

Inward Investment for Natural Resources

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The purpose of this document

This paper is intended to describe Stirling LNG's professional advisory expertise in supporting governments in attracting inward investment in the development of their natural gas resources for marketing and export. As this paper will show, Stirling LNG is well equipped to advise government departments at each stage of the gas value chain in terms of attracting financing towards upstream production, midstream trading and optimization activities and downstream supply and export.

About Stirling LNG's government advisory offering

Stirling LNG brings its market knowledge, international finance relationships and co-investors to access and develop new natural resource capacity for governments. Stirling LNG's clients include government entities, project sponsors, oil & gas companies, utility companies, traders and off-takers.

For Stirling LNG to accept such mandates our Investment Committee has the following requirements:

- The volume of natural resources is sufficiently high to merit allocating the firm's own resources to the project. This is determined on a case by case basis based on the economic analysis of the project and economics of the jurisdiction under consideration.
- There must be sufficient data available for objectively assessing the market prospects of the government agenda, projects and schemes.
- The proposed national agenda and/or project must be capable of objectively demonstrating that the project(s) are competitive and bankable, a sustainable investment that benefits the national economy. This could be in the context of domestic consumption or international export or both.
- The proposed project addresses local and international environmental concerns. International concerns shall mean meeting obligations of the nation state and must not create a negative impact outside of the Paris Agreement commitments the nation state has made to meet its objectives on climate change.
- Stirling LNG complies with the United Kingdom's Anti-Bribery legislation (the Bribery Act 2010) across all projects on which the firm advises.

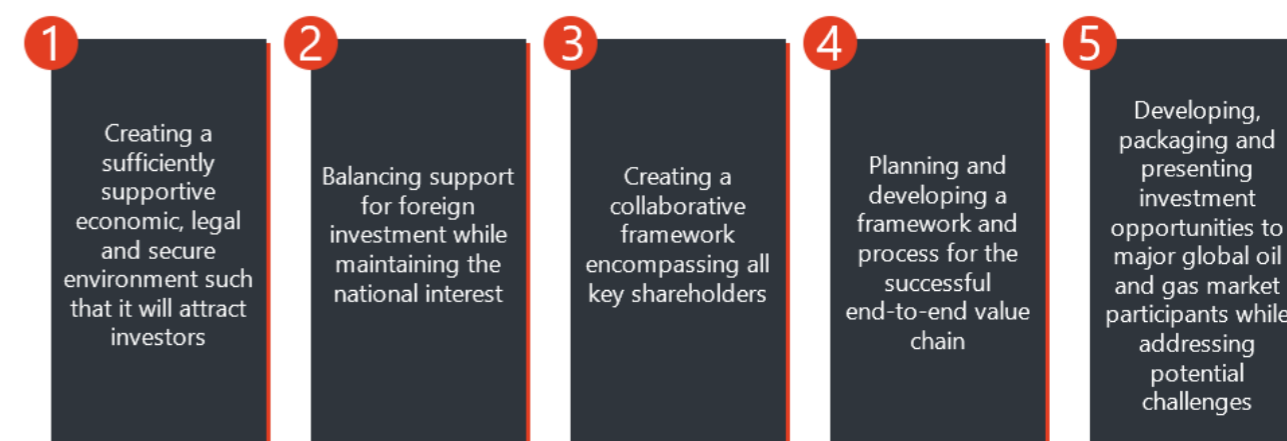
Stirling LNG collaborates as an advisor on the basis that it introduces investment capital to

responsible, sustainable, and bankable projects in the host country. If these prerequisites are met, Stirling LNG will present the opportunity for approval to our Investment Committee to act as both an advisor and introducer of a range of global investors that will include both intelligent and passive capital. The combination of both of these investors into well-planned national projects should establish a viable and successful upstream, midstream and downstream natural resource infrastructure for government-sponsored projects.

Our approach

Stirling LNG is well positioned to advise governments on specific investment and development challenges relating to natural gas upstream production development and its marketing and export. Such challenges include:

1. Addressing the question - How should a government create a sufficiently supportive economic, legal and secure environment such that it will attract investors?
2. Addressing the question - How should governments balance support for foreign investment while maintaining the national interest?
3. The creation of a collaborative framework encompassing all key stakeholders which include relevant government departments, community representatives, non-governmental organisations such as environmental lobby groups and companies that have a responsible track record and proven know-how.
4. Planning and developing a framework and process for the successful end-to-end value chain from upstream production through to midstream and downstream marketing of natural gas.
5. The development, packaging and presentation of investment opportunities to major global oil and gas market participants while addressing potential challenges.



1. Creating a sufficiently supportive economic, legal and secure environment such that it will attract investors

Key to attracting foreign investment in natural gas development projects is for governments to demonstrate that a sufficiently supportive economic, legal and secure environment exists in the host nation.

In terms of the economic environment, various support mechanisms can be developed such as favourable import/export duties for components and trade associated with the project, supportive tax rates and/or tax holidays during operations and assistance with procuring insurance and mitigating its costs.

