

Source : BANGKOK POST

Date : 11 NOV 2017 Page : 66

No :

Beijing-US energy deals fizzle

Over \$138 billion in agreements during Trump's visit, but all are non-binding

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China showed its appetite for big-ticket investments in US energy production and exports during President Donald Trump's visit, but left the event with almost no binding deals.

Agreements announced in Beijing on Thursday included nearly US\$84 billion in shale gas and chemicals in West Virginia, a \$43-billion Alaskan LNG project and \$11 billion in long-term supply of liquefied natural gas from the only mainland US exporter. Ethane, turbines and next-generation nuclear reactors were also among the announcements.

The pacts dominated the \$250 billion in US-China deals unveiled this week during President Trump's visit to Beijing. Almost none of them included financial commitments or purchase agreements.

China Petrochemical Corp, known as Sinopec Group, signed a joint development agreement with Alaska Gasline Development Corp on a plan to pipe natural gas from the state's northern shore to a proposed liquefaction terminal in the south, where it would be shipped abroad. The deal for the Alaska LNG project, which the US State Department Thursday said would include investments of up to \$43 billion, has been in discussions for years and was already sidelined by American majors.

"This kind of non-binding commercial agreement allows Trump to portray himself as a master dealmaker, while distracting from a lack of progress on structural reforms to the bilateral trade relationship," Hugo Brennan, an Asia analyst at Verisk Maplecroft, said in an email. "The deal is politically expedient, yet its non-binding nature gives Sinopec the flexibility to quietly back away from the deal down the line."

Other US-China energy agreements



PHOTO: REUTERS

Tu Guangshao, vice-chairman and president of China Investment Corporations, Dai Houliang, president of Sinopec Group, and Chen Siqing, chairman of the board at the Bank of China attend a meeting of business leaders, US President Donald Trump and China's President Xi Jinping in Beijing on Thursday.

announced Thursday include West Virginia and China Energy Investment Corp — the newly formed world's biggest power company — signed a memorandum of understanding to invest \$83.7 billion in shale gas development and chemical manufacturing projects in the state.

Cheniere Energy Inc and China National Petroleum Corp signed a memorandum of understanding for the long-term sale and purchase of LNG. The announcer at the signing ceremony said the deal was worth \$11 billion, a figure neither company has disclosed.

Delfin LNG and China Gas Holdings Ltd signed a deal where details were not disclosed for the sale of up to 3 million tonnes a year of LNG.

Westinghouse Electric Co and State Nuclear Power Technology Co signed contracts for six AP1000 nuclear reactors to be built in China. The six reactors were not part of the \$253.5 billion in trade deals signed this week, signed before this trade

mission, said Westinghouse boss Jose Gutierrez.

GE and China Datang Corp signed a framework agreement for future joint projects and deals, including gas and steam turbines, that could total \$1 billion.

A \$26-billion agreement between American Ethane Co and Nanshan Group for a 20-year supply of ethane from the Gulf Coast of Texas to a new ethylene plant in China was among the only binding contracts signed. The two sides negotiated the deal in June, according to a statement from American Ethane.

China's thirst for natural gas is a result of an ever-growing economy and a new push by President Xi Jinping's government to replace dirtier fuels like coal and petroleum to limit pollution. The country's natural gas use could almost triple from last year to about 600 billion cubic metres by 2040, and it could overtake the US as the world's largest consumer by 2050, said Sanford C. Bernstein & Co.

Exxon Mobil Corp, ConocoPhillips, BP Plc and TransCanada Corp have distanced themselves from the Alaska LNG project after estimating in 2012 it would cost as much as \$65 billion and take more than a decade to construct. As of this year, all of those companies had withdrawn from the project's application. Sinopec said in a statement Thursday it's interested in buying stable supplies of LNG from the project.

Cheniere Energy runs the only terminal sending US shale gas overseas. The Houston-based company has been trying to lock in buyers to build a sixth gas liquefaction plant at the Sabine Pass terminal in Louisiana and a third at the Corpus Christi terminal being constructed in Texas. A Beijing-based CNPC spokesman declined to comment Thursday on the MoU. Cheniere spokesman Eben Burnham-Snyder confirmed the signing in an email but declined to provide any additional details about the agreement.

"The US has a natural gas oversupply and has been looking for ways to export the fuel," said Anna Yu, a Hong Kong-based analyst at ICBC International Research Ltd. "Meanwhile, China is looking to diversify its sources of LNG imports to improve its energy security."

China has already signed deals with suppliers in Qatar, Australia and other nations for more than 40 million tonnes a year of LNG through 2030, but still needs more than 20 million tonnes to meet demand by the end of that period, according to Bloomberg New Energy Finance. Chinese LNG buyers have not yet inked any long-term purchasing agreements or investment deals with US LNG exporters.

The US is more eager than China to sign long-term LNG export contracts, said Vice-Finance Minister Zhu Guangyao at a briefing in Beijing on Friday. Non-binding deals are still highly feasible, he said.

Memorandums of understanding are typically non-binding, so there are rarely legal ramifications if one side backs out. They can push an LNG project's development process along, but they're not enough to attract financial investments, Jason Feer, head of business intelligence at ship broker Poten & Partners Inc in Houston, said by phone.

Signing a long-term LNG agreement in Alaska "was highly unlikely" because the project doesn't have a permit to export, gas supplies haven't been contracted, and the total cost of building is unknown, said Larry Persily, outgoing chief of staff to the mayor of Kenai Peninsula Borough, where the terminal would be located.

The MoUs in Beijing mirrored a similar wave of non-binding agreements signed during South Korean President Moon Jae-in's visit to the White House in June. Korea Gas Corp announced then it would look into potential investments in LNG projects in Alaska, Texas and Louisiana. SK Group signed agreements with General Electric and Continental Resources Inc.