering commissioning a third facility and may increase its LNG production target for 2030 by about 20%, to as much as 70mn tonnes a year.

Novatek's resource base at two Arctic peninsulas – Yamal and Gydan – allows the company to raise production volumes to as much as 140mn tonnes a year in future, according to its chief executive officer Mikhelson.

Russia, the world's largest gas exporter, has been slow to join the global LNG boom as it has focused investment on pipeline supplies to Europe. Until recently, the country had just one liquefaction project in operation, the Gazprom PJSC-led Sakhalin 2 project near Japan with an annual capacity of about 10mn tonnes.

The country has now taken an interest in the market for tanker-borne fuel amid growing global LNG demand and more difficult relations with its customers in the European Union.

Russia's Energy Ministry pegs total gas in place within the region at about 210tn cubic meters, or over 70% of the nation's total. Novatek's Arctic gas reserves are "conservatively" estimated at about 3.3tn cubic meters, Gyetvay said.

"We believe that Russia could be the fourth or even the third" biggest holder of LNG production capacity, said Karen Kostanian, Moscow-based oil and gas analyst for Bank of America Merrill Lynch.

<https://www.gulf-times.com/story/628789/Russia-eyes-greater-energy-dominance-as-Novatek-ta>

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# Putin Keeps Options Open on Possible Extension of OPEC+ Oil Cuts



President Vladimir Putin kept his options open on whether to extend Russia's joint oil-production cuts with OPEC beyond June, saying he wanted to continue cooperation with the group but also highlighting the many uncertainties in the market.

Russia is comfortable with current oil prices, which rose to a four-month high above \$70 a barrel in London on Monday, Putin said at the International Arctic Forum in St. Petersburg on Tuesday. The president also said he doesn't support an "uncontrollable" increase in the cost of crude that could hurt his country's other industries.

"We'll coordinate with OPEC and take a decision depending on the market situation," at the next meeting in June, Putin said.

Russia, one of the architects of the deal between the Organization of Petroleum Exporting Countries and its partners, has taken a wait-and-see approach on whether to extend the cuts. The political situation in Venezuela, Libya and Iran will need to be considered before a decision is taken, Putin said. Saudi Arabia, which has cut output more than agreed, doesn't plan to deepen its curbs as the markets are "healthy."

"Of course, we are closely monitoring the market together with our partners, first of all, with the main oil producers, Saudi Arabia and countries of the Persian Gulf," Putin said.

## Venezuela, Iran

U.S. sanctions have eliminated a significant volume of oil exports from Venezuela and Iran, helping drive up the price of international benchmark Brent crude by more than 30 percent this year. Meanwhile, Libya's output has been frequently disrupted as armed factions battle for political supremacy.

The Russian president also highlighted the possibility that any of those countries could become a bearish influence on prices. If the U.S. were to seize Venezuelan crude and sell it on the global market, or decide to loosen sanctions on Iran to foster a political compromise, inventories could start to increase again, Putin said. The situation in Libya could also normalize, allowing the country to boost exports, he said.

Russia will also take into account its domestic oil companies' plans while deciding on the future of the OPEC+ deal, Putin said.

"We understand that output shouldn't stop, investment should come into the sector, otherwise that also may create problems both for us and global energy," Putin said.

<https://www.bloomberg.com/news/articles/2019-04-09/putin-keeps-options-open-on-possible-extension-of-opec-oil-cuts>

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## Big Oil haunted by cost risks as \$144bn LNG tab looms



Bloomberg/ Singapore

The world's biggest energy companies are finally ready to

invest in new gas export projects. Now they just need to figure out who will build them, and for how much.

After four years of belt-tightening, oil and gas firms are expected to start spending again, with as much as \$144bn of investments in new liquefied natural gas developments in line to be approved by the end of this year. Meanwhile, the engineering, procurement and construction sector that erects these projects has been weakened by the cost-cutting, with shrinking order books and solvency questions.

While the order binge could provide a lifeline to EPC companies, it may see too many projects chasing too few builders, increasing risks for energy firms seeking to keep costs under control. In the last LNG building boom, for instance, projects in Australia alone went over budget by a combined \$40bn.

"We have a new wave of LNG projects coming and a decimated construction sector," said Saul Kavonic, an energy analyst at Credit Suisse Group AG. "There's real risk as we go into this next wave that engineering and construction constraints mean a return of project delays and cost inflation."

