US LNG export demand uptick seen 5 years away

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Washington, 9 February (Argus) — An uptick in Asian demand for US LNG exports is at least five years away and the Atlantic basin will be dominated by price competition in the meantime, experts said at an Atlantic Council briefing yesterday.

Global LNG markets are oversupplied into the next decade, and demand will start to rise when the bulk of US capacity comes to market in 2021-23, said Berkeley Research Group managing director Christopher Goncalves.

Five major export terminals are being built in the US with combined peak capacity of 9.12 Bcf/d (260mn m3). Terminal developers signed long-term capacity contracts when there was a wide differential between domestic gas prices and global oil prices. Most long-term LNG contracts in Asia contain oil-linked prices.

Asian buyers latched on to US supplies for commercial benefits, not supply certainty, Goncalves said. Buying gas based on the Henry Hub offers index diversification, cancellation rights and destination flexibility, constituting leverage in future contract negotiations with current suppliers.

The outlook for US deliveries to Europe appears weaker. Gazprom and Qatar will flood Europe with gas to keep market share. The 1.9 tcf/yr (55bn m3) Nordstream 2 pipeline project from Russia to Germany through the Baltic Sea has five European backers, even though opposed by the European Union.

Asian and European spot have converged at \$5/mmBtu and could stay at \$4, according to Rapidan Group director Leslie Palti-Guzman. "The winner of the European gas price war is the lowest for longest," Palti-Guzman said.

The EU is scheduled to release an LNG usage strategy on 16 February, focusing on access to terminals and storage, as well as gas interchange and trading.

The use of LNG as an "alternative fuel to support environmental goals" was the final item listed in the strategy by Fabrice Vareille, energy head for the EU delegation to the US.

The Obama administration will advance gas use in the coming months to meet of the goals of the UN Framework Convention on Climate Change's 21st Conference of the Parties. Paula Gant, deputy assistant secretary of the US Department of Energy, said carbon capture and storage from gas-fired power generation will be a particular focus.

The administration positions itself as a backer of the fuel, having released a study last year saying exports of up to 28 Bcf/d (567mn m^3/d) will slightly improve the US economy. The finding is little different from an examination of a smaller export quantity three years earlier.

Gant credited the LNG industry for shoring up energy security with US allies and helping meet carbon reduction goals after December's Paris climate talks.

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