



2023
June

LNG Now a Global Fuel in Response to Volatile Markets



Webinar White Paper

The Al-Attiyah Foundation



The Al-Attiyah Foundation is proudly supported by:



The Abdullah bin Hamad Al-Attiyah Foundation for Energy and Sustainable Development provides robust and practical knowledge and insights on global energy and sustainable development topics, communicating these for the benefit of the Foundation's members and community.

Since 2020, the Foundation has staged a series of webinars, in partnership with Refinitiv (an LSEG business), to explore key trends and insights during a period of unprecedented global uncertainty as the Covid-19 pandemic, supply chain constraints, the Ukraine war, extreme price volatility and the climate emergency impact the energy industry.

WEBINAR WHITE PAPER

H.E. Abdullah bin Hamad Al-Attiyah founded the Foundation as a platform for knowledge exchange and support for the global community in the quest towards a sustainable energy future.

The Webinar Series, which began two years ago, is a crucial networking and learning opportunity in the calendar of industry CEOs members and Foundation partners.





Liquefied natural gas (LNG) is slowly advancing toward becoming a global commodity following the expansion of markets, growing volumes and liquidity, and increase in spot-market transactions.

As buyers push for destination-flexible contracting and trading that allows them to resell or swap LNG cargoes, vessels are gaining more freedom to trade, and market players are better optimizing their positions. These trends have brought new players to the LNG industry, which historically comprised a small group of participants.

According to the International Group of Liquefied Natural Gas Importers, the number of LNG importers has increased almost fivefold since the 1990s to 39 today.

The number of LNG exporters has risen to 19 from 12 in 2002, data from the German Institute for Economic Research and the International Gas Union shows.

Meanwhile, about 180 billion cubic metres (bcm) of contracts expire from 2022 to 2025, followed by an additional 135 bcm from 2026 to 2030, according to the International Energy Agency (IEA).

In the Foundation's second webinar of 2023, international experts from industry and academia discussed the extent to which LNG is becoming globalised and commoditised and the factors driving this trend, the prospects for more flexible contracts, and the growing prominence of portfolio buyers who act as middlemen.

A growing share of LNG production is being bought by traders who then re-sell the gas to energy importing countries, bringing greater flexibility to an industry in which long-term supply contracts will dominate for the foreseeable future.

That was the verdict of the webinar's expert panellists, who downplayed the extent to which LNG was becoming commoditised.

Graeme Wildgoose, a Manager at Poten & Partners in London, stressed that "in no sense" was there a globalised natural gas market. For example, in the summer of 2022 natural gas prices in Europe quadrupled while those in the United States rose by only around 50 percent.

"Those prices are really in no sense connected," said Mr Wildgoose, noting the LNG sector was distinct from the dynamics of the broader natural gas industry.

The question of what would contribute most to globalising the natural gas market was put to the audience in the webinar's first online poll. Respondents cited the ability to transport natural gas to markets at a reasonable cost as the likely biggest factor, followed by the rise of LNG portfolio players to provide market flexibility and resilience.

Audience members said the growing use of floating storage and regasification units (FSRUs) to enable more countries to import natural gas would have the least impact along with additional LNG tankers and import terminals to expand the reach of natural gas.

WEBINAR SPEAKERS

Moderator:



Stephen Cole,
Anchor and Global
Moderator and
Communications Non-
Executive Director

Speaker



David Ledesma,
Distinguished Research
Fellow, The Oxford
Institute for Energy
Studies

Speaker



Patrick Hébréard,
Managing Director,
FTI Consulting

Speaker



Graeme Wildgoose,
Manager, Poten &
Partners

In response to the poll, Patrick Hébréard, Managing Director of FTI Consulting in Paris, highlighted how LNG's very different physical characteristics to oil, for example, make it less able to become a global, commoditised product.

