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U.S. LNG projects face more reluctant buy side amid new concerns

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U.S. liquefied natural gas (LNG) projects, that in 2022 saw strong interest from buyers abroad willing to lock themselves into long-term contracts, this year face a more reluctant buy side amid concern about whether the U.S. will remain a leading, long-term, low cost LNG supplier to global markets, and also after global price volatility for both natural gas and LNG in the past two years.

"At this time last year we were still seeing lots of new long-term contracts signed (...) That can still happen this year but it seems that interest has slowed in new U.S. projects," said in an interview Clark Williams-Derry, energy finance analyst at the Institute for Energy Economics and Financial Analysis.

While this slowing interest "doesn't mean that there won't be additional projects that reach FID (final investment decision)," that strong demand from global energy LNG buyers for long-term contracts for U.S.-origin cargoes "that we saw last year has really dissipated," he added.

U.S. LNG exports averaged 11.6 billion cubic feet per day during the first half of 2023, 4% (0.5 Bcf/d) more than in the first half of 2022, according to data from the U.S. Department of Energy's on LNG, re-published by the Energy Information Administration in September 2023.

The U.S. exported more liquefied natural gas (LNG) than any other country in the first half of the year, according to data from Cedigaz, re-published by the EIA.

EU countries and the UK remained the main destination for U.S. LNG exports in the first half of 2023, accounting for 67% (about 7.7 Bcf/d) of the total LNG shipped from the U.S., the EIA said. Just five countries, the Netherlands, the UK, France, Spain, and Germany, imported over half (about 6.0 Bcf/d) of the total U.S. LNG exports, the EIA said.

Changes between 2022 and 2023

"A number of things have happened," between 2022 and 2023 that may have impacted on demand for U.S. LNG projects, Williams-Derry said.

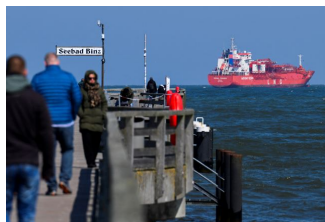
With the start of the Russia-Ukraine war in 2022, Europe was in the middle of this year-long energy crunch, and prices, globally, skyrocketed.

"There was all sorts of uncertainty," including a (Sep. 26, 2022) sabotage attack of the North Stream Pipelines that sent energy buyers scrambling to secure supplies.

"Prices were high, nobody was sure how the European market was going to adjust to the turmoil in the gas markets, how it was going to survive the winter, with less gas from Russia," he said.

"Fast forward to today, prices are still high in Europe, but there is a lot less uncertainty about the future of the market."

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An LNG tanker seen from a pier in Binz, Germany
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"Overall Europe has adjusted to a loss of Russian gas in part by importing more LNG but also by using less gas, by getting it into storage earlier, and that sort of kept the gas market in Europe relatively stable" compared with a year ago, Williams-Derry added.

Countries in Asia that also buy LNG have taken notice.

"The Asian interests that were looking at the turmoil in Europe in 2022 and saying, we need to lock in contracts now to guarantee that we are going to have supplies in the future, a lot of those contracts, have already been signed," Williams-Derry said.

Impact of projected new LNG capacity

Asian countries "are realizing that there is a lot of new capacity that is going to be coming online" not just in the U.S. but also in Qatar, in Canada, in Mexico, in Mozambique, around the world," Williams-Derry said.

"There is going to be in the course of the next five years a lot of LNG with the capacity that is being built, and so there is a lot less worry," Williams-Derry added.

"There is a lot more looseness in the market, and a lot less uncertainty and chaos, even though prices remain high," he said.

"The frenzy, the frantic desperate search for new LNG contracts, we are not seeing that right now so that 's resulted in the slowdown of contracting activity in the U.S.," he added.

Concern on U.S. future LNG capacity

"There is in some ways maybe concern whether the U.S. will continue to produce low-cost LNG" considering LNG projects either built, planned or under construction in the U.S. and Mexico must be sourced by U.S. natural gas production.

"There is going to be about 20 billion (Bcf/d) of gas exported as LNG by 2028, and there is a question about whether the U.S. market can really sustain that, whether U.S. gas producers are going to continue to provide enough gas to keep prices low," Williams-Derry said.

"If too much of the world is relying on the U.S. for its LNG, What happens if prices spike? What if there is a problem in the industry? What if there are political changes? We run into supply and political risk," he added.

"So, what I think we are seeing is a transition in the attitude of the market to being more conscious about LNG in general (...) and also some caution about an overreliance on the U.S.," he added.

"Some of the new U.S. projects that had been proposed (...) It used to be that export authorizations would be renewed just regularly and that process has been slowed down," Williams-Derry said.

In addition, there are rising costs in the U.S. for labor, financing costs, construction materials, that also have an impact.

"It used to be that you could easily see the U.S. beat a lot of other places on production cost and that advantage is slipping every day. It is another reason why we are seeing Qatar with very cheap gas getting a lot more interest recently than U.S. projects," Williams-Derry added.

With rising financing and other costs globally, "there is a lot more uncertainty about the economic future and when you are facing an uncertain future, sometimes, that is not a great time to make a 20-year or longer commitment to any particular LNG plant, or even to LNG as an energy strategy," he said.

The 2023 LNG market may have **disappointed** some producers.

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