

Industry Trends.

Changes to
the Oil & Gas
Landscape

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by **EASYFAIRS**

The Impact of COVID-19 on Oil & Gas.

Charles Daly, Chairman, Channoil Consulting, predicts the long-term impact of the pandemic on the global oil and gas market...

Looking back to the start of 2020, it's almost baffling how our plans and predictions have been completely thrown out the window by the pandemic. Our neatly worked out forecasts and algorithms have all since landed in the bin and we start all over again.

And not for the first time. We tried to stabilise and make new predictions in the summer, when we had no vaccine on the horizon, but still an over-optimism in terms of how long this would all last. Those predictions have also been binned. But at least now we can look ahead with a realistic chance that by the end of 2021, we will have a large section of the population vaccinated and economic growth.

So, what impact has COVID-19 had? This was the question I was pondering while pruning a honeysuckle bush that stands by my front door last weekend, and it struck me that there could be a distinct comparison between my pruning and what is happening to the economies of the world, as a result of the pandemic.

It might sound brutal, but the strategic damage caused by pruning can refresh a plant and stimulate stronger growth in the future – losing a limb here and there is traumatic, it is a painful loss, but one that makes it stronger in the long-run.

We have seen several efforts and a lot of government borrowing to maintain the status quo, but unfortunately, individual companies and in some cases, entire industries that may or may not have been weak before the pandemic, have not survived it. Obviously this cannot be called positive, but becoming a cashless society, combatting air pollution, reversing climate change, shaking up the globalisation of supply chains, these are all positive changes seeded before the pandemic struck that have been accelerated by it. So, there are benefits to be had.

Has the same happened in the oil and gas industry? Let's explore what happened...