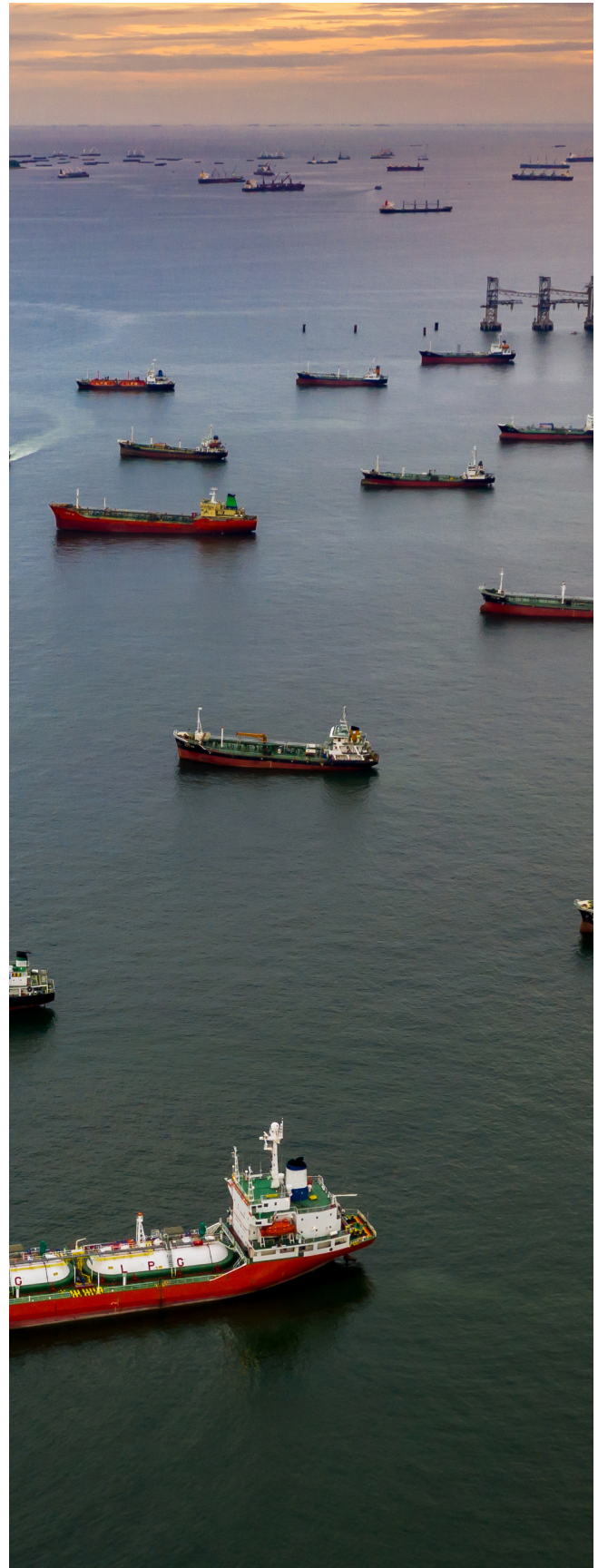
"It cannot be stored the same way - you cannot just keep LNG in a tank as long as you want," he said. "You need a long-term contract to underpin the investment" in new projects, he noted.

Europe had hoped to make natural gas commoditised, where the fuel could flow to and from any point on the continent, but that remains far from a reality, Mr Hébréard said.

He warned it would be irrational for end users to rely solely on the spot energy market for their supplies. "If you have a certainty on a given percentage of your demand, you need to cover this with a long-term (contract) to have security of supply," he said.

Mr Wildgoose agreed, saying that for all the talk of a more flexible market, long-term contracts would remain pivotal to the LNG industry.

"Even on the buy side, we're still seeing a strong prevalence of 5-10-year purchase contracts, which by most standards would count as a long-term contract," he said, noting long-term sales agreements underpin almost all new LNG projects worldwide.





"End users or ultimate buyers of LNG have tended to fall out of the picture of signing up for those long-term contracts from supply projects," he said. "To some extent, that position has been taken over by what we'd call LNG aggregators, portfolio players or traders, but those long-term contracts are still there."

Such participants then re-sell LNG on shorter-term, higher-margin deals, explained David Ledesma, a Distinguished Research Fellow at The Oxford Institute for Energy Studies. Many end users are happy to pay these middlemen a premium to avoid commodity price risk, he said.

As of 2021, the most recently available data, spot and short-term supply contracts represented 35 percent of the LNG market, with the rest from long-term contracts.

Moving to the second poll, audience members were asked what the strongest drivers for LNG demand in Asia over the next decade be. Respondents said continuous population growth, further electrification, decarbonisation targets and climate change commitments would be key.

In discussing the poll's results, panellists agreed that China's policymaking decisions would have a huge impact on energy markets.

Should Beijing opt to quit coal, the world's second largest economy will require more LNG.

More broadly, Mr Ledesma said the factors shaping gas and energy demand vary by country and region. In Europe, variable weather, the continent's progress in expanding its renewable energy capacity and the impact of higher prices on consumption will all determine demand for LNG, he said. South Asia is price sensitive, while South America's demand for LNG will increase if rainfall is lower than average because drought reduces energy production at hydroelectric dams, he explained.

