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Magnolia LNG CEO Laments Trade War's Impact

The US-China trade war is making life difficult for the management of LNG Ltd., who are already navigating a host of market challenges in hopes of building their Magnolia LNG project on the US Gulf Coast.

"The market is still very tough; we've had to struggle to get through," said Greg Vesey, the firm's managing director and CEO, at last week's North American Gas Forum in Washington, DC, organized by Energy Dialogues.

Vesey was surprisingly frank about the headwinds facing the 8.8 million ton per year (1.2 billion cubic foot per day) Magnolia project that has been caught in the undertow of the tariff battle between China and the Trump administration.

The trade clash between the fastest-growing LNG exporter and the fastest-growing importer closed off a key market for all US LNG developers -- at least for now -- hampering their efforts to nail down offtake contracts and make final investment decisions.

LNG Ltd., with Chinese investment fund IDG Capital still holding a 9.8% stake in Magnolia, had been focused on Chinese buyers and now must look elsewhere.

"We were always looking around the world," even as the company waited for the US-China trade war to end, Vesey said. The search led to a recent deal to supply LNG to a power plant in Vietnam (NGW Oct.21'19).

"There is a wave of momentum" from countries "that don't want to experience what China is going through," Vesey said. It was that inertia that led to Magnolia's 2 million ton/yr (0.26 Bcf/d) deal with Vietnam, covering 25% of the terminal's proposed capacity.

China is clearly still interested in US gas, he said, noting that Chinese representatives were at last month's Gastech conference in Houston. "They can't execute."

So can Magnolia hold out until the US-China trade war is over? "We're in a liquidity drill," Vesey admitted, acknowledging that no revenue is coming in yet. "LNG is very tough, not a game for the tentative."

Yet the Magnolia project finds itself in the right country. "People are paying huge attention to the US," Vesey said, citing its huge gas resource, stable price environment and favorable business climate.

Who are the potential buyers? Vesey sees world LNG demand exceeding supply by 2023, with Asia buying two-thirds of world LNG supply and Europe the remaining third (NGW Sep.2'19).

Even developing countries with less-than-perfect credit are in the game. Vesey said there are a number of tools available to overcome the credit problems, including partnerships, sovereign guarantees and other mechanisms.

"The biggest driver is price," he said. "They like the stable pricing environment in the US."

Discussing the market's evolving structure, Vesey said 20-year LNG contracts are still part of the mix as every buyer manages its intake as a portfolio. As LNG "commoditizes," he said, there will be a little bit of everything in buyers' portfolios including long-term deals and short-term spot purchases that could comprise as much as 25%.

Vesey acknowledged that the trade war has infringed on the US LNG industry's second-wave development and that a soft market makes it harder to buy US gas -- especially if Dutch Title Transfer Facility pricing is lower. However, "long term, this is going to be a great business for the US."

"Waving the flag for US LNG is great," he said of Trump administration efforts to promote US LNG. But while "being the cheerleader out front is great, it is up to companies to complete those deals."

Michael Sultan, Washington