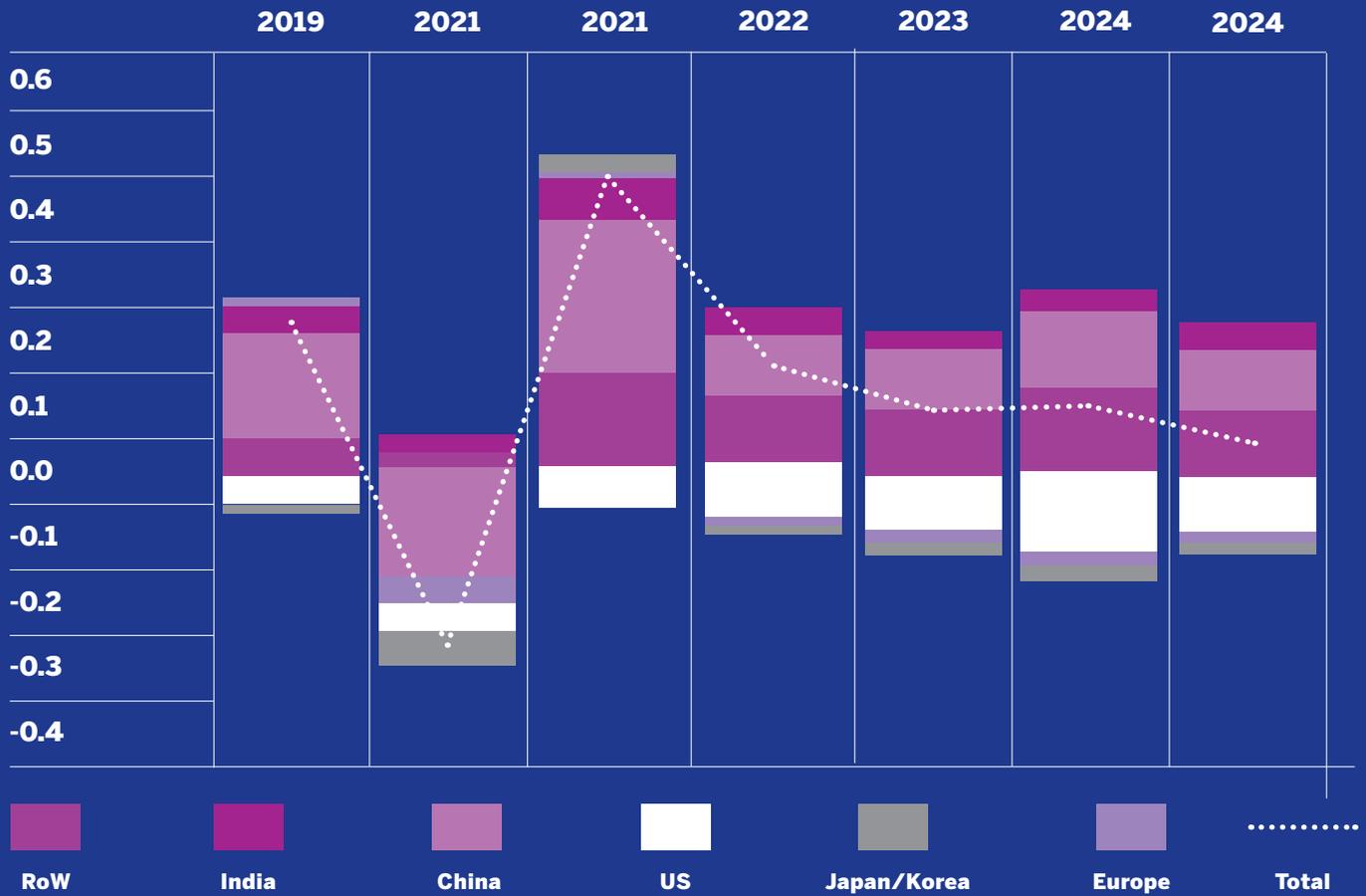
Demand Fell Off a Cliff

It does not take any sophisticated analysis to know that demand for oil and gas fell sharply as a result of the pandemic. Aeroplanes and cruise liners are laid up. Jet fuel demand in Europe was down to about 40% of normal during the summer. The hospitality industry, hotels and restaurants denuded of customers. All this reduced activity, results in reduced oil and gas demand. The figures below set out the IEA's latest data and forecast.



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Gasoline Demand Growth by Country (Y-O-Y)



Middle Distillates Demand Growth



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Refineries Were Hit Hardest

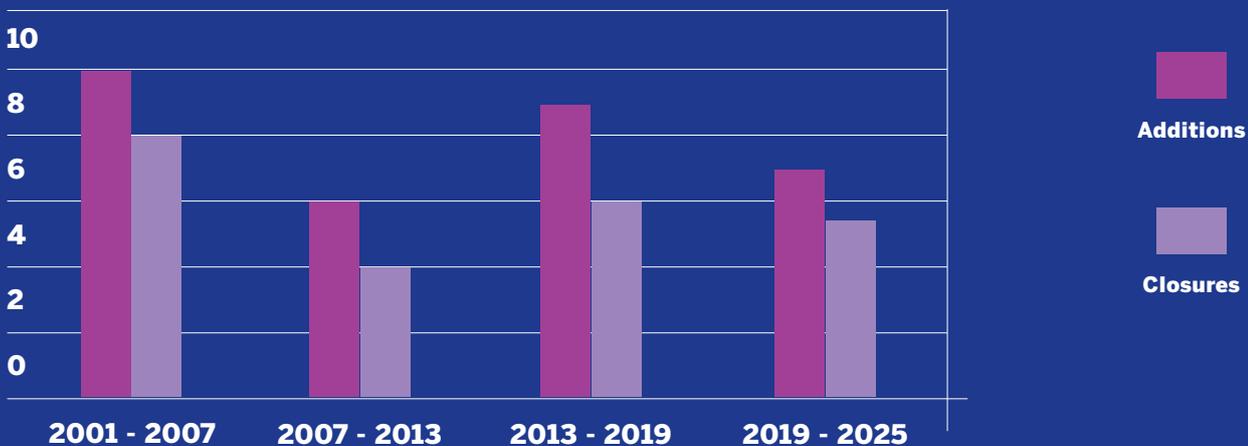
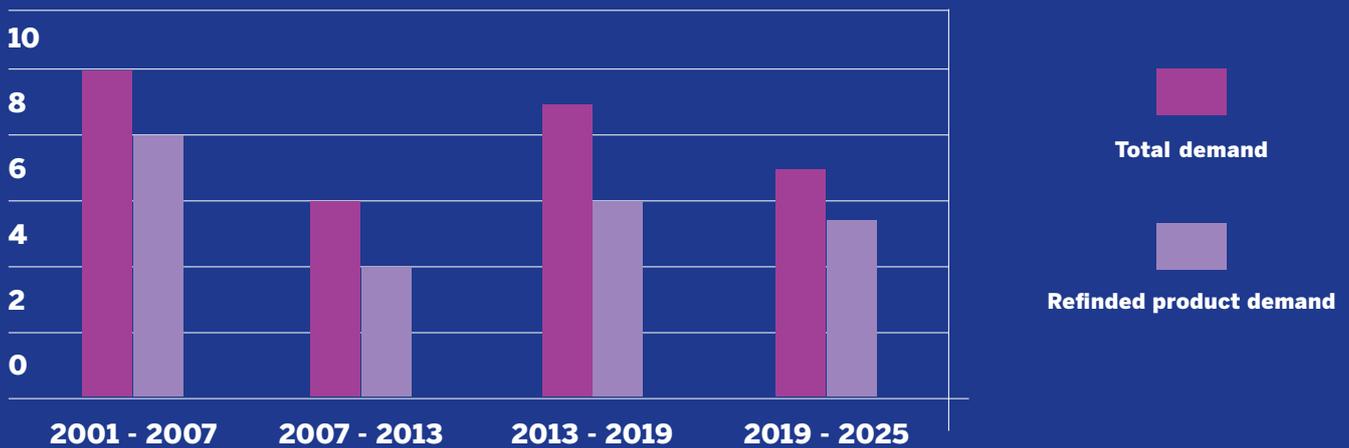
Oil producers managed this drop in demand deftly by cutting back, keeping supply and demand roughly in balance, with a helping hand from the tanker industry hiring tankers out as floating storage. Since then, demand in the East has picked up very quickly, but the West is still suffering.

