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Carbon-Neutral LNG

Client Alert | March 16, 2022

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With the energy transition gaining pace and the use of LNG as a bridge fuel to phase out the use of coal for power generation, the environmental credentials of LNG are in the spotlight. Although LNG has lower carbon emissions than other fossil fuels, participants in the LNG industry have been exploring ways to further decarbonise the LNG value chain. So called 'carbon-neutral' LNG transactions, where carbon credits are used to offset the emissions from LNG, are gaining popularity and there is a nascent market developing, with over 30 carbon-neutral LNG cargoes having been traded to date.

To encourage the growth of such transactions, certain organisations have published methodologies which seek to standardise the measurement and reporting of emissions from LNG, as well as ensuring that the carbon credits used to offset these emissions have been properly issued and retired, and price assessments are now being published to help market participants track the incremental cost of carbon-neutrality in LNG transactions. As the world works towards net zero, an increased focus on emissions is driving stricter requirements for LNG projects and LNG transactions which could signal a growing role for carbon-neutral LNG.

In this alert, we analyse carbon-neutral LNG transactions and consider the measurement of emissions and transaction reporting, with a view to establishing whether carbon-neutral LNG trades are the beginning of a new paradigm that the LNG industry will need to adopt in order to address the requirements of governments, customers and stakeholders.

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