

Introduction

We wrote last month about the impact of COVID-19 on LNG trade during 2020. We also highlighted that a number of LNG liquefaction projects that were scheduled to reach FID have been delayed, or may not even reach FID in the near future.

This got us thinking. If a number of largescale projects were postponed, what impact would it have on the shipping sector? So, in line with updating our LNG model with this information, we will highlight the potential impact that the shifting timeline will have on the future LNGC orderbook.

Project Delays

Highlighting some of the projects that were expected to receive FID during 2020 included ExxonMobil's Rovuma 15.2 Mta project in Mozambique, Qatar Petroleum's initial expansion of 32 Mta, Sempra's 13.5 Mta Port Arthur project, NextDecade's 27 Mta Rio Grande facility and Tellurian's 26 Mta Driftwood project. These and other projects that were scheduled to reach FID in 2020 are now planned to be sanctioned at a later date, with the majority of the projects being postponed by a year or two.

This means that from our analysis of the current (and most likely) projects to actually achieve FID, there is 135.2 Mta that will be postponed. For our analysis we have postponed these projects within our modelling by one year. This means that potentially during 2024 there is an additional 44.5 Mta of LNG liquefaction capacity will join global production. Similarly during 2025, 55 Mta will be added, with a further 28.2 Mta of capacity during 2026.

The impact of the postponement will be to push the timeline of projects further out, just as demand for LNG is set to increase as countries South Korea and Taiwan are reducing their reliance on coal and/or nuclear power generation in favour of LNG. Not to mention China, India and other emerging markets which are also seeking to increase regasification capacity.

Impact on LNGC Orderbook

What does the postponement mean for the LNGC sector? Ultimately these projects will require additional vessels to transport cargoes from load to discharge ports, assuming that these projects do actually make it through the FID process. Here we assume that all the projects highlighted will actually reached the EPC stage.

Trying to forecast the volume of shipping demand can be tricky, as this will depend on supply contracts and the location of the end-user, but for the sake of ease, we have assumed that all the projects highlighted below will export to the Far East (we have used Tokyo as the end destination). We have then calculated the number of round trips expected per annum, allowing us to calculate the number of vessels required for each project.

The largescale projects in Mozambique, Qatar and the US are already understood to require significant numbers of vessels to facilitate their new and expanded trades.

In broad-terms, the postponement of LNG production projects taking FID during 2020 will mean that there is a corresponding delay in demand for shipping by the same period. This calculates to be a requirement for over 255 vessels which could be delayed by one year or more. It is understood that some of the potential export volumes could be undertaken with existing vessels, but in terms of magnitude, this highlights the potential delays in vessel ordering.

Impact on Shipyards

Assuming that these vessels are constructed in a South Korean yard, the postponement of LNGC ordering represents a deferral of approximately \$22 bn for the yards.

Therefore, the cost of COVID-19 within the LNG market has not only been the delay to projects but also the deferral of significant volumes of newbuilding orders.

FID LNG Projects Postponed by at least 1-year due to COVID-19

Projects (Mt)*	2023	2024	2025	2026	2027	Total Delayed (Mt)	No. of LNGCs Required
Mozambique				15.2			24
Mexico	2.5						3
Qatar			24	8			48
US Freeport T4			5				11
Cameron T4				5			11
Cameron					5		11
Texas LNG		4					8
Port Arthur		13.5					28
Rio Grande		27					57
Driftwood			26				55
Total	2.5	44.5	55.0	28.2	5.0	135.2	255

Source: Gibson/ Various Reports * Projects delayed one year to shown year

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