

C-suite Chat with Charif Souki—The LNG Godfather



Nissa Darbonne

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In early September, more than 50,000 Czechs protested in Prague, calling to renew receiving natural gas from Russia. In London, a chief economist was predicting a natural gas-spawned recession.

“Europe’s economic outlook continues to go from bad to worse,” wrote Andrew Ross Sorkin in the New York Times’ “DealBook” newsletter Aug. 31. While U.S. energy prices appear to have peaked, “economists see more pain ahead for Europe ... through the autumn and into next year.”

Holger Schmieding, the London-based economist, told Sorkin, “We are paying through the nose for imports of natural gas.”

At the time, the Dutch TTF price for LNG—the Henry Hub, if you will, of Europe—was \$90 per MMBtu.

Oil and Gas Investor had visited with Charif Souki two days earlier for his perspective on energy and world order. In addition to leading Cheniere Energy Inc. to become the U.S.’ first Lower 48 LNG exporter—there had been exports from Alaska from 1969 to 2015—Souki is a world citizen born in Egypt, spending his youth in Lebanon and traveling the world as the son of a foreign news correspondent and, later, as a private investor.

Currently, he’s building a second LNG export plant, Driftwood, south of Lake Charles, La., as executive chairman of Tellurian Inc.

Nissa Darbonne: Could energy costs be the new global financial crisis?

Charif Souki: Definitely. And much worse. It’s not just natural gas; there’s a shortage of all kinds of energy.

And there’s a shortage of mining—for copper and other things that go into solar panels and windmills.

There is a shortage of coal. There’s a shortage of oil. So everything is in shortage.

ND: How soon could this result in a financial crisis?

CS: Soon.

ND: A couple of years?

CS: I think we’re already seeing it. This winter, you’re going to have misery in Europe. Europe is not used to dealing with misery, whereas the emerging countries are.

You say that you’re going to have a shortage of fertilizer in Bangladesh or Pakistan and people shrug. They don’t think it’s very serious. “So what?”

But you start talking about not having enough energy for heating or electricity in Europe and, all of a sudden, everybody pays attention.

The problem has now come to the West, which a year and a half ago wasn't true. Now we're paying attention.

ND: The U.K. was going to develop its own shale during the past decade but quit. It's confounding that Europe would dilly-dally about securing friendly energy supply. Is this surprising to you?

CS: No, I'm not surprised. It's classic. They thought Russia was friendly and, from their standpoint, Russia was part of Europe and the U.S. was not. They took the position, universally almost, in Europe that they were going to prefer to get all their gas from Russia than from the United States. It was a conscious policy decision.

Look, even the Chinese: We're not exactly friendly with them today, but they're hedging their bets. They're not going "all Russia." They are signing agreements in the United States as if we were the best friends in the world.

It is just common wisdom to diversify your sources. Don't depend entirely on one supplier because then you make yourself very vulnerable.

They should have known that.

ND: Russia has cut off supply in the past.

CS: Russia was reliable until about two years ago. But it was too late for Europe to do anything about it.

One of the central issues is nobody seems to have an energy policy. Everybody's going about haphazardly.

ND: Oil and gas have been too cheap for too long. Has the world become complacent—at least the West?

CS: Yes. And not just the Western world; it's everybody. It was mostly due to the shale revolution. This is really our fault. We changed the world by becoming the largest exporter of natural gas from only 10 years ago.

And because of that, the price remained very comfortable. The rest of the world became very complacent, and energy was a miserable place to invest money.

Everything came from that.

ND: European demand for U.S. LNG will be undiminished despite the outcome of Russia's war for Ukraine. Is this correct thinking?

CS: No. European demand will diminish. First, they're going to lose their industries. You're not going to make fertilizers there. You're not going to make steel or aluminum or cement. All the things that are critical to European industry are going to start migrating (abroad).

So they're going to export their energy demand. And at the same time, they're going to export their emissions because it doesn't mean they're not going to buy cars. Their cars will be made in India or China or somewhere else in the world.

So Europe is going to de-industrialize, and they're going to help other places around the world to industrialize. At the same time, they will have a reduction in their emissions, but they will have simply exported them.

They will reduce their demand for natural gas, but what they need to do, in our base case, is to continue to rely on some Russian gas and hope it's going to come, cut their demand for industrial goods by half and double their LNG imports.

They're still going to import a tremendous amount of energy, but they will reduce their demand because they will lose their industries.

ND: What will be their economy then?

CS: They are going to become a service economy. They're already 52% a service economy, and that's going to increase. They're not going to be an industrial economy.

ND: Your friends and clients abroad, are they alarmed?

CS: They're very nervous. They made the mistake of relying on Russia. And now they're wondering whether we have the willingness to step in and help them or not.

We don't exactly send a very consistent, comforting signal, do we? We basically tell them that maybe they can have our gas, but maybe not. Or maybe we can let them have our energy in general or maybe not.

(Europe is) asking: "Can we really count on you?"

We are not at all consistent and not at all comforting to our allies around the world. They don't know if they can rely on us or not.

ND: On climate, I've heard of the eventual advent of a type of blockchain form of trading certified-carbon-neutral natural gas molecules, a "blockchain Btu," if you will.

