

Global LNG production to 'fall short' by 2015

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SYDNEY: Global liquefied natural gas supply may rise less than expected until 2015 because of higher project costs, worsening shortages and boosting prices, UBS AG said.

LNG production may rise by 9% a year through 2015, compared with the "consensus" estimate of about 10%, UBS said in a report on Monday.

Growth will come mostly from Qatar, Nigeria and Australia, though the latter two carry "significant timing risks," it said.

Chevron Corp, the second-biggest US oil company, and Royal Dutch Shell are among LNG producers that last year deferred investments decisions on new supply projects as construction costs surged.

Only two new projects were sanctioned since the beginning of 2006: a Hunt Oil Co-led venture in Peru and Woodside Petroleum Ltd's Pluto project in Australia.

"Our analysis of the global LNG market points to a future where the supply-demand balance becomes increasingly tight as new liquefaction projects suffer continuing delays," UBS analysts led by London-based Iain Reid said in the report. "Shortages of labour and equipment are continuing to drive significant cost escalation and cause project delay."

Eight projects may be sanctioned for development by the end of 2008, though that forecast may be "too optimistic," the analysts said.

The projects include Chevron Corp's LNG project in Angola; Chevron's Gorgon and Inpex Holdings Inc's Ichthys LNG projects in Australia; Brass LNG, Nigera LNG Ltd's Train 7 and OK LNG in Nigeria; a second production line at Marathon Oil Corp's Equatorial Guinea LNG plant; and a second train at Eni SpA's Damietta LNG plant in Egypt, the analysts said.

BG Group, the UK's third-largest gas producer, and Perth-based Woodside, Australia's second-biggest oil and gas producer, are the two companies set to benefit most from the "positive" market outlook, UBS said.

UBS's forecasts assume a one-year delay to timings for projects that have not yet been approved for development, resulting in a potential supply shortfall of about 10mn metric tonnes a year in 2010-2015, or 3% of global consumption.

A more pessimistic scenario of a two-year delay to the completion of new projects more than doubles the shortfall to 7%, it said.

"We estimate the recent slippage has cost the industry potentially 20mn tons of supply in 2012," UBS said. "We think much of this will not be produced now until 2015 at the earliest."

PetroChina Co's decision earlier this year to sign initial accords to buy LNG from the undeveloped Gorgon and Browse LNG projects in Western Australia may be a "turning point" for the market, UBS said.

The accords "indicate to us that China is now willing to sign contracts at prices which are close to oil price parity, while coal prices rising toward gas parity provide further support," it said. — Bloomberg