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Comment: The US question could put the brakes on LNG development

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Houston, Texas, played host last week to the world's biggest LNG conference (LNG 17), amid a prevailing mood of optimism about the industry's long-term future. Texas-based ExxonMobil predicted a tripling in LNG demand on 2010 levels, up to 600mtpa by 2040. Senior engineers claimed to have never witnessed such a demand for staff or projects. Executives cited the GIIGNL statistic that one-quarter of sales were made on a short-term basis as evidence of a more flexible, dynamic market.

Zooming in from this high-level view, clouds began to appear in the sky. If delegates had expected the event in the US energy capital to mark the country's re-emergence on the LNG market, they were to be disappointed.

The new Energy Secretary, Ernest Moniz, has yet to be inaugurated, and the approval of 16 US liquefaction projects remains in the balance. Moniz will find in his in-tray a petition by environmental groups describing LNG trade guidelines as inadequate to handle the question of large-scale exports. Some industry observers fear this could lead to a root-and-branch redrafting of legislation.

A period of uncertainty could put the brakes on LNG plant construction well beyond the US, as competing projects with higher-cost bases might fear to proceed.

After the imminent approval of Sabine Pass's trains 3 and 4, an unprecedented 100mtpa of LNG production will be under construction after a string of FIDs. The last wave of approvals from 2004-2006 gave way to a dearth from 2007-2009, as overheating engineering costs deterred developers.

Fundamentally, the next round of projects requires the next wave of demand. Chevron cited unmet LNG demand of 150mtpa - equivalent to 10 $50bn Gorgon LNG projects - emerging by 2025. The high capital cost figure, according to the US major, did not easily correlate with cheap gas.

But Japanese representatives appeared increasingly disillusioned with bearing high project costs. According to Tokyo Gas, the mooted liberalisation of the country's energy market would make buyers more price-sensitive and accelerate the shift from LNG towards coal or possibly Russian pipeline gas.

Sellers also took aim at the principle of subsidising gas as a brake on LNG imports. Less play was made of the sustainability of many recent long-term oil-indexed sales that have been made into precisely those subsidised markets, particularly in Asia.

In the spot market, delegates also agreed that short-term market liquidity was now in limited supply following the terming out of nearly 20mtpa of flexible LNG in contracts starting from 2012 and 2013. With Japanese nuclear restarts expected to curtail LNG demand from August, this draining of spot liquidity led to fears for the success of METI's proposed Japanese LNG futures contract, which Tokyo Gas described as premature.

All eyes will remain on the US for a long time after LNG 17. The liquidity generated by a wave of flexible FOB US LNG could revitalise global spot markets. Even a small amount of Henry Hub-indexed LNG at the margins could put downward pressure on Asian LNG prices to the point where they begin to compete with coal.

The US government must take as much time as it needs to generate a fair and transparent approval process. But if that process ends in failure for new LNG projects, the prospect of shale gas displacing coal in Asia, as it has in the US, will recede. The irony will hopefully not be lost on well-intentioned US campaigners. Simon Ellis