A favourable legal and regulatory environment will reflect overall government support for new investment such as a general tripartite agreement between a government ministry, the exporting port authority and the project's financial backer. The issuance of operator licences can be made transparent and efficient. Clear government policies, ideally with cross-party support, covering the country's long term commitments to natural gas development will help ease investor concerns and limit political risk, as will pledges to abide by international standards of anti-corruption protocols. Logistics associated with operating in foreign territories, such as the efficient issuance of visas, can also be beneficial.

Demonstrating a sufficiently secure environment is also key to attracting high calibre investment. Investor risk to be addressed here includes reassurances around country credit risk, political stability and supportive systems in place ensuring security for third party personnel and property.

Stirling LNG is well positioned to advise on all of these factors.

2. Balancing support for foreign investment while maintaining the national interest

A responsible government will want to ensure that the development and export of its natural resources, such as natural gas, is in the long term socio-economic interests of the nation. This means ensuring that, for example, supportive tax regimes targeting foreign investment are set such that returns to the host nation are maximised.

It also means ensuring that the export of potentially large quantities of natural gas is consistent with the host nation's long term economic development planning, population projections and domestic energy agenda.

Finally, governments will want to ensure that the economic benefits from any new investments are balanced against the social and environmental impacts from the projects' development and operation.

3. Creating a collaborative framework encompassing all key stakeholders

Any government initiative targeting the development and export of natural resources such as natural gas will require collaboration and alignment across a large set of stakeholders. These will likely include government departments (energy, environment, finance), community representatives, non-governmental organisations such as environmental lobby groups and exploration and production companies that have a responsible track record and proven know-how.

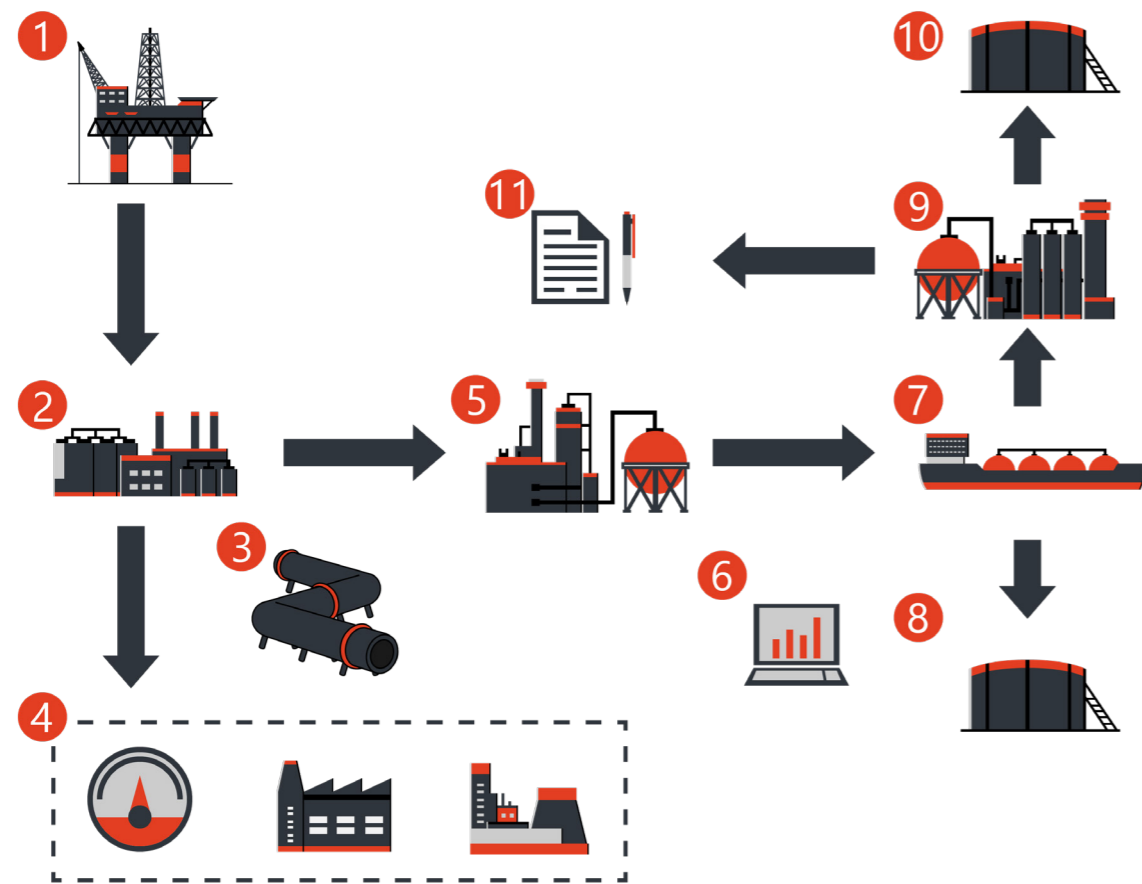
Stirling LNG can assist in this space by creating a collaborative framework through the development and coordination of working groups, conducting and communicating research in key areas of dispute and recommending pathways forward.