Panellists also speculated on whether Russian gas supplies to Europe would eventually resume to levels seen prior to the Ukraine conflict. Yet soaring gas prices in Europe, although painful to the consumer, did succeed in enabling the continent to massively increase its LNG imports – far above what many in the industry thought possible from a capacity perspective.

The regional divergence in gas prices also created a sizeable arbitrage opportunity for traders – at least in theory.

"Some suppliers still insist on destination restrictions or on controlling the shipping so that they're able to control where the destination is," said Mr Ledesma. "There is a relationship between destination flexibility and the ability to trade more volume."





Next, audience members were asked about the length of contracts LNG buyers would seek over the next 2-3 years.

Respondents said buyers would still want contracts of five years or more, with believing shorter-term deals were likely.

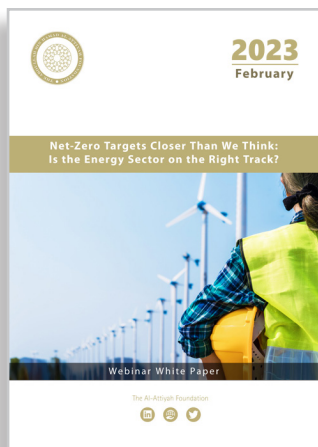
Meanwhile, LNG supplies will be tight until the end of 2024, but from 2025 there will be "some weakness coming in", said Mr Ledesma, as industry production capacity increases substantially.

He also highlighted how the extreme price volatility in recent years had proved challenging for traders despite the opportunities to profit from these price swings.

"To play in this market, you've got to have big balance sheets ... to support hedging and physical trading activity," added Mr Ledesma. "That might reduce the number of players able to trade LNG."

Yet no matter the flux in the industry, the outlook for LNG is positive, with natural gas pivotal to the energy transition as a plentiful, lower-carbon alternative to other fossil fuels.

Have you missed a previous issue? All past issues of the Al-Attiyah Foundation's Research Series, both Energy and Sustainability Development, and Whitepapers can be found on the Foundation's website at www.abhafoundation.org/publications publications



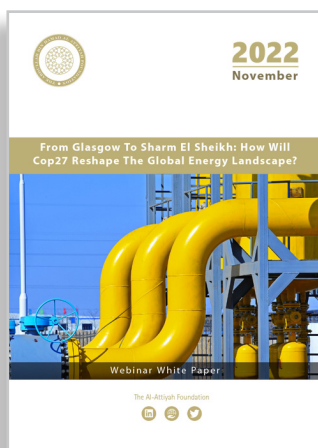
February – 2023

Net-Zero Targets Closer Than We Think: Is the Energy Sector on the Right Track?

With little time left to halt the continuous increase in greenhouse gas (GHG) emissions into the atmosphere (i.e., achieving net-zero), the next few years will be critical for our planet. Already, the earth is about 1.1°C warmer than it was in the late 1800s.



(QR CODE)



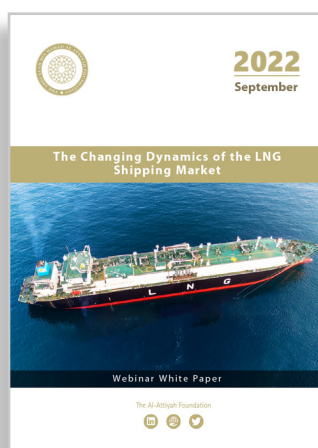
November – 2022

From Glasgow To Sharm El Sheikh: How Will Cop27 Reshape The Global Energy Landscape?

COP26 in November 2021 was one of the most significant summits on climate change, leading to new pledges from world governments to cut emissions and accelerate the green energy transition.



(QR CODE)



September – 2022

The Changing Dynamics in the LNG Shipping Market

The webinar, titled "The Changing Dynamics in the LNG Shipping Market," was held on the 14th of September 2022 and saw three global experts explore the remarkable revival of Floating Storage and Regasification Units (FSRUs), Europe's determination to end its dependence on Russian gas imports, changing LNG trade routes and how the industry can meet tougher environmental rules.





(QR CODE)



Our partners collaborate with The Al-Attiyah Foundation on various projects and research within the themes of energy and sustainable development.





The Al-Attiyah Foundation

 Tel: +(974) 4042 8000,
Fax: +(974) 4042 8099
 www.abhafoundation.org

 Barzan Tower, 4th Floor,
West Bay.
 PO Box 1916 Doha, Qatar

 [AlAttiyahFndn](#)
 [The Al-Attiyah Foundation](#)
 [Al-Attiyah Foundation](#)