Market moves: trend away from long-term LNG deals could cause problems down the line Photo: REUTERS/SCANPIX

Shorter LNG contract terms may lead to future supply challenges

Buyers increasingly seeking shorter terms and smaller volumes, which may create supply challenges in long term

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Buyers are increasingly seeking shorter terms and smaller volumes for their liquefied natural gas supply contracts, a trend that industry participants worry is creating challenges with supply down the road, *writes Caroline Evans.*

"One of the things that has us concerned is the lack of long-term deals that could be used to back-stop new capacity development," said Jason Feer, head of business intelligence at energy and ship brokerage Poten & Partners.

"I think we really see potential problems in terms of supply constraints, price volatility coming out of this dearth of new contracts and I think in the absence of any sort of clever solution to some of these financing issues, the advantage is really shifting toward major oil companies, national oil companies, and companies already in the LNG business," Feer added.

The trend is a far cry from the traditional model for sale-and-purchase agreements in the LNG industry, which has historically been fixed around 20-year terms.

Feer, speaking at the CWC LNG Americas conference in Houston, said that of the 40 LNG deals the company tracked last year, 30 were for terms of less than five years.

"That's just extraordinary," he said.

Akos Losz, a researcher at Columbia University's Centre on Global Energy Policy, said that buyers are currently unwilling to sign long-term deals in part because of an expected supply glut that has not yet materialised.

In addition, with many markets becoming more liberalised, some buyers are seeing more competition domestically and are reluctant to enter long-term contracts.

"Because buyers are not willing to sign long-term contracts, suppliers are unable to access financing which is still required for the majority of LNG projects," Losz said.

Losz also noted a sharp drop in final investment decisions for LNG projects, with only two having been taken in 2016 and a single one in 2017.

Feer predicts a dramatic change in the market over the next 11 to 12 years as current contracts representing about 200 million tonnes, or 80% of the current market, expire. He expects half of the contracts in 2030 to be renegotiated, and the other half to be new.

"You're going to have a completely different market in eight to 10 years than you've had for the whole duration of the LNG business," he said.

The volumes that expire will be from facilities that have already paid off their debt, meaning they will be able to sell more cheaply and more flexibly, Feer said.

"In some cases buyers aren't even going to have the option to renew 20 years at the same volume, because a lot of these producers won't be able to produce at the same volume as before," he said.

"So we expect the vast majority of this 200 million tonnes will be renegotiated. Some of that will be renegotiated into long term, but a lot of that is going to get shorter and more flexible, and as far as we can see that's a really fundamental restructuring of the LNG market."