Natural gas is core to future growth for energy giants, with consumption seen growing faster than oil and coal as policies shift toward lower carbon emissions. Royal Dutch Shell Plc and Exxon Mobil Corp have in the past six months sanctioned new LNG plants in Canada and Texas, the first final investment decisions since 2015 for onshore greenfield projects. The amount of new production capacity investments this year could set a record, according to Wood Mackenzie Ltd.

That's welcome news to oil and gas EPC companies, which have seen their order books dry up since the oil price crash in 2014. Six of the top publicly traded firms had a combined backlog of more than \$120bn in 2014. That fell to about \$66bn last year, according to filings from the companies, which now number five after an acquisition.

"The market has gone through a shake-up," said Peter Coleman, chief executive officer of Australia's Woodside Petroleum Ltd, which is planning an expansion at its Pluto LNG project. "Some



people are still in balance sheet repair, and it hasn't finished yet. We are watching that very closely."

The sharpest pain is being felt by Chiyoda Corp and McDermott International Inc, which have suffered from cost overruns related to their work on the Cameron LNG project in Louisiana. Chiyoda in February requested financial aid from Mitsubishi Corp, its largest shareholder, and the company plans to be more selective when choosing future LNG projects and joint venture partners, Tomoyuki Tsukamoto, head of investor relations at Chiyoda, said by phone. McDermott declined to comment.

"We have to recognise that our workforce and our capacity are limited," Tsukamoto said. "We have to select the most appropriate projects for us."

A weaker construction sector will be good for the remaining EPC companies, as they'll have more leverage when it comes to negotiating, said Kavonic. That will mark a reversal from the past few years, when spending cutbacks forced service and construction firms to slash margins and take on more risk to win a limited number of jobs.

While construction companies have worked to lower costs for customers, some energy firms anticipated those numbers would keep dropping, Bechtel Group Inc LNG General Manager Darren Mort said in a phone interview. As projects get closer to final investment decisions, companies are reining in those expectations for more appropriate pricing levels, he said.

"Some of the aggressive numbers don't seem to be getting the traction that they thought they would," Mort said. "If they really had some reality to them, we'd be seeing FIDs on that basis."

San Francisco-based Bechtel is privately held, so its financial data aren't as accessible as some competitors. The firm has avoided any recent high-profile construction problems and Mort said its finances and capabilities remain strong.

The earlier a company is able to start construction, the less chance that firms push for higher rates, Credit Suisse's Kavonic said. Shell's decision to go ahead with LNG Canada in

October means the project, which will be built by Fluor Corp and JGC Corp, could be more competitive globally by missing any cost inflation, he said. "The faster projects FID, the better rates they'll get from the EPC contractors," said Fauziah Marzuki, an analyst with BloombergNEF in Singapore. "Once the contractors realise they'll be a bit stretched, they'll start to factor in bigger contingency costs and margins."

<https://www.gulf-times.com/story/628787/Big-Oil-haunted-by-cost-risks-as-144bn-LNG-tab-loo>

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## **Chevron's Anadarko Bid Seen Heralding Permian Shale Deals**



Chevron Corp.'s \$33 billion bid for Anadarko Petroleum Corp. may presage a new Permian Basin buying spree, with Pioneer Natural Resources Co. and Concho Resources Inc. among the next prime targets.

Pioneer, Concho and Noble Energy Inc. surged Friday after Chevron unveiled plans to buy Anadarko, a deal that expands the supermajor's presence in the Permian region, Gulf of Mexico and East Africa. The transaction vaults Chevron into the rarefied air of rivals Exxon Mobil Corp. and Royal Dutch Shell Plc, which in turn may be roused to make acquisitions of their own.

"Best day in years," said Todd Heltman, senior energy analyst at Neuberger Berman Group LLC, which has \$323 billion under

