LNG Allies™
THE US LNG ASSOCIATION

December 21, 2018

Mr. Scott Condren
Export-Import Bank of the United States
811 Vermont Avenue, N.W., Room 1261
Washington, DC 20571
RE: Liquefied Natural Gas/Mozambique

Dear Mr. Condren:

LNG Allies, the trade association of the U.S. LNG industry, opposes any loan or other financial support by the Export-Import Bank of the United States (EXIM) for the liquefied natural gas (LNG) export project in Mozambique referred to in the Nov. 29, 2018, *Federal Register* notice, "*Liquefied Natural Gas/Mozambique.*"

Such support could disadvantage U.S. LNG exports, and the realization of proposed U.S. LNG export projects. LNG Allies believes that EXIM should focus its efforts on supporting U.S. natural gas liquefaction projects, a strategy which would maximize the economic gain to the United States of growing global natural gas markets. (See our attached fact sheet on this subject.)

Global demand for LNG is expected to show robust growth in coming years. However, U.S. LNG project developers face daunting challenges that could severely limit their ability to benefit from this expanding market. Competition in the industry is intense, with new or expanded liquefaction plants likely to move ahead in Russia, Qatar, Australia, Canada, Papua New Guinea, and Senegal, in addition to Mozambique.

A principal difference between these ventures in other countries, and nearly all of those in the United States is the balance-sheet resources of their sponsors. In the United States, most LNG project developers are midstream companies or purpose-incorporated entities that need to raise billions of dollars in non-recourse (off-balance-sheet) project financing for their facilities.

Traditionally, this has been done by signing relatively large (>2 million tons per annum "mtpa") long-term (e.g. 20 year) contracts for the gas with investment-grade offtakers. Such contracts provided requisite security for banks and other lenders.

Unfortunately, such contracts are much more difficult to obtain now than a few years ago due to changing market conditions. Specifically, LNG contract durations and volumes are shrinking and many offtakers that are interested in purchasing U.S. LNG do not have a "bankable" credit rating. For these market reasons, since 2013 only 4.5 mtpa of new LNG capacity has reached a final investment decision in the United States (Cheniere's Corpus Christi, Train 3).

The companies behind liquefaction projects in other countries—including Mozambique—are mostly large international energy companies who can fund the facilities themselves without relying on long-term contracts. This is a major disadvantage for U.S. projects and EXIM would only aggravate the situation by using its financial resources to assist our competitors.

On June 20, 2018, the U.S. Department of Energy (DOE) published a study in the Federal Register entitled: *Macroeconomic Outcomes of Market Determined Levels of U.S. LNG Exports*. This study is a thorough examination of the broad economic impacts of U.S. LNG exports under various potential global natural gas market conditions. A key finding of this study is that "overall U.S. economic output is higher whenever global markets call for higher levels of LNG exports…" The DOE study indicates that a large share of any increase in U.S. LNG exports would be supplied by an increase in domestic natural gas production.

In addition, a study conducted earlier this year by ICF for LNG Allies (attached), shows that more than half of the economic benefits and additional jobs from increased U.S. LNG exports would be the result of higher natural gas production to supply these exports. Under the scenarios ICF reviewed—all based on cases in the Energy Information Agency's 2018 Annual Energy Outlook—the cumulative economic value added to 2050 from LNG terminals would range from $716 billion to $1,267 billion. The cumulative added value from the natural gas supplied to these terminals would range from $948 billion to $1,988 billion. The U.S. jobs created from the natural gas supplied for LNG exports would be about three times the jobs created from the LNG terminals themselves.

The DOE and ICF/LNG Allies studies highlight that the largest economic benefit to the United States results from developing our own LNG export terminals supplied by natural gas from U.S. fields. In addition, it is likely that the level of U.S. content will be higher in an LNG terminal built in the United States than one built abroad.

Currently, U.S. LNG export projects with a capacity of over 64 mtpa are fully permitted and awaiting a final investment decision (another ≈75 mtpa is operating or under construction). Capacity of an additional 159 mtpa is under formal FERC review with most if not all of that volume expected to be fully permitted by year-end 2019.

The U.S. government—including EXIM—should focus on how to assist as many of those projects as possible. Although it is possible that some of these projects may never be sanctioned, if more U.S. LNG projects are not given a green light soon, then U.S. natural gas production may be restricted in the 2020s due to lack of sufficient domestic market demand. U.S. oil production could also be adversely affected by lack of an outlet for associated gas, especially from the prolific Permian basin in Texas and New Mexico.

Instead of supporting competition to U.S. LNG exports, EXIM should be working with U.S. project developers to help them reach final investment decisions. Among the ways the Bank could help the industry would be enhancing the long-term credit of lower credit-quality overseas buyers of U.S. LNG through insurance or risk guarantees and participating in the financing of U.S. export projects themselves if permitted under U.S. law.

For the reasons of economic harm set forth above, we urge EXIM to not provide the requested $5 billion direct loan for the Mozambique LNG project and to reject similar requests from other project developers for liquefaction facilities located outside North America.

Sincerely,

Fred H. Hutchison
President & CEO