

LNG importers' group sees modest demand recovery, rise in FSRUs and retail LNG

David Flanagan talks to deputy general delegate Vincent Demoury at the International Group of LNG Importers (GIIGNL) about the state of the LNG import sector, prices and the development of LNG as transportation fuel

GLOBAL

GIIGNL:

- A non-profit organisation that promotes the development of LNG
- Designed to share information and experience amongst its members
- Made up of 76 companies from across the Americas, Asia and Europe
- Founded in 1971 when it was made up of 19 members

IT has been an eventful year in global gas markets. Price volatility and a raft of new LNG production coming into the market have all marked out 2015 as a year of transition. But what is the current position of LNG importers? How are they reacting to current market conditions? And what is the outlook for new and existing LNG importers?

In an exclusive interview with NewsBase, Vincent Demoury, deputy general delegate at Paris-based International Group of LNG Importers (GIIGNL), explained the objectives of GIIGNL. He described the current condition of the LNG import sector, assessed the implications of LNG price trends, and reviewed progress of new developments in the LNG market, such as the use of LNG as fuel for transportation.

"The main objectives of GIIGNL are to serve as a forum for exchange of experience among GIIGNL members," Demoury explained, "to promote development of LNG activities along the LNG value chain, to enhance safety, reliability and efficiency of LNG import activities and the operation of LNG import terminals in particular."

Market conditions have had variable effects on LNG importers' behaviour in 2015, Demoury observed. Contrasting Europe and Asia, Demoury said: "the situation for LNG import terminals varies from one region to another. In Europe, terminals are still often underutilised. But this is changing as LNG volumes start flowing back to Europe as observed in recent months. In Asia's main markets, Japan, South Korea and China, regasification capacities are sufficient, when taken as a whole. LNG storage tanks are often used to manage seasonality of demand and this must be kept in mind when looking at utilisation rates in the region."

Projecting forward

The relationship between LNG import capacity and export capacity is changing, according to Demoury.

"At the end of 2014, the ratio of regasification

to liquefaction capacity was around 2.5. In the coming years, this ratio is likely to decrease below two, as the growth in LNG supply is expected to exceed growth in regasification capacity. Currently, about 30 million tonnes per annum (mtpa) of new regasification capacity are under construction, compared with around 140 mtpa of liquefaction capacity."

But, this is not having much impact on investment rates in new LNG import capacity, according to Demoury.

"Despite many uncertainties, there is still an appetite among investors to build new import capacity" he said. "In this context, floating storage and regasification units (FSRUs) seem to provide a cost-effective and flexible solution to meet gas demand. Reduced costs and construction times also make it easier for newcomers to join the ranks of importers. In 2015, three new countries have started importing LNG (Egypt, Jordan and Pakistan) and they are all FSRU-based projects."

In part, expansion and investment is being driven by changes in type of activity.

"In countries with existing large-scale terminals, one sees an appetite to develop existing terminals by adding new infrastructure and services, such as reloading, truck loading or bunkering facilities," said Demoury.

Moving on to the subject of LNG prices, Demoury sees changes in the levels and nature of LNG trading activity. "So far in 2015, we have seen a relatively weak demand in Asia and a return of LNG imports into Europe, with a significant growth in net imports compared to the previous year. The convergence of LNG spot prices has almost brought European re-exports to a halt, except in the Netherlands."

Oversupply

But are lower LNG prices stimulating demand? Demoury considers that the evidence is not entirely convincing, saying: "one of the observations from the last few months is that demand

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Deputy General
Delegate
GIIGNL*

- » for LNG is less price-sensitive than expected. Lower LNG prices do not necessarily mean additional demand, as evidenced by the stagnation of imports in China or India”.

Looking ahead, Demoury commented: “over the next three or four years, lower LNG prices should continue, as the market will remain oversupplied with new production coming on line in Australia and in the US.” Competition from pipeline gas is also an important consideration. “The strategy of Russia may be key, as the nation could put further pressure on prices by pushing more pipeline volumes into Europe,” said Demoury. However, the flexibility is also a determinant of LNG importer behaviour. “What matters for LNG importers” said Demoury, “is not only the level of prices but also the destination flexibility of their volumes and the possibility to diversify pricing indices in their portfolio.”

