

LNG in the Time of Corona: Industry Update on the Challenges and Opportunities of North American LNG Projects

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Following the WHO's declaration of the coronavirus outbreak as a global pandemic, the world began taking measures to contain the spread of the virus, including imposing lockdown orders. This led to an economic downturn affecting all industries and, consequently, the demand for LNG. Additionally, the Saudi-Russia price war led to a drastic drop in U.S. crude prices, which continues to negatively affect natural gas prices.

This "perfect storm" is affecting LNG development across North America. In Canada, Woodfibre LNG announced that it was delaying construction of its project until Summer 2021, largely due to COVID-19. The fabrication yard manufacturing the project's components closed to prevent the spread of the coronavirus. In the U.S., Shell announced that it will exit its investment in the Lake Charles LNG project. This comes on the heels of its decision to reduce 2020 capital expenditures and operating expenditures by a combined \$8 billion. In Mexico, where there is an excess of fuel oil, manufacturing facilities have begun to ramp down, reducing the need for imports of U.S. natural gas.

Notwithstanding the gloom hanging over the LNG industry, there are some bright spots that may present opportunities for LNG market participants. Mexico has significantly increased its capacity for imports of U.S. natural gas via the TC Energy/Enova pipeline, which will help alleviate the natural gas shortage in the Yucatan Peninsula to supply industry, hotels, and power plants.

And in the U.S., a proposed PHMSA rule may pave the way for the shipment of bulk LNG by railroad without the need for special permits. Advocates of the proposed rule suggest that some railroads are actively exploring the use of LNG as a locomotive fuel, which would thereby require the supply of LNG along their networks. Such deregulation could benefit the U.S. LNG industry by opening previously unavailable markets, which would in turn help drive demand.

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