US LNG's new prospects for Asian offtakers

Jinjoo Lee & Brian Eckhouse

15/07/2014

British and Spanish oil & gas companies signed tolling agreements with the first three US-based liquefied natural gas export projects, but Japanese and Korean offtakers have accounted for much of those projects' capacity. Japanese and Korean offtakers have been able to help mobilise large debt commitments from their domestic export credit agencies (ECAs) for the first wave of US liquefaction projects. Several Japanese offtakers also bought equity in US liquefaction trains.

But the sponsors of the next wave of US export liquefied natural gas (LNG) projects have begun signing tolling agreements with a broader range of offtakers. These include Woodside Energy Trading Singapore, a subsidiary of Australia's Woodside Petroleum, and Indonesian national oil company Pertamina.

ECA support for these contracts will not be as generous as that on offer from Japan and Korea, if it is forthcoming at all. Both Indonesia and Australia are themselves big LNG exporters, so these contracts likely constitute trading positions rather than attempts to acquire resources for domestic industry.

Some European countries are exploring greater use of imported LNG, particularly as the Ukraine crisis rumbles on, but their ECAs typically only support financings in support of equipment exports, not resources imports, with the occasional exception of Germany. But the need for ECA financing has in any case waned considerably – even for projects that require several billion dollars of debt.

Cheniere Energy recently told commercial banks that an ECA tranche is unlikely to feature on the proposed [$7 billion debt financing for its Corpus Christi liquefaction project] in Texas. Cheniere reasons that lenders are so starved for deals – tickets of at least $300 million have become commonplace – that it no longer has to devote time and resources to working with ECAs. Liquidity in the commercial bank and bond markets is robust.

In addition to [offtake contracts with Woodside Energy and Pertamina], Corpus Christi has agreements with Spanish utilities Iberdrola, Endesa and Gas Natural Fenosa.

Earlier liquidity contraints

Bank liquidity had been limited until recently. Through early 2013, bank lenders – particularly the European ones – were still coping with the aftermath of the 2008 financial collapse, and the later Eurozone crisis. European banks' funding costs surged, and some left the US and other big infrastructure finance markets.

So, sponsors of liquefaction projects looked towards ECAs – and the Japanese Bank for International Cooperation (JBIC) and Kexim of Korea in particular.

In the largest project financing ever to close, [the Ichthys LNG project] in Western Australia sourced 30% of its $20 billion in debt as direct loans from JBIC, Kexim and Australia's Export Finance and Insurance Corporation. Ichthys signed in December 2012. About six months later, Cheniere Energy Partners' Sabine Pass liquefaction project in Louisiana closed on $5.9 billion in bank debt that included contributions from Korea's Kexim and K-Sure. The involvement of Korea Gas Corporation as a Sabine Pass offtaker helped bring in the Korean ECAs.

Lower ECA influence

Today, Cameron LNG and Freeport LNG are nearing close on multi-billion dollar financings to support the construction of US liquefaction trains. JBIC is committed to help finance both projects, which are expected to reach financial close by the end of the year.

While ECAs offer long tenors and attractively priced debt, those advantages have narrowed as credit markets have improved. And working with ECAs remains time-consuming compared to commercial banks.

Sponsors seeking ECA debt must meet strenuous environmental and technical requirements, and obtain approvals from various bodies within each ECA. They may even have to hire additional legal advisers.

Before Sabine Pass reached financial close, Cheniere Energy Partners realised that it had received enough commitments from commercial lenders to cover the entire bank portion of the debt – including the ECA contribution. But the deal ended up including $1.5 billion in debt and cover from Kexim and K-Sure.

The financings for Sabine Pass and Ichthys were assembled immediately after the financial crisis, when ECA debt was the most obvious option. For the next wave of projects, ECA debt will be less important, though still a contender. When seeking offtakers, sponsors today are most keen on price and counterparty credit rating, market observers say. But this shift in approach will only last as long as credit markets stay benign.