

News

French bank pulling shale support impacts US

Harry Weber

1,140 words

12 October 2017

Platts Megawatt Daily

MEGA

ISSN: 1088-4319, , Volume 22, Issue 196

English

© 2017 S&P Global

BNP Paribas' decision Wednesday to stop doing business with companies that are primarily involved in oil and gas production from shale jeopardizes its relationship with an LNG export developer in Texas that was using the French bank as a financial adviser and could hurt other projects' ability to pay for construction if more banks follow suit.

The development comes at an uncertain time for the US energy industry, as persistently low commodity prices make the economics of drilling and midstream operations in some plays more challenging. Most acutely, LNG export developers that have yet to make a final investment decision are struggling to secure long-term contracts with buyers of their supply.

In the short term, analysts still expect money to flow to the industry if there is market demand for shale projects, even as the current US administration's move away from international climate accords and its support for fossil fuel-burning resources gives BNP Paribas, and perhaps other European banks, the impetus to make a stand.

"There may be a shakeup on who finances them," said Kyle Cooper, director of research for IAF Advisors in Houston.

Several environmental groups said in a statement after BNP Paribas' announcement that they had traveled to Paris to push the bank to pull out of Texas LNG's export project in Brownsville, the first phase of which will be designed to produce up to 2 million mt/year, or 0.26 Bcf/d, and is targeted for startup in 2022.

In 2015, Texas LNG named BNP Paribas as a financial adviser on the project and said the bank would help it raise equity and debt financing for the terminal and complete transaction documents for achieving final investment decision and project construction.

Since Texas LNG would source its feedgas from US shale plays, BNP Paribas' new policy would appear to bar it from being involved, though a company spokeswoman said by phone that no action is expected before December based on its current advisory mandate with the LNG developer.

The policy, in addition to barring the bank from working with shale oil and gas producers, also says the bank will not provide financing of LNG terminals that predominantly liquefy and export gas from shale. Texas LNG's two top executives did not respond to requests for comment.

The environmental groups said they are calling on another French bank, Societe Generale, to cease being a financial adviser on NextDecade's Rio Grande LNG export project, also planned for Brownsville. NextDecade said in May that Societe Generale and Macquarie Capital would act as joint financial advisors in conjunction with the anticipated debt and equity financing for the construction of its terminal and affiliated pipeline.

A Societe Generale spokesman declined to comment. The company expects to present its corporate social responsibility ambitions on November 28 as part of a new strategic plan. NextDecade's CEO did not respond to a request for comment.

"The fight is not over," Rebekah Hinojosa of the group Save RGV from LNG said in a statement.

More than a dozen LNG export projects are currently being proposed to US regulators, in addition to the handful that are currently under construction. Cheniere Energy's Sabine Pass terminal in Louisiana is the only one currently exporting LNG produced from shale gas.

Analysts and industry observers said BNP Paribas' move could be a gamechanger in the long run.

"While a bank going about saying it won't finance fossil fuel projects does seem kind of jarring, I guess it's part of a larger trend away from fossil fuels in general," Madeline Jowdy, senior director, global gas and LNG, at Platts Analytics' PIRA Energy Group in New York, said in an e-mail responding to questions.

She said the bank's move "would definitely be another challenge for US project backers if other banks take a similar approach." Jowdy said she couldn't see that happening right now because market demand is the main driver of financing decisions. There also is plenty of private equity money being pumped into US shale activity.

In Europe, however, there is appetite for socially conscious financial decisions, which could spread to other banks there, Michelle Foss, chief energy economist at the University of Texas at Austin's Bureau of Economic Geology, said in an interview.

"Even the Japanese seem to be staying away from this. They want to keep all options open," Foss said. "The Euros are the only ones really taking the plunge off this particular cliff."

Policy impacts upstream, midstream , exports

Besides LNG projects, BNP Paribas' new policy could impact Canadian oil pipeline projects, including TransCanada's Keystone XL. The BNP Paribas spokeswoman said that based on its new policy the bank would not provide financing for that project going forward.

"We respect the French bank's decision to determine where to invest their money," TransCanada spokesman Terry Cunha said in an e-mail. "However, TransCanada is an environmentally accountable company with a \$100 billion market value that delivers solid results attractive to a wide range of global investors."

The new policy says the bank will no longer do business with companies whose principal business activity is the exploration, production, distribution, marketing or trading of oil and gas from shale and/or oil from tar sands. It also says it is ceasing financing of projects that are primarily involved in the transportation or export of oil and gas from shale or oil from tar sands.

In addition, the bank will not finance any oil or gas exploration or production projects in the Arctic region. Instead, it said it will support energy clients that are committed to a cleaner burning future, and it will pump billions of dollars more into renewable energy.

The new policy follows the bank's previous decision to reduce its support for coal mines and coal-fired power generation.

US energy policy on fossil fuels shifting

The Trump administration has been trying to throw a lifeline to the US coal industry with the rollback of tough regulations imposed under the Obama administration that were designed to significantly reduce carbon emissions. It also has vowed to pull out of the Paris climate accord. And it has promised new opportunities for US LNG exports to Asia and oil pipeline flows from Canada.

In a post on his LinkedIn page, BNP Paribas CEO Jean-Laurent Bonnafe did not specifically single out recent US actions, but he did say banks have a duty to accelerate the energy transition that much of the rest of the world is embracing.

"We are a long-standing partner to the energy sector, which gives us considerable scope to help guide the decisions of our clients," Bonnafe said.

Harry Weber

North American Proposed LNG Export Terminals|graph Source: Federal Energy Regulatory Commission
Document MEGA000020171026edac0000a