

HD Analysis: LNG undergoes 'landscape change' amid US shale boom

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Australia's LNG pipeline has all but dried up, sources say.

Australia's liquefied natural gas (LNG) pipeline has declined due to increased costs and cheaper alternatives brought about by the US' shale gas revolution, sources in the **oil** and gas sector told Trade Finance.

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"The pull is heading to the US as their shale gas is slightly cheaper and they have a larger workforce that works at decreased labour costs," a source said. "The US also has large reserves of the gas and is able to easily access trade licenses with the **oil** majors."

In the US there is a different and more flexible agreement for the financing of **oil** and gas commodities, the source added. LNG traders can **purchase** spot orders of the commodity and negotiate various offtake agreements with the majors and the operators of the **oil** and gas fields.

"You need to remember that the cost of shale gas against pricing benchmarks is also much less when compared to Australia's LNG pipeline," he said. "In Australia, in the near-term at least, the pipeline is generally expansion projects and a backfilling of existing infrastructure and offshore stuff."

In Australia's North West Shelf there is Hess – an American **oil** and gas **company** – that is talking to proponents to monetise the existing gas there as "it needs a home," the source said. "You have got the Shell coalstream gas joint venture that is looking at options for projects in Queensland and on top of that you have contracts for the construction of associated infrastructure attached to the LNG deals – but that's about as good as it gets in the short-to-medium term".

In northern Australia two projects are currently in the pipeline – the Browse and Bonaparte LNG deals. GDF Suez and Santos, the latter's sponsors, scrapped the deal citing poor returns and are seeking more cost-effective alternatives. Browse meanwhile, is likely to be a floating LNG deal and while there is potential, the source said it is "still a fair way off procurement".

"LNG buyers always look for diversity in their gas reserves, and the decline in Australia's LNG pipeline comes as no real surprise. The LNG boom first started in Qatar, then moved to Australia and now that well has run dry, buyers are looking to the US as it is more cost-effective and environmentally friendly," another source in the project finance space said. "LNG deals are continually flush with liquidity and there are still opportunities in south-east Asia. Whether it is upstream lending in Indonesia to smaller companies or financial advisory roles in Vietnam-based downstream petrochemical deals, there is a pipeline to be pursued."

For now, however, capital is heading to the US and orders for LNG vessels continue. ANZ and the Export-Import Bank of **China** (**China** Ex-Im) recently announced a \$787 **million** deal for four new LNG carriers. **China** National Offshore **Oil** Corporation has mandated the pair to arrange the facility, while the vessels will be built by Hudong-Zhonghua Shipbuilding. A spokesperson from **China** Ex-Im said the bank has cumulatively provided financial support for 16 LNG carrier orders worth approximately \$1.7 **billion**, all built in **Chinese** yards.

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