BUSINESS

Volatility rules


Photo: Equinor

Tor Martin Anfinnsen, Senior Vice President of Marketing and Trading, Equinor, provides an overview of how Equinor is responding to the changing oil and gas landscape and the drive to a low-carbon future. He will be speaking at IP Week.

What new marketing and trading opportunities is Equinor focusing on and why?

If we look at the crude and natural gas markets, I think 'volatility' will be a key word for both. In the crude market, we have seen very sharp and very fast price changes and we will probably have to get used to volatility at this scale. Being a producer and one of the world's largest net sellers of crude, the absolute price of course has a direct impact on the bottom line of a company like Equinor.

From a trader's perspective, volatility represents opportunities. Equinor has a strong position with access to equity volumes in the Atlantic Basin, both offshore Norway, in the Gulf of Mexico, in Brazil and in West Africa. These equity volumes, our large and flexible shipping portfolio, access to storage facilities and third-party trading activities are assets that we use to capture value from the volatility and to grasp opportunities as new trade flow patterns arise.

When it comes to natural gas, our home turf remains the foundation of our business. With our production in Norway, Equinor is the second largest supplier of natural gas to the European Union and we see that demand has been picking up steadily over recent years because natural gas is cost competitive and relatively low-carbon. For example, the coal-to-gas switch has helped the UK reduce its CO_2 emissions to the levels seen in the era of Queen Victoria.

So far, the influx of new LNG from the US has mostly been absorbed by Asian markets. One question for 2019, as it has been for the last couple of years, is how much LNG will find its way to Europe?

I think that we see an increasing commoditisation of natural gas with the regional markets and LNG volumes mutually impacting one another. I think we should be prepared for volatility also in this market, partly driven by the fact that more renewables capacity in the power sector means CCGTs (combined cycle gas turbines) will be the go-to swing-producer when the wind does not blow and the sun does not shine.

Last year we acquired Danske Commodities, a leading European power and gas trading house based in Aarhus, Denmark. With this acquisition we are positioned in the full electricity value chain, enabling us to monetise our own increasing power production from renewables and to capture margins from volatility and price differences between regions both for power and gas.

What initiatives is the company taking to tackle the transition to a low carbon future?

Equinor wants to be at the forefront in shaping the future of energy. Firstly, Equinor works hard to reduce emissions from our own production. Currently the carbon footprint from our production is 8.9 kg/b produced against a global average of 17 kg/b.

Secondly, we are growing our renewables portfolio, especially in offshore wind, and our power production from renewables will soon cover power demand from 1mn European households. We are also involved in solar, and recently put onstream a solar plant in Brazil operated by our partner Scatec Solar.

Thirdly, in the longer term, we are looking into how we can develop value chains where natural gas is decarbonised to hydrogen through CCS (carbon capture and storage) with CO_2 storage under the seabed. The 1.5°C target will require joint efforts from the industry and governments and, as many experts point out, it is difficult to foresee that one can meet the 1.5°C target without CCS at a large scale.

What approach is being taken to mitigate risk in the current volatile oil pricing environment?

Our model is asset-backed trading. This means that we use our equity production and assets like our shipping portfolio, storage, terminals, pipelines etc to trade around. This way we aim to capture margins from arbitrage in geography and time, as well as quality. One example of how we position ourselves is the fact that we have set up a crude trading team in Houston to capture value from the increasing exports of US crude.

As mentioned, volatility means opportunities for the marketing and trading organisation which I am responsible for.

What is Equinor's investment strategy with regard to innovative technologies?

We have a broad approach to innovation. Firstly, we concentrate on efforts that can further improve safety and regularity offshore and in onshore plants. Secondly, we put a lot of our efforts into increasing the recovery rate at our producing fields. We are already a leader within this field and we believe that further improvements really can add value to our equity. We also put effort into renewables, and the most prominent example is probably the development of floating wind farms. We are already starting to put projects into operations like the Hywind Scotland project.

We are also taking steps in the digital arena, and within the marketing and trading sphere we are a founding partner of VAKT. This is a digital ecosystem for physical post-trade processing which will eliminate paper-based processes and make this part of commodities transactions cheaper and more secure while transforming the full trade life cycle.

And, finally, through our acquisition of Danske Commodities we have access to state-of-the art energy trading systems, including algo-trading [algorithmic trading], and an organisation that continuously improves and adapts digital solutions for energy trading. ●