

How America's next revolution may ignite global maritime commerce



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As the Far East becomes increasingly industrialised, the energy demands of individual states will soon surpass the internal capabilities of all but a few nations, thrusting the USA, traditionally an energy importer, into a new (but welcome) role as a leading energy exporter. This will inevitably create significant opportunities for ship interests.

A rosy picture

Cheniere Energy, Inc., a company listed on the New York Stock Exchange and the operator of Sabine Pass, the first fully authorised LNG export facility in the USA, saw its stock price rocket some 118% in 2013, the culmination of a 2,568% gain over five years. This is just one example to illustrate the widespread stateside energy revolution.

Following a large increase in fracking¹ operations in the USA, BP's chief economist, Christof Ruhl, forecasts that shale gas will constitute up to 21% of global energy production by 2035, with the USA becoming the largest producer of natural gas at 65bn cubic feet daily – 20% of the global market. Ruhl has stressed that these are 'conservative' figures. By any calculation, however, America will soon produce much more LNG than it can consume, leading to the oft-expressed expectation, echoed by President Obama himself, that the USA will be a net LNG exporter as early as 2016. By 2035, only Australia will surpass the USA in terms of LNG export volume.

- America's abundance of LNG production leads to expectations of a profitable export market
- Regulatory controls still threaten to dampen optimism in the LNG export industry in the USA
- However, plentiful overseas clients and healthy profit margins make LNG exports from the USA an economic inevitability

Figures published by the *Wall Street Journal* last year reveal perhaps the most scintillating LNG development in maritime commerce: the difference (in \$ per million British thermal units) between gas bought in the USA and the amount recoverable in sales abroad more than offsets the cost of liquefaction and overseas transportation. Reports indicate mark-ups of greater than 300%, including the costs of liquefying and transporting the resource.

¹ The process of injecting liquid at high pressure into subterranean rocks, boreholes, etc., so as to force open existing fissures and extract oil or gas. Also called hydraulic fracturing.

Legal obstacles

Counterbalancing this optimism are the potential legal obstacles facing the American LNG concerns. One example to illustrate the widespread regulatory struggle is the story of Freeport LNG. This Texas-based company began the permit application process with the Department of Energy in August 2012. It has contracts with at least five global customers requiring the shipping of 2bn cubic feet of LNG per day. Although Freeport obtained the necessary export approval from the Department of Energy in May 2013, becoming just the second business entity to do so, the Federal Energy Regulatory Commission has delayed the approval of the company's planned \$12.5bn LNG export terminal. As a result, Freeport is unable to commence full operation until 2019 – five years later than originally planned.

Future opportunities

Meanwhile, China has constructed 13 LNG import terminals since it started importing in 2006. This is illustrative of the comprehensive Chinese plan to triple its use of LNG to above 300bn cubic metres by 2020, which dovetails nicely with the US export plan. If this comes to fruition, it could create significant opportunities for owners, operators and other ship interests.

Finally, the rise of LNG exports may significantly ameliorate greenhouse gas (GHG) emissions. In a 2014 peer-reviewed study, the first to specifically consider the carbon footprint of LNG, Carnegie Mellon University's College of Engineering concluded that US exports would help reduce global GHG emissions considerably.

