From LNG Importers to Re-Exporters of LNG: What's Driving North American Regasification Companies?

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In 2008, the LNG industry in North America witnessed a new trend where regasification companies started applying for permission to re-export whole or part of their imported LNG to markets outside North America. Sabine Pass LNG LP, a subsidiary of Cheniere Energy Inc. (Cheniere Energy), has submitted an application with the Federal Energy Regulatory Commission (FERC) to re-export previously imported LNG to lucrative markets overseas. Cheniere Energy has been strategically pursuing the growth of Liquefied Natural Gas (LNG) receiving terminals in North America.

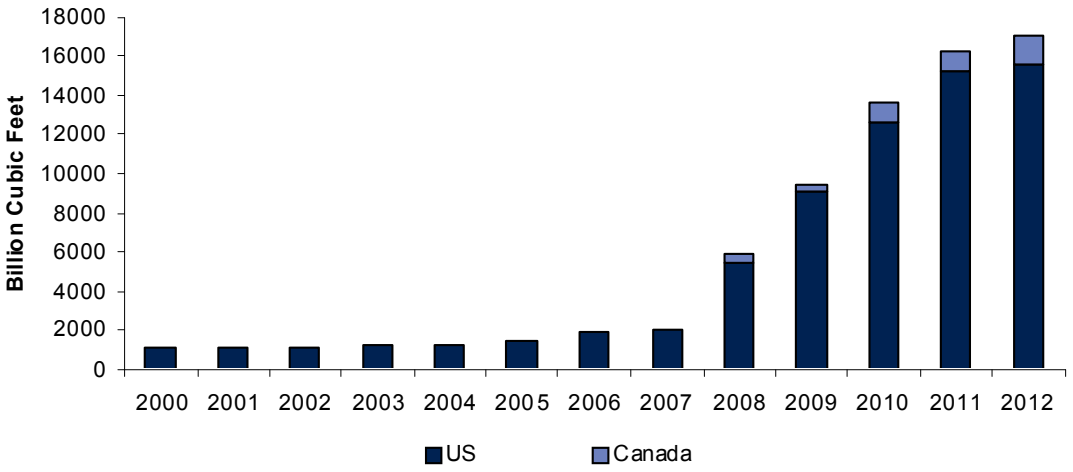
Once this is permitted, LNG importing regasification companies in North America will purchase LNG at current market prices. This will later be sold to customers within Asian and European markets where the prices are high. A major impetus for this move has been the shortage of LNG supply to North America, especially the US and the under utilization of several regasification terminals.

LNG Starved North American Regasification Industry

In 2008, North America accounts for 22.1% of global regasification capacity and is expected to account for 35.8% by 2012. Although the liquefaction capacity in North America is expected to remain constant till 2012 at 1.3 Million Tones Per Annum (MTPA), regasification capacity is expected to increase from 5,871.04 Billion Cubic Feet (Bcf) per annum in 2007 to 16,974.49 Bcf per annum (313.2 MTPA) in 2012.

Figure 1 and Table 1 below depict the growth in the LNG regasification capacity in North America between 2000 and 2012.

Figure 1: North America, Regasification Capacity (Bcf), 2000-2012



Source: GlobalData

Table 1: North America, Regasification Capacity (Bcf), 2000-2012

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Grand Total	1,080.4	1,080.4	1,080.4	1,237.4	1,237.4	1,419.9	1,909.0	2,020.3	5,871.0	9,375.0	13,663.8	16,291.8	16,974.5
United States	1,080.4	1,080.4	1,080.4	1,237.4	1,237.4	1,419.9	1,909.0	2,020.3	5,506.0	9,010.0	12,568.8	15,196.8	15,561.8
Canada									365.0	365.0	1,095.0	1,095.0	1,412.7

Source: GlobalData

Such rapid growth in regasification capacity calls for assured supply of LNG from across the globe. However, contrary to common logic, LNG imports to North America, especially in the US, have been witnessing a decline. In 2008, LNG imports hit a five year low when in October 2008, LNG deliveries averaged about 0.9 Bcf per day, which was 43% of the average deliveries of 2.1 Bcf in the previous year. In the US, LNG imports are expected to decline from 771 Bcf in 2007 to 390 Bcf in 2008 followed by 480 Bcf in 2009. With a LNG regasification capacity of more than 5,500 Bcf of LNG and an import of only 390 Bcf in 2008, the US is left with a large number of underutilized LNG regasification terminals.

One major reason for the decline in LNG imports in the US has been the increase in production of natural gas in the US coupled with a low-priced LNG market. Simultaneously, higher demand of LNG in Asian and European markets, which is driving LNG prices upwards in these markets, has attracted global LNG exporters to supply LNG to these premium markets for higher revenue.

Further, repairs, maintenance and hold up of some of the new liquefaction projects globally, have resulted in an overall reduction in supply of LNG. Huge supplies of LNG from South and Central America is not easily accessible to the US for imports due to the prevalent anti-US sentiments in many of these LNG producing nations.