CS: Total nonsense. You have people in Europe now going for 20-year coal contracts. So we're not at that point anymore. It was fashionable a year ago because people thought this is what financial institutions wanted to hear in order to get over the ESG issue.

But when your choices are to buy coal or oil, and switch from gas to fuel and do all the things that you can to survive, you don't worry about what you call it.

ND: (France's) Engie had declined a contract in 2020 for South Texas LNG as being "dirty gas" being that it's from Permian and Eagle Ford oil production, but it quickly signed a contract for it this year.

CS: I mean, we're not talking about emerging countries that are really desperate. We're talking now about European countries that should have known better.

I think that if you're going to leak methane or you're going to be responsible for CO₂ emissions, put a price on it. And then don't worry about trying to identify how we want to call it. It's impossible.

I've been advocating both a carbon price and, basically, making methane emissions extremely expensive so people don't have the motivation (to not do something).

It's inexcusable: We have the equipment, and it's affordable. We can do this and if we don't, we should be penalized.

But identifying every molecule—this comes from here and this comes from there—it's just nonsense.

ND: I'm also hearing of U.S. gas producers working toward contracts for the water price, bypassing the Henry Hub price. EOG Resources Inc.'s done a deal. Are you seeing more on the way?

CS: Yes. I mean, we are seeing this all over the place, but it's a very difficult thing to do for companies that don't have an infinite balance sheet.

You mentioned EOG. So they took less than a million tonnes from Cheniere and that is going to cost them \$200 million a year for the infrastructure for 20 years.

So it's \$2 billion to \$3 billion on their balance sheet. That's not a comfortable position to be in. It's great when everything is going the way it's going now. But if it goes in the other direction, for whatever reason, it becomes very expensive.

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So Exxon Mobil [Corp.], Chevron [Corp.], ConocoPhillips [Co.] can afford this. But smaller companies can take only small amounts (of risk). They can take a million tonnes; they can’t take 5 million tonnes.

So that business model is limited. But it does make sense for American companies that produce natural gas to want to be exposed to the global markets.

ND: Tellurian also owns gas reserves in the Haynesville. What’s the thinking behind this?

CS: Demand for gas has increased 2.5% (a year) for the last decade. If it continues to do so, there’s going to be enormous pressure on the system, and Qatar and the United States by themselves cannot supply the gas that is needed by the rest of the world.

This is all driven by emerging countries with 7 billion people that continue to aspire to a better life, that continue to want to live the way the West does and want to improve their living standards. That’s a major function of how much energy you need.

Natural gas is much cleaner than anything else. And it’s unrealistic to ask them to look at renewables because there’s not enough renewables for them to be able to reach our standards of living.

They want more electricity. They are starting to get used to air conditioning. They want more mobility. They want home heating.

They’re starting to live in more extreme regions; it’s either cold and they need heating or it’s hot and they need air conditioning. And they are relying on coal and gas for the majority of what they need.

All you have to do is look at New Delhi to realize that gas is better than coal on a day-to-day basis. Last winter, children were kept home from school because the pollution in the streets was so horrible.

You have these kinds of issues around the world. They need to continue to buy gas—if we let them have it.

ND: We’re at 20 Bcf/d of exports (with Freeport LNG’s 1.8 Bcf/d that is currently offline), including the 7 Bcf/d that’s going to Mexico via pipe. Do we have enough excess resource to export more but still satisfy domestic demand—affordably?

CS: I think we have plenty of resource. The question is, “Do we want to build the infrastructure to connect it?” Between the Marcellus and the Permian Basin, which is very soon going to start running into offtake issues again, we have plenty of resource.

The Marcellus, the Haynesville, the Permian Basin—these are all world-class fields that can produce an enormous amount. And not just at current prices—not at \$3, but somewhere in the \$5 range.

And don’t forget that we import from Canada as well. There is a tremendous amount of resource there too. So, we have plenty of resource. We just need to build the infrastructure.

ND: I haven’t seen growth in Canada.

CS: It’s not going to happen at current prices. We used to say that we can produce as much gas as we want at \$3. It’s probably going to be closer to \$5 very soon. In that neighborhood, we have plenty of resources.

As for Canada, the AECO is trading at under \$3 right now. (It was \$2.59 on Sept. 2.) So it’s a major discount, and nobody there is building infrastructure or can build infrastructure to bring it into the U.S.

ND: As far back as heading into the summer of 2021, I saw U.S. natgas begin to find a new minimum of at least \$4. Will that new floor stick?

CS: I’ve been saying this for two years when gas prices were at \$2: “This is not sustainable. At some point, gas prices are going to start going up.”

I've been advocating for people to watch two things: Henry Hub in the United States and JKM in Asia. Of course, I never expected the invasion of Ukraine; I failed to tell people to look at TTF as well.

What you could see already was the demand for gas on a global basis was increasing, the production of gas in the United States was lagging, and both Henry Hub and JKM had to go up. And all of this preceded the invasion of Ukraine.

ND: What else should we know?

CS: The most important thing is we need an energy policy and our energy policy is not going to be the same as Europe's energy policy—because we have abundance; they don't.

We need to decide what we are going to do with this abundance and we need to be very clear about it and not be schizophrenic and change our mind every two weeks.

We cannot simply react to the situation.

Right now, we don't have an energy policy; we have an election policy: What is going to look good in November and what is going to look good in two and a half years.