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Standardisation and miniaturisation

Commenting on the ‘LNG as fuel’ market, Demoury said: “GIIGNL’s Retail LNG Handbook shows that retail LNG players can benefit from the experience of large-scale terminal operators, which have been developing technologies and best practices for 50 years. LNG import terminals have been confirmed as ideal hubs in a distributive model of LNG supply to retail markets. They provide the basic infrastructure required to supply these markets and can be modified or expanded to perform new services safely and add new distribution capabilities.”

The organisation of the market is changing, according to Demoury. “We currently see two main trends in the area of retail LNG: standardisation and miniaturisation,” he said. “An example of standardisation, while still providing a great deal of flexibility, would be road trailers. In recent years, as demand for road trailers has increased, design and manufacturing improvements have led to offerings with increased capabilities while reducing end costs to customers. Enhancements have included more storage capabilities, lighter weights, better handling, additions and provisions for onboard vaporisation, providing end users with flexible transportation and storage platforms to build out logistical value chains.”

Demoury continued: “Another technological driver in the development of retail LNG is miniaturisation. In case of low demand, smaller tanks are available in the market at decent prices opening the possibility to supply small industries and population centres.”

Impasse

But the LNG for transportation market faces some obstacles.

“Today, the use of LNG as a fuel is facing a classic ‘chicken-and-egg’ dilemma,” said Demoury. “Demand will not rise without access to secure and well-distributed LNG supplies. But on the other hand, LNG players will not invest in LNG fuelling infrastructure without stable demand. A mix of private partnerships,

government support, and a favourable regulatory climate will provide the necessary framework to see LNG as a downstream fuel emerge.”

Specifically referring to trends in regulation, Demoury observed that “the European Union provides an excellent example of a favourable regulatory climate which supports the broader adoption of LNG as a ‘downstream’ fuel. By means of Directive 2014/94/EU, Europe has stated that member states must develop an appropriate number of refuelling points of LNG to vehicles and ships, as well as a sustainable logistic chain. Additionally, the Connecting Europe Facility (CEF) regulation is supporting projects which create trans-national European infrastructure, including LNG fuelling stations.”

Across the world

Outside Europe, the position of LNG as a transportation fuel is slightly different.

“Market drivers for the adoption of LNG as a fuel vary from region to another” said Demoury. “Often, stricter regulation on emissions is the key, as shown by the development of LNG as a marine fuel in Emission Control Areas (ECAs). In the future, the main drivers should be environmental benefits and lower costs, as well as the will to reduce dependence on oil for transportation.”

Demoury continued: “China is definitely at the forefront in terms of retail LNG growth prospects. Already more than 800 LNG fueling stations and 100,000 LNG-powered road vehicles are operating in the country, and the use of LNG is expected to continue growing at a quick pace over the next few years. The sale of LNG fuel tractors has increased, with individual firms like China LNG Group planning to invest in 100,000-200,000 LNG-powered trucks by 2020. In the longer term, regulatory reforms will likely impact the future of China’s fuel gas sector, which currently remains largely subsidised by the government.”

As well as lorries, ships are also potentially growing users of LNG as a transport fuel, with implications for tanker and container vessel hubs.

“In terms of LNG as marine fuel, although ECA requirements do not apply to Southeast Asia yet, bunkering for marine vessels has recently been receiving significant attention in the region,” said Demoury. A port like Singapore, which is one of the world’s leading bunkering hubs, appears to be positioning itself for the world’s next generation of vessels. Generally speaking, all markets which have existing LNG experience and large-scale terminals may be well-poised to embrace LNG as a fuel should environmental or economic benefits be sufficiently enticing.”

GIIGNL is continuing to study the evolution of the LNG downstream market. “Commercial considerations related to the Retail LNG Handbook are currently being studied” said Demoury, “and will be addressed in a dedicated publication by the GIIGNL Commercial Study Group”.♦

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