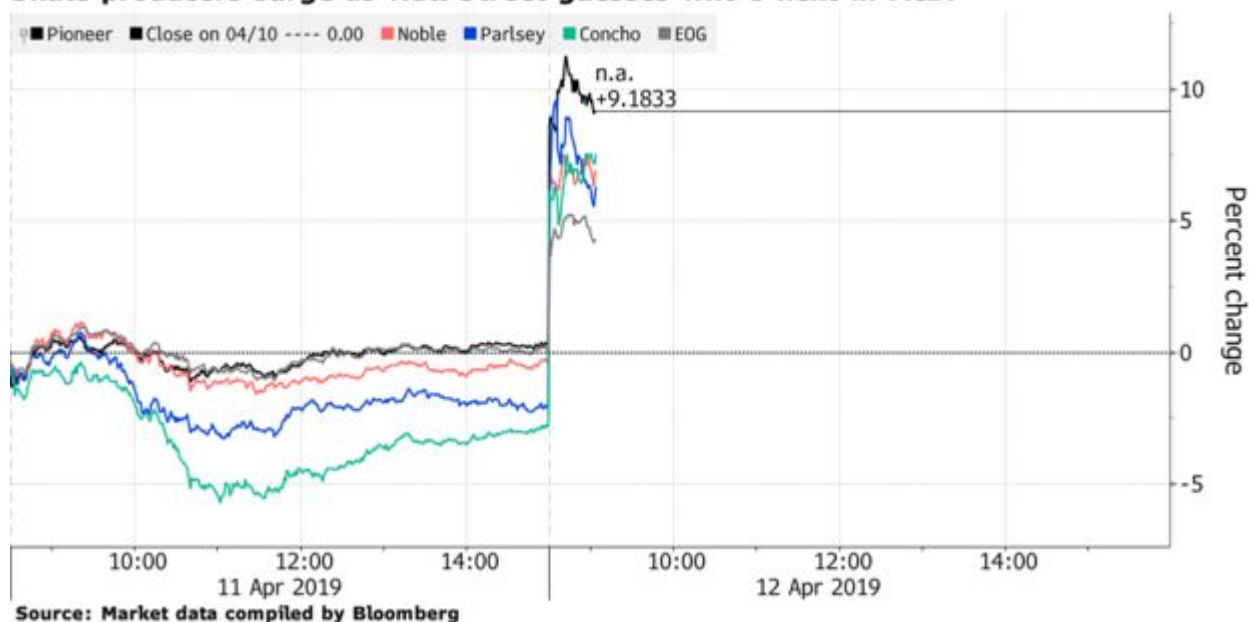
management. "The space really needs consolidation. Maybe the time is finally right given the outperformance of the majors."

Occidental Petroleum Corp., fresh off its own failed bid for Anadarko, may now find the tables have turned as its hefty footprint in the world's biggest oil field attracts the attention of acquisitive rivals. Investment bank Tudor Pickering Holt & Co and BP Capital Fund Advisors LLC both cited Occidental as a potential target.

"Everyone is trying to figure out who's next," Heltman said.

## Permian Pop

Shale producers surge as Wall Street guesses who's next in M&A



"From a big-picture perspective, the majors have really bought into shale, but from an asset perspective, the majors don't necessarily have the right asset portfolios," Tudor Pickering's Matthew Portillo said by telephone. "We do think this is going to be the spark that really catalyzes a lot of M&A."

For Exxon, buying Pioneer or Concho would help the oil giant plug a hole in its Permian portfolio, Portillo said. Shell also will feel pressure to buy more acreage in the prolific stretch of West Texas and New Mexico, possibly by acquiring smaller players like WPX Energy Inc. and Cimarex Energy Co., Portillo said. BP Plc may too embark on expansionist

takeovers, he added.

## **Buying Neighbors**

The peculiar nature of shale exploration is an impetus for acquisitions. Unlike in conventional oil fields, shale requires sideways drilling to access crude-soaked rocks, so the further a company can drill horizontally, the more oil it captures. In that context, buying neighboring drillers makes a lot of sense.

For Chevron, Anadarko presented an enticing target. In addition to vast deepwater holdings in the Gulf of Mexico and an ambitious liquefied gas development in Mozambique, the company controls Permian drilling rights across an area twice the size of Los Angeles. Multiple layers of oil-rich shale extend for more than 1.5 miles (2.4 kilometers) underground within that zone.

The most obvious target companies “are the ones that represent the same opportunity Anadarko presented to Chevron,” said Ben Cook, a portfolio manager at BP Capital in Dallas. “It becomes a game of matching up maps.”

## ***What Bloomberg Intelligence Says***

*“Anadarko was an acquisition target during a weaker price environment for the industry, so we’re puzzled why it agreed to Chevron’s offer when fundamentals are improving. The valuation is disappointing and we think other reasons are behind the deal. Expect Anadarko shareholders to resist the price despite passive-fund representation.”*

*– Vincent G. Piazza and Evan Lee, analysts*

*[Click here to view the piece](#)*

In addition to Pioneer and Concho, Cook highlighted EOG Resources Inc., Occidental and Parsley Energy Inc. as names

that could fit the bill for supermajors on the prowl. Noble was also floated as a top-three candidate in a note by RBC Capital Markets.

“You see a deal like this and it does tend to kick off a wave of M&A activity,” Cook said. “This is yet another confirmation that shale development and the short-cycle barrel is increasingly attractive to the majors.”