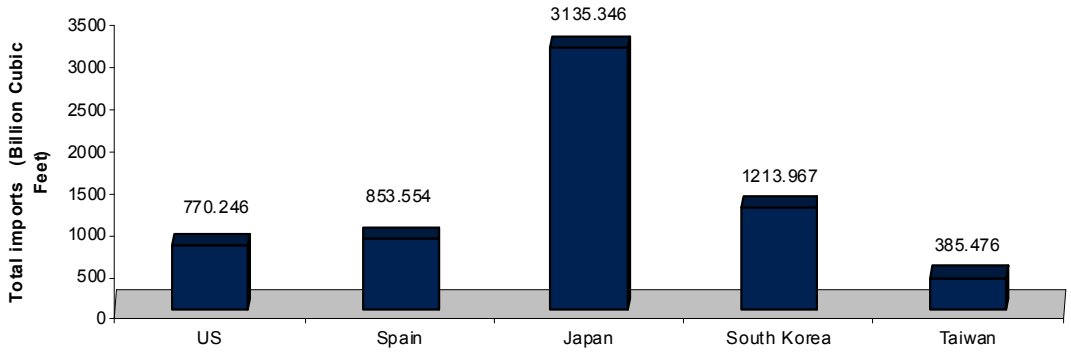
Besides, LNG importers in Asia Pacific and European countries enjoy the geographical advantage of being in close proximity to almost 95% of the world's gas reserves. As shorter distances lead to reduced transportation costs, these countries are the preferred import markets for the global LNG exporters. Although the number of liquefaction terminals worldwide is expected to increase from 31 in 2007 to 41 in 2009, much of the LNG produced by these new terminals will be supplied to Asian and European markets because of its higher prevailing market price.

High Priced LNG Markets in Asia and Europe

North America is facing high competition from LNG importers in Asia-Pacific and Europe. Countries like Japan, South Korea, Taiwan and Spain are highly dependent on natural gas as a primary fuel for both industrial and domestic purposes; they are ready to pay a premium to LNG exporters. As a result, most LNG cargoes with flexible delivery terms on the spot or short-term markets are heading to Asia Pacific or Europe, where buyers continue to purchase LNG at higher prices than the prevailing rates in the US. Japan has paid as high as $17.7 per Million British Thermal Units (MMBtu) for imports of LNG in August, which was 155% higher than the US gas price benchmark at Henry Hub.

In 2007, while LNG imports of the US stood at 771 Bcf, Japan, South Korea and Spain imported accounted for 3,135.0 Bcf, 1214 Bcf and 853.5 Bcf respectively.

Figure 2 below depicts LNG imports by major LNG importing countries across the globe.Figure 2: Major LNG Importing Countries, LNG Imports (Bcf), 2007



Source: GlobalData

Demand of LNG in Asia is estimated to increase by 830 million cubic feet (MMcf) a day next year and by in North West Europe by 970 MMcf a day. In different regions across the globe, countries like Argentina, Brazil, Chile, Kuwait and Pakistan may import 430 MMcf from current zero level. Scarce natural gas reserves and absence of integrated long-distance gas pipelines connecting major cities have led to a soaring demand of LNG in these countries. Of late, the demand for natural gas has also increased due to a large number of gas fired power plants being set up in different countries owing to a shortage of oil or coal. Power generation and the residential heating sector mainly consume a large part of imported natural gas. Such high demand of LNG, especially in Asia Pacific and Europe coupled with high prices that these importers are ready to pay, have prompted many regasification companies in North America to re-export the LNG they receive to these high value markets.

North American Regasification Companies Turning Exporters: The Rationale

One of the significant changes being witnessed today in the global LNG market is the development of new short term markets. Many North American companies like Cheniere Energy Inc, Freeport LNG, Kitimat LNG, etc, have registered with FERC to re-export the imported LNG to profitable destinations across the globe. This move will add to the revenues of regasification companies in the US that have been hit by shortage of LNG as a result of LNG diversion to Asia Pacific and Europe. The plan for re-exporting imported LNG by regasification companies in North America has been driven by easy availability of LNG tankers not committed to projects and greater contract flexibility with LNG suppliers.

Even though high priced Asian and European markets are drawing LNG cargoes from a low priced US markets, the US can sustain its natural gas demand through the increased natural gas production domestically in the shorter term. The large size and depth of US gas markets makes it a dependable destination for LNG. Nineteen gas liquefaction trains at 12 LNG complexes on four continents are under

construction. This will create an abundant supply of LNG, raising the import level of US and subsequently re-exporting to the higher demand markets.

Conclusion

Re-exporting imported LNG by the US regasification companies is here to stay as it is one of the best options to boost the revenues of the under-utilized regasification terminals in North America. Cameron LNG, Golden Pass LNG and Canaport LNG are also expected to apply for permissions to re-export LNG. This trend will impact the seasonal business of natural gas by replacing floating LNG storage with land based storage and transshipment. The LNG re-exporters will leverage on the high prices paid by Asia Pacific and European buyers, with limited gas storage capabilities, for their winter spot purchases.