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EDITORIAL: Beleaguered LNG sellers turn coronavirus into convenient scapegoat

The global coronavirus outbreak is proving to be a convenient scapegoat for gas and LNG companies struggling to adapt to challenging market conditions that have been years in the making. Barely a day goes by without a C-suite executive blaming the Covid-19 contagion, as it is now known, for his or her inability to deliver on their promises.

Australia's Santos recently attributed a delay until Q2'20 in a final investment decision (FID) on its Barossa gas project offshore Northern Territory to Covid-19 travel restrictions, which "impacted our ability to have face-to-face discussions ... slowing down ... our marketing activities," CEO Kevin Gallagher said in an earnings call in late February.

With spot prices languishing below the cost of production, Gallagher said Santos is wary of locking into long-term contracts at the bottom of the cycle and locking out upside potential. What he omitted to mention was that the current LNG glut has been widely discussed, albeit prematurely, since at least 2016. Now that it is finally here, LNG producers seem to have no contingency plan other than to wait it out and hope for the best.

Woodside Petroleum told a similar story last month when it delayed FID [1] at its Browse gas field project by six months and warned travel restrictions were hampering efforts to sell down equity in the Scarborough field. CEO Peter Coleman said his team "pushed it really hard" before facing up to the reality that they are selling into a broken market.

In the US, Cheniere Energy CEO Jack Fusco last week said "the whole urgency among customers to sign long-term contracts has dropped" due to a confluence of "coronavirus, the warm winter" and other market factors, which threaten to delay expansion of its Corpus Christi LNG site in Texas. Days later, French utility EDF signed [2] a 20-year offtake deal with Cheniere's rival Venture Global for 1 mtpa from the proposed Plaquemines LNG plant in Louisiana.

Blame game

Fellow US LNG developer Tellurian yesterday announced [3] it will cut corporate spending and renegotiate a USD 75 million short-term loan that it agreed last year on punitive terms with lenders to cover its outgoings while it strived to secure investors in its flagship project, Driftwood LNG, also in Louisiana.

CEO Meg Gentle said the move was triggered by increasing travel restrictions to mitigate coronavirus contagion and deteriorating global financial markets, but pivoted to claim: "We continue to see very strong growth in LNG demand from Asia in general, and India in particular, in spite of world conditions."

Indian LNG imports have risen slightly in response to record low spot prices, but Petronet LNG is

evidently not quite ready [4] to commit to Tellurian's equity investment model for Driftwood. Moreover, coronavirus did not stop Gentle and colleagues travelling to India to discuss the deal last week, only to leave empty-handed – much to the chagrin of Wall Street.

French major Total, a major Tellurian shareholder, is so far the only company to buy into the pioneering equity investment model for Driftwood, despite Tellurian tweaking the value proposition and project configuration on several occasions since it came onto the LNG scene in 2016.

Aside from Total, Tellurian can point only to memorandums of understanding (MoUs) with Petronet and Vitol for mooted but far-from-certain equity investments that are crucial to the success of Driftwood and, by extension, Tellurian bosses and shareholders.

None of this is to say coronavirus is not impacting gas, LNG and other markets profoundly, or impeding deal-making. On the contrary, the outbreak is crashing Brent, roiling markets and last week precipitated the worst stock sell-off since the 2008 financial crisis. Yesterday's cancellation of the CERAWEEK energy conference in Houston delivered another major blow to US energy players.

Cheniere also confirmed last week that two customers cancelled cargoes [5] that were due in April. There is no knowing whether this would have happened if China had not shut down much of its domestic industry and imposed strict curfews to contain the outbreak, crushing demand for energy and other commodities and turning away LNG cargoes into an already over-supplied market.

The point is that the growing risk of US LNG shut-ins was discussed at length for years [6] prior to the Covid-19 outbreak in Wuhan in late December 2019. If LNG shut-ins become widespread, it would be short-sighted not to question whether structural weaknesses throughout the gas value chain – and the industry's collective failure to avert or mitigate the worst effects of the current glut – played a decisive role. - SK

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