The major impact of the demand drop was felt by the refining complex. Refineries were hit by two major effects, the reduction in the demand and the change to 0.5% sulphur fuel oil for the bunker market. This resulted in refinery net backs for complex refineries, particularly those without chemical plants attached, falling dramatically, whilst net backs for simpler hydro-skimming refineries stayed stable, albeit not profit-making. Therefore, those simpler refineries that had been operating on a shoestring for some years started to get shut down.

This is another example of COVID-19 acting as an accelerator, it was a long time coming, and given the new refineries in the Middle East, India and China being built with much larger capacities and more complexity, the smaller refineries, some over 60 years old, would and should inevitably close.

The chart below shows the demand on the refining system and the new capacity coming on stream as well as the closures. It does not look as though refining margins are going to improve anytime soon.

Changes in Oil Demand, Refined Products and Refinery Capacity



Storage implications

Storage has also been impacted. In the last decade we've seen a spate of storage company purchases by infrastructure funds. Some of the price tags made oilmen's eyes water.

However, the pandemic showed that storage rates can go down as well as up, undermining the investment. With the closure of refineries, there was naturally an incentive to turn them into import terminals, thus creating more competition for the traditional warehouse.

In the recent past we have seen some of the nimbler funds sell out but nonetheless it has become clear that storage installations are not the cash cow that was expected by the buyers.

So, what is the future for storage companies as we look forward to a world driven by the push for sustainable green fuels? The obvious answer is biofuels, particularly of the liquid sort, as compared to biomass. But this stream of fuels is likely to be limited in its volume substitution for fossil fuels, since agricultural and crop based biofuels need land to be produced, land that is getting increasingly competitive as the global population grows. The availability of used cooking oil as an alternative feedstock for biofuels production is therefore limited.

