THE CLOUDY FUTURE OF U.S. LNG IMPORTS

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Overview

For over half a century, the potential of LNG to meet growing demand for natural gas in the USA has been a tantalizing, but generally disappointing, opportunity for American utilities as well as the energy investment community. Despite a renewal of optimism about the future of imported LNG over the past several years, events of 2008 – exclusive of the global recession that was confirmed to have begun in the last months of 2007 – have raised doubts about the commercial viability of these expensive undertakings.

This paper explores the question of whether 2008 was simply a "bear year" for the U.S.LNG industry, or does recent experience – and the reminder of similar experiences in the 1980's – illustrate a fundamental risk that potential investors in such projects will want to avoid over the longer-term? The paper is organized as follows:

(1) An introduction and background section, briefly reviewing the history of U.S. LNG imports since the 1970's. (2) A section reviewing a selection of demand forecasts since 2000 that gave rise to a resurgence of interest in U.S. LNG imports during the period 2000-2007 and, by 2008, clearly indicated a weakness in that demand. (3) A section discussing prospects for the future and focusing on four inter-related situations that produced a decline in imports from 2007 to 2008: (a) declining domestic demand for natural gas as a result of the current economic recession; (b) non-competitive pricing for domestic natural gas vis-à-vis Asian and European gas markets; (c) the near-term shortage of liquefaction capacity; and (d) the rapid increase in domestic production largely related to un-conventional gas production as an alternative to imported LNG. And (4) a conclusion that outlines areas of specific concern to investors in future U.S. LNG import projects.

Methods

The authors conducted a review of the literature supported by extensive discussions with LNG market participants and other interested parties.

Results

A comprehensive overview of the U.S. LNG import market as of the beginning of 2009, reflecting current thinking of market-participants in light of (a) market disappointments in 2008 and (b) whether or that experience was indicative of a business cycle or indicative of structural issues that will cause potential investors to avoid participation in expensive LNG import infrastructure projects.

Conclusions

It seems likely that LNG's role in the U.S. natural gas market will be limited to that of a supporting player in a highly competitive environment. Having seen two disappointing waves of interest in the concept of importing LNG since the 1970's, it is doubtful that prudent investors are likely to find the future role of U.S. LNG to be compatible with a constructive investment strategy.

References

Borgström, R. E. and D. A. Foti, "U.S. LNG Imports in 2008 Signal Unexpected Role for Gas Markets," *Oil and Gas Journal,* 9 March 2009.