## High Overhead

Investors have pressured producers to cut administrative costs or consolidate

Note: Chart shows expected 2019 general & administrative costs as a percentage of EBITDA estimates

Investors have been pressing shale producers to consolidate in order to gut overhead costs and increase shareholder returns. In a note to clients the day before the deal was announced, Tudor Pickering said Anadarko continually came up in meetings as a high-cost standout. Chevron said it can axe about \$1 billion a year in operating costs under the transaction, with another \$1 billion in savings on capital expenditures.

That may put pressure on other explorers with bloated administrative costs, driving “more meaningful industry consolidation,” Tudor Pickering’s Portillo said. “There’s significant synergy opportunities.”

Spokespeople for Exxon, BP, Shell, WPX, Cimarex, Parsley, Noble, Pioneer, EOG, Occidental and Concho declined to comment or didn’t immediately respond to requests.

– *With assistance by Alex Nussbaum, Tina Davis, Ryan Collins, and Kevin Crowley*

# Fear Grips Norway's Oil Industry as Political Risk Explodes



Oil companies in Norway may pay some of the highest taxes and wages in the world but they could always count on support in the halls of power.

Then last week the country's biggest political party pulled out the rug from under that certainty in a dramatic policy shift to abandon support for drilling off the Lofoten islands.

As calls for action against climate change get stronger, concern is mounting within Norway's biggest industry that the move could open the floodgates and put the country's oil licensing policies and generous exploration tax incentives at risk ahead of the next election in 2021. Norway, led by Equinor ASA, has been producing oil for almost half a century, but is estimated to have about half its remaining oil and gas still in the ground.

Labor's shift might not seem like a big deal: the party isn't currently in government and Lofoten has been off limits for years anyway. Yet it matters because Labor has been a faithful ally of the oil industry for decades, and because it raises the possibility that it will cede more ground on oil policy in coalition talks with other parties.

“This is the first example of climate-policy considerations having a meaningful impact on the oil policy of one of the leading political parties in Norway,” said Klaus Mohn, an economics professor at the University of Stavanger, Norway’s oil capital. “It’s a sort of crossroads.”

## Projects Wanted

Norway’s oil and gas output risks a steep drop after 2025 without new finds

Stable and predictable terms have been one of Norway’s main selling points in attracting oil companies. Changes could deepen an expected decline in activity and production in the next decade and bring the Nordic country closer to the end of the oil era that made it so wealthy.

“The stability of the political support to Norway’s oil industry is weakened,” said Jarand Rystad, who heads the country’s top oil consulting firm, Rystad Energy AS. “All of a sudden, you get a real fear of lower activity.”

The firm no longer ranks Norway as the most stable political regime on its internal list of energy-producing countries, Rystad said (see separate story).

Labor’s break frames a broader shift in western Europe’s biggest petroleum-producing nation, where a debate over the oil industry’s future is gaining pace.

So far, drilling opponents have failed to win legal challenges against the country’s oil regulations or to make decisive electoral breakthroughs. The governing Conservative and Progress parties remain staunch supporters of the industry, and Labor vows to back current terms.

Yet Labor’s own youth wing, which scored a big win with Lofoten, wants to shut the oil industry altogether by 2035. It

wants to stop license awards and scrap a rule that lets unprofitable companies claim the tax value (78 percent) of exploration expenses in cash rather than in future deductions – an incentive that's attracted more companies and led to important discoveries. Two of Labor's potential government partners or backers in parliament, the Socialist Left and Green parties, have similar demands and look set for electoral gains.

The prospect of a compromise spooks oil executives.

Labor's Lofoten shift is "a frightening development," said Stale Kyllingstad, chief executive officer of IKM Gruppen AS, one of the domestic industry's biggest suppliers.

Kjell-Borge Freiberg, Norway's Petroleum and Energy Minister, called Labor's decision a "betrayal" of the close to 200,000 people working in the oil industry. "There is a fear for what they might give up next," Freiberg, a member of the Progress Party, said in a phone interview.

The uncertainty alone will deter companies considering a Norway entry, at a time when the biggest international oil companies are already turning away from Norway, according to Rystad. Norway already lacks big projects and depends on new discoveries to limit the decline in production expected from the mid-2020s.

The bosses of Norway's oil lobby and biggest industry union reacted with disappointment over the weekend. Yet they said in later interviews they trusted Labor would stand firm on the rest of its oil policy to protect investments and state revenues.

"Anyone who sits down to form a government needs an economic platform," said Frode Alfheim, the head of the Industry Energy union. "Like it or not, we will remain incredibly dependent on the jobs and the revenue from this industry."



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