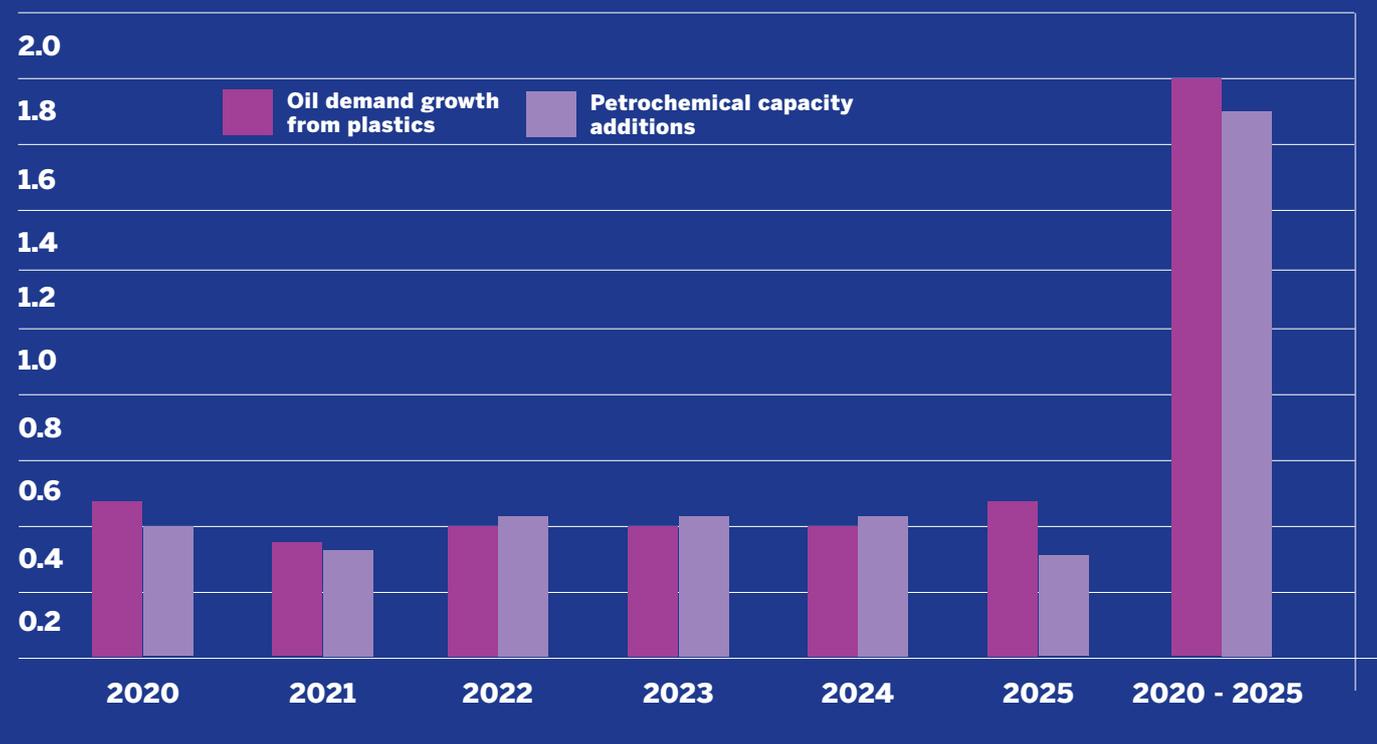
Biofuels are likely to only be an interim fuel. The next generation of vehicles is forecast to be electric and the death knell of the internal combustion engine has already been sounded. If wind or solar power is to be the main driver of power in the future, then a competitively priced storage system for this intermittent power must be found. Here the storage industry should start to look at how it can influence as well as compete for storing power. This can be in the form of liquid hydrogen and air, ammonia or methanol.

Where next?

There is never certainty in forecasting and things could still change, but it is relatively safe to say the political pressure is on for companies to be conscious of their commitment to climate change. They will inevitably need to reduce their emission of GHGs. After COP 26 in 2021, there will be a strong push to increase the penalty for emissions. This will bring with it a push for carbon capture, utilisation and storage (CCUS).

It is also relatively safe to say that we will continue to see demand for naphtha maintaining an upward trend in the medium term, together with demand for ethane and propane. Even if we do eliminate single-use plastics, there can be no doubt that the expanding world population will continue to demand plastics. Interestingly this is exactly what we were saying in our now binned forecasts from before the pandemic struck.

Oil Demand Growth From the Plastics Sector, Petrochemical Capacity



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Spring, a Time for Plants to Grow Once More

So, in conclusion, things haven't really changed, or rather they have changed, but exactly as we expected them to. The real impact of COVID-19 has been that these changes occurred faster than we expected them to.

Once the pruning effect wears off and we get vaccinated, we will bounce back stronger and better and we will all see clearly which industries have survived and which have died. Let us attend the funeral and then go home and think of how we can strengthen the living.



Oil & Gas During COVID-19 - a Shift in Priorities After Covid - New Ambitions.

Nadine Herrwerth, Managing Director, TWTG, explores the shifting priorities in oil & gas as a result of the pandemic...

