

### OIL AND GAS

#### Coronavirus muddies outlook for LNG exports

Jeremy Dillon, E&E News reporter

Published: Monday, April 13, 2020



Cheniere Energy Inc.'s Sabine Pass liquefied natural gas terminal on the border between Texas and Louisiana. Roy Luck/Flickr

A pandemic is creating more challenges for U.S. liquefied natural gas exporters already facing a market glut and tepid demand — but advocates still see a bright future.

Domestic gas producers are facing similar problems as their crude oil-producing brethren: low prices caused by an oversupply of resources and a collapse in demand due to the pandemic.

But proponents of shipping domestic gas abroad to energy-hungry nations say the novel coronavirus is only partially to blame and that there's a silver lining that comes with low gas prices.

More countries — be they in Europe or Southeast Asia — could choose to adopt natural gas power generation to take advantage of low prices and displace coal-fired generation abroad, providing climate benefits at the same time, they say.

"I suspect there are going to be a lot of places and importers out there that once this immediate pandemic crisis evaporates, that they are going to be taking a look at natural gas and recognizing the long-term value that it can play in their energy future," Dustin Meyer, the American Petroleum Institute's director of market development, told E&E last week.

"When gas is at these price levels, I think gas looks a lot better, especially given its proven ability to reduce emissions when you are switching from coal to natural gas," Meyer added.

The U.S. Energy Information Administration in a revised estimate for the year found the country has 2 trillion cubic feet in storage, 17% more than the five-year average. EIA projected inventories would rise by 1.9 tcf during the April-through-October injection season to reach almost 3.9 tcf on Oct. 31.

At the same time, EIA sees a dip in shipments of domestic gas abroad. LNG exports will average 6.6 billion cubic feet per day in the second quarter of 2020 and 6 bcf/d in the third quarter of 2020, EIA said. The third-quarter number represents a nearly 5% decline from previous predictions due to global demand reductions, according to EIA.

Some of those problems had already been playing out before the coronavirus threat emerged.

A second consecutive warmer-than-usual winter in the Northern Hemisphere left natural gas storage levels higher than normal. And contracting disputes and export terminal and liquefaction construction delays were upending the financial portion of the shipments.

"In many ways, the liquefied natural gas (LNG), clean energy technology, and critical materials supply chains characteristic of the energy transition were already undergoing a period of transformation prior to the outbreak of the coronavirus," Reed Blakemore, deputy director of the Atlantic Council's Global Energy Center, said in a note to reporters.

"Natural gas was maturing as a commodity, with LNG bringing online a number of new suppliers and prices dipping so low that the long-term contracts that had characterized the natural gas trade thus far were looking less and less favorable."

That uncertainty in contracting has delayed the construction of some terminals in the Gulf of Mexico after the Federal Energy Regulatory Commission approved more than a dozen project proposals for export capacity.

About seven export projects in the Gulf have seen some type of in-service delay, according to Poten & Partners Inc., an LNG industry consulting firm.

Much of those postponements were related to a lack of secured long-term contracts or construction delays due to steel tariffs and other competing economic factors. Concerns tied to the pandemic only slightly shifted the LNG outlook for the rest of 2020.

### **Challenges 'slightly exacerbated'**

The surplus in domestic gas will likely add to the growing trend of export contracts moving toward shorter and more flexible options, advocates say.

Many of the decisions surrounding contracts and subsequent go-aheads for export terminal construction have been put on hold as companies weigh through the financials.

Those contract negotiations have suffered from social distancing requirements, which have prevented parties from meeting face to face to talk through the nitty-gritty of sophisticated contract structures.

That includes the unprecedented cancellation of CERAWEEK by IHS Markit last month in Houston in response to the spread of the virus. The world's top energy conference, CERAWEEK provides an avenue for Big Oil CEOs, Cabinet officials and international dignitaries to gather. Other meetings have followed suit ([Energywire](#), March 2).

"The challenges to the global LNG market have been there for several years, and those challenges have been slightly exacerbated by the virus in the short term," Fred Hutchison, president and CEO of LNG Allies, told E&E News last week.

"The critical thing at this juncture is to get people back to the face-to-face negotiations, whether it's between the U.S. and their Chinese counterparties or U.S. and potential off-takers in other countries," he added.

Progress has already started on that front.

Four tankers carrying U.S. LNG departed for China last week — the first shipment in over a year, the *Houston Chronicle* [reported](#). Three tankers left from two facilities owned by Cheniere Energy Inc., while one of them left from a facility owned by Sempra Energy, according to the newspaper.

But environmentalists have seized on the pandemic to call for a halt to construction of international projects for fear it could more broadly spread sickness among the workers.

Friends of the Earth issued a statement last week calling on the Export-Import Bank to pressure French-based Total SA to stop work on its Mozambique LNG project in Africa, supported by \$5 billion in financing from the bank, after a worker recently tested positive for the coronavirus.

"As such a key financier of the project, EXIM can and should use its leverage to demand that work immediately stops until the coronavirus pandemic is under control and the health and safety of workers and local communities can be guaranteed," said Kate DeAngelis, a senior international policy analyst with the group.

---

Twitter: [@JeremyDillonDC](#) | Email: [jdillon@eenews.net](mailto:jdillon@eenews.net)

*Advertisement*

---

---

*The essential news for energy & environment professionals*

© 1996-2020 Environment & Energy Publishing, LLC [Privacy and Data Practices Policy](#), [Site Map](#), [Contact Us](#)

---