

The Meeting Place For The Global LNG Industry

*LNG Exchanges with **Melanie Lovatt, Finance Advisor, Business Intelligence, Poten & Partners***

- **What are the themes to frame market development in 2022/3, and what are the associated risks?**

The main focus is the increased requirement for LNG in Europe to replace Russian pipeline gas. Risks are that Asia could compete for cargoes if there are weather-driven demand spikes or outages at LNG export plants. If prices are too high, they will destroy demand. This is something we have already started to see to a limited extent. If Asia-Europe competition heats up, it could become more pronounced

The way the market in Europe will trade coming into summer will shift amid efforts to secure supply for next winter. There is a need to inject into storage by government mandate even if pricing hub curves don't indicate it is economic

The increase in engineering, procurement and construction contract prices are pushing liquefaction project sponsors to raise their offer prices for long-term contracts. With higher interest rates, and increases in bank margins, funding costs are rising, too, adding to this pressure.

The LNG sector also faces an increase in the price of newbuild LNG vessels and conversions with the spike in raw material and labour costs. This is helping to push up shipping freight rates, and feeds into cost escalation across the LNG sector.

- **How can energy security be balanced with decarbonisation pledges?**

That is the main conundrum the LNG market is facing today. More liquefaction capacity is needed to meet demand but to secure finance, project developers must sign long term contracts. Buyers and sellers are concerned that if they sign long-term contracts today, penalties for failing to meet net zero targets will interfere with the economic viability of these contracts in future

It is hard to present a solution to this problem. It may require governments to come up with a plan to ensure that companies providing energy security today won't see contract defaults/face fines tomorrow. This all seems to hinge on policy and so far the EU has little to offer the market but expects to still have security of supply.



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A move to shorter term contracts could solve the problem, but these won't give enough security for banks to feel comfortable in providing long term loans. Long term loans are needed to underpin high capex liquefaction projects.

- **What do you consider the key disruptors to LNG through to 2040?**

The decarbonisation agenda, and whether this speeds up, is the main LNG market disruptor.

If carbon capture and sequestration and other technologies implemented across the value chain can demonstrate their effectiveness in reducing emissions, this may be a positive disruptor.

Any strides forward in commercialisation of hydrogen, ammonia or battery technology could have a negative impact on the LNG sector.

Nearer term, companies using relatively new methods such as converting LNG ships and jack up and other types of rigs into floating liquefaction facilities may gain ground in terms of cost savings and speed to market.

- **How can LNG stay affordable, reliable and abundant?**

The focus on net zero targets means that the LNG sector must continue to reduce emissions via technological improvements.

The LNG industry also needs to engage with lawmakers in order to help shape the energy transition so that gas does not remain undeveloped while energy poverty is still a global problem.

- **You are speaking at the World LNG Summit this year. What are you most looking forward to at the event?**

To exchange views with experts in the industry and hear their insights on LNG supply-demand issues. There's always something new to learn!