Since the global pandemic was declared, optimism within the oil & gas industry has made way to a more subdued mood. The oil price outlook for 2021, although somewhat recovered from 2020, is 15% below the 2019 average price. Fortunately, tank terminals have benefited from this situation in certain aspects and hopefully will continue to do so.

However, for the broader oil & gas industry, the impact has been more severe, and this is beginning to have implications for tank storage.

In the previous few years, the energy transition had been the key driver for change. Although this transition remains the defining vision for the future of the industry, there has been a shift in priorities and profound changes in behaviour. We now have increasing demands for greater efficiency and increased automation as a strategy to reduce costs. New technological innovations have made previously difficult to attain levels of automation more realistic and affordable.

The combination of the pandemic and low oil prices has led to mass restructuring and, unfortunately, lay-offs, which means having to do the same jobs with fewer people. When we look around the industry, cuts in the workforce of 10% or more are not uncommon.

Put simply, for oil and gas organisations; this is the beginning of a race for the survival of the fittest. Only those that transition effectively and manage to keep pace in the current climate will emerge as leaner, efficient, technologically savvy corporations, better prepared to guide us into a new era of energy generation.

In an ever-increasing technological society, with a global desire to see companies take real responsibility and

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begin to produce energy that is politically acceptable, many stakeholders throughout the supply chain will need to adapt and modernise their operations.

At TWTG, we believe that this change is already underway, and while many tank storage companies have begun evolving methodology and systems, many still have some way to go. The conclusion is that when the pandemic subsides and the oil and gas corporations re-prioritise their strategies, this will gradually affect the tank storage sectors in a variety of ways.

As part of a bigger supply chain, tank storage companies will be obligated to be part of the globally orchestrated, industry-wide greener vision for the future and ensure their environmental footprint is on par with their customers'.

In the near future, tank storage companies will need to view themselves as only part of a more extensive data solution and have the ability to feed data to their customers when required.

As part of this evolution, and to be leaner and more efficient, tank storage companies will need to digitalise much of their operation. Companies will need to learn how to make sense of this data and understand how to utilise it to their best advantage, making it a differentiator towards their customer set, due to added value in terms of insight, certainty, and safety.

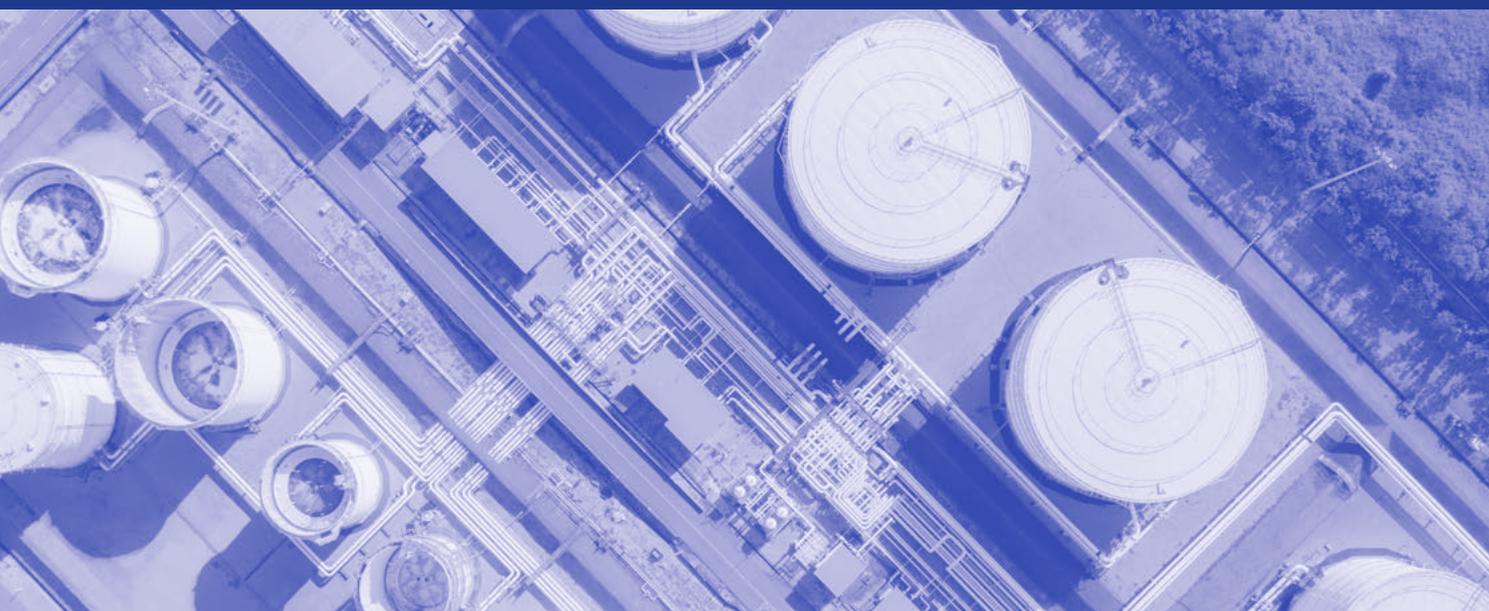
Tank storage companies will have to explore the possibility of employing automated solutions within their operation.