4. Planning and developing a framework and process for the successful end-to-end value chain

The success in attracting potential natural gas and LNG developers and their financial backers to a new territory is greatly strengthened if the host government is able to demonstrate that a framework and process for the end-to-end gas value chain is well progressed.

Diagram showing the natural gas supply chain

A typical natural gas value chain, including LNG, will comprise some or all of the following elements:



1. Proven gas reserves and established pathway to production
2. Processing facilities
3. Well developed gas transportation and distribution infrastructure (pipelines)
4. Domestic market demand – residential, commercial and industrial, power generation
5. Liquefaction capabilities
6. Access to transparent hub pricing such as JKM and TTF
7. LNG shipping
8. LNG storage
9. Regasification terminal access
10. Gas storage
11. Off-take agreements

5. Developing, packaging and presenting investment opportunities to major global oil and gas market participants while addressing potential challenges

Stirling LNG is well placed to identify innovative solutions to development and financing challenges associated with natural gas investment opportunities at each stage of the gas value chain. Additionally, and drawing upon its global network of contacts, the firm is uniquely positioned to present these opportunities to a wide range of potential investors.

Stirling LNG is experienced in sourcing capital from a variety of counterparties and regularly works with major Oil & Gas companies, multilateral banks, strategic funds, sovereign wealth funds, asset managers, trading houses, and other sources of alternative finance in addition to traditional sources of capital funding.

General development and financing challenges associated at every stage of the gas value chain which Stirling LNG is well equipped to advise on include the following:

- Country and political risk: for potential investors, the political stability of the host nation is clearly of key concern and it has the potential to greatly impact costs and timelines associated with project development work. Stirling LNG can help investors mitigate these risks through the procurement of political risk insurance from a variety of providers and, for higher risk jurisdictions, from e.g. the World Bank through its Multilateral Investment Guarantee Agency (MIGA);
- Sovereign credit risk: similarly, where the host nation is a financial counterparty, its sovereign credit health will influence the attractiveness and feasibility of foreign investment;
- Environmental credential risk: as the effects of climate change through fossil fuel use become ever clearer, natural gas projects will increasingly need to demonstrate that they are a valid component of the decarbonisation journey, for example, acting as a bridge fuel to renewables;
- Currency risk: where investment is being made by foreign companies and LNG trade flows cross international borders, currency exchange risk has the potential to impact every stage of the gas value chain.

Additionally, projects associated with specific stages in the value chain will carry project-specific questions to be addressed and risks and challenges to be overcome. For example, for LNG-related projects (liquefaction, shipping and off-take), risks include:

- Evolving market structure: as legacy contracts expire, the market is increasingly moving towards shorter contract lengths with greater demand for flexibility and spot-based trading;
- Out-turn gas price volatility and uncertainty: the “captured price” for spot trades is closely linked to spot regional hub prices and is a complex outcome of dynamic supply and demand fundamentals;
- Environmental risk: Alongside the challenge of natural gas in general proving itself a part of the solution towards de-carbonisation as mentioned above, the LNG industry needs to address additional specific challenges such as its own infrastructure carbon footprint and IMO 2020;
- Counterparty credit risk: with the decline in traditional long term supply contracts with investment grade off-takers, the market is seeing an increase in sub-investment grade off-takers, creating new forms of credit risk;
- Trade dispute risk: the recent trade war between the US and China included additional tariffs on US LNG exports to Chinese ports, highlighting the potential trade flow risk from geopolitical disputes;
- Shipping: can the expansion of the LNG shipping fleet keep pace with growth in demand?
- Downstream market developments and liberalisation: latent demand for LNG already exists in many new markets but its unlocking is dependent on infrastructure developments (floating storage and regasification units, onshore regasification terminals, pipeline access to demand centres) and sufficiently liberalised markets to allow for competitive trade;
- Demand risk: the cyclical nature of the global LNG market is such that significant demand risk is associated with both competing global supply volumes and actual end-user demand, particularly for shorter length supply contracts and spot-based trade.

About Stirling LNG

Stirling LNG is a division of Stirling Infrastructure Partners. Stirling LNG performs three key functions:

Buying and selling LNG on behalf of off-takers and LNG suppliers on short, medium and long-term contracts. The firm provides purchase and sales solutions to finance these contracts.

Arranging capital for gas infrastructure and advising on the acquisition and disposal of upstream, midstream, and downstream oil and gas assets.

Arranging capital for major oil & gas companies and project sponsors. The firm specialises in financing the development of new and existing gas power plants and gas infrastructure. This includes both floating and on-land assets.

Disclaimer

This document has been prepared for information purposes only and does not represent advice. Stirling LNG can provide advice on a case-by-case basis depending on a specific project and requirements of our client.

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