Simple trickle-down economics will mean that tank storage companies will need to be more competitive. Companies will need to be leaner, more efficient and pass the financial benefits on to their customers.

So, whether its first steps in exploring the concept of digitalising a facility or an expansion to existing capabilities, TWTG are perfectly placed to help companies achieve much of this transformation.

Not only can we help with the basics like planning and installing new or additional LoRaWAN networks, digitising existing assets and infrastructure, but we are also there to help our customers with more complex problems, such as automation and exploring ways to access and monetise their data.

Creating digital solutions is what TWTG is about.



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Real Estate Disruptors E&V Houston Enter Oil & Gas.

US real estate firm Engel & Völkers of Houston (E&V Houston) has expanded into the global industrial real estate market, including the vast oil and gas industrial market.

E&V Houston says that no matter the size of the company, its team of strategic consultants will offer flexibility and commitment. The E&V Houston development team is able to assist existing business project development personnel in larger firms such as major terminal providers, or fill the role of a business development team for smaller independent companies which do not already have that facility. The initial consultation is free of charge and can be confidential.

Brooks Ballard, the real estate firm's broker, is excited about the opportunity. Brooks Ballard leads an award-winning team of consultants in luxury homes, global relocation services, commercial and residential real estate, and new construction, built on relationships and an understanding of clients' needs.

Timothy 'TC' Curl is taking charge of E&V Houston's industrial real estate market. Curl and the team bring a vast array of technical knowledge and experience to a market table believed by E&V Houston to be grossly under served by the current commercial real estate market providers.

A graduate of Houston's Jones College of Real Estate in 1983, Curl received his first real estate licence doing sales and marketing of multi-family housing projects in Houston, along with site location, acquisition, and development of retail and fast-food sites. Curl has also served as the president and CEO of Global Environmental & Marine Services, CEO of Nature Group's US division, CEO of RedFish Barge & Fleeting, and CEO of Global Energy Recovery Systems.

The E&V Houston team of consultants will focus on developing world-class industrial projects for clients. The highly qualified technical consultants can provide a turn-key international development solution to its global customer and client base. No matter what the needs are, E&V Houston is well suited to accommodate them.

E&V's diverse team of consultants and strategic alliances is comprised of three different market disciplines. Firstly, the process of real estate site locating, vetting, and evaluation. E&V Houston's personnel will have access to a database of advisors tuned into an extensive global market, enabling them to best serve terminal and industrial operators.

Secondly, E&V Houston has formed an integral strategic relationship with the highly experienced consulting group of Global Energy Recovery Systems (GERS). GERS is a logistics, environmental systems and permitting consulting group; always an important part of the due diligence process pertaining to any industrial project regardless of the project location. The GERS team can evaluate locations based on the access to the global market via air, deep water seaport, rail, road/highway systems, and inter-coastal waterway connections. The other area of development expertise offered through GERS is their ability to provide environment concerns and permitting advice.

Finally, E&V Houston has a relationship with Corpus Christi-based JM Davidson Industrial Solutions Group (JMD), a second-generation marine construction, industrial components, and industrial terminal design and construction company. JMD can assist the potential project developer with possible design ideas or pitfalls. They can provide the preliminary budget and financial projections needed to evaluate the potential success of the overall project value to the developer, as well as being open to bid as a qualified general contractor, or high-level sub-contractor.

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