

Introduction

The LNG industry as a whole has faced some significant headwinds over the past two years. But maybe none more so than in Australia. Growing environmental awareness, lack of investment and souring international relations have meant that Australia more than anywhere else is facing significant challenges to its LNG sector. We'll try and highlight some of these challenges and their potential impact on the country's flagging gas sector.

Australia –China Tension

The political relationship between Australia and China has been on a rocky footing for a number of years. China's rapid modernisation and its development of its military has caused some concern to Australia for a while. A turning point came in 2017 when Australia banned foreign political donations, focusing on Chinese influences. The following year, Australia became the first to ban Huawei from its 5G network. It also blocked 10 Chinese investment deals across infrastructure and agriculture. But this really took a turn in 2020, when Australia called for an inquiry into the origins of the new coronavirus, which was first detected in Wuhan. Beijing has also been angered by the country's criticism of its actions in Hong Kong, Taiwan and the South China Sea.

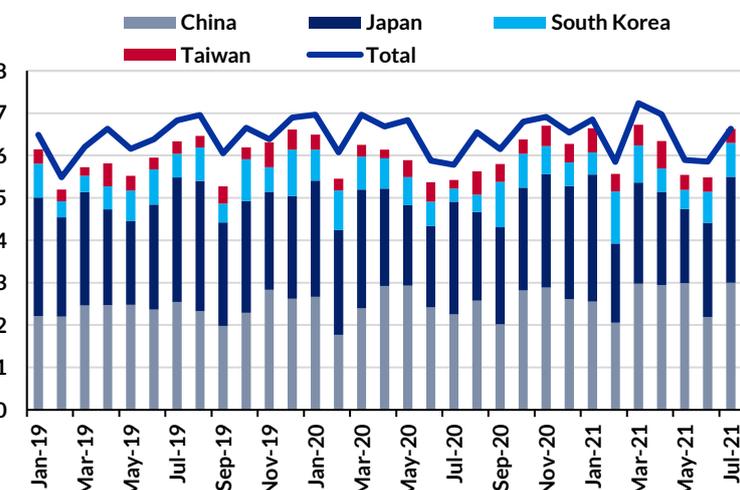
Things started to ramp-up when China started to ban certain Australian products and impose tariffs on others. China accounts for about 35% of Australia's total trade. This compares to less than 4% of China's commerce. This course of action has continued this year and remains a major economic and political concern that Australia is trying to balance.

China accounts for a round 40% of all Australian LNG exports, with Japan the next largest export market at around 35%. This highlights just how important China is to the country's gas industry.

Who's number one?

Another concern for those developing Australia's LNG sector, is the presence of Qatar. For the first time, Australia exported more LNG than Qatar during 2020. However, this market dominance will soon swing back to Qatar as the country develops its expansion project, lifting exports from 77 Mta to 110 Mta by 2025, then potentially to 126 Mta by 2027. One of the reasons this is of such significance is that Qatar is a low-cost producer. Various assessments suggests long-term breakeven price of just over \$4/mmBtu. This puts Qatar at the bottom of the global LNG cost curve, alongside Arctic Russian projects.

Australian LNG Exports (Million tonnes)



Another advantage Qatar is developing over Australia is the quest to produce lower emitting LNG via building facilities capable of capturing and storing 7 Mta of emissions by 2030. In November 2020, Qatar Petroleum (QP) signed the world's first deal that detailed the carbon dioxide pollution of each cargo for Pavilion of Singapore. QP plans to reduce the amount of greenhouse gases (GHG) it emits from its LNG plants by 25% and upstream operations by 75% by 2030 via cutting flaring and reducing methane leakages.

Australia emissions on the rise

A recent report from the Institute for Energy Economics and Financial Analyst (IEEFA) estimated that between 2014-2019 the emission intensity of Australia's gas production increase by approximately 30% as newer projects released higher rates of GHG emissions. This could potentially increase as newer fields replace depleting fields. These new fields provide a double whammy of having higher CO₂ levels and being located at a greater distance offshore, such as the Browse field which is 900 km offshore. The higher CO₂ levels and the combination with compression for the long pipeline, make them far more emission intensive than the original fields that supplying the NWS project.

We haven't mentioned Uncle Sam

Not only are Australian LNG producers in competition against Qatar (as well as other producers), but there is the growing penetration of US producers. In our latest LNG trade update we forecasted that US LNG exports could reach 104 Mta by 2025, an increase from around 47 Mta during 2020. This obviously depends on the large number of new projects securing the required contracted volumes, construction being completed on schedule, as well as there being enough demand for the various expansion projects to also be constructed. The US has the potential to surpass even Qatari LNG export volumes. And whilst not a low-cost volume producer like Qatar, it will be more competitive than Australian production.

It's not over yet

Despite the increase competition there are still a number of projects under development with the country. The most advanced are:

- Woodside has revised the costs of the development of the Scarborough field. Initial projections were around \$11 billion, but the new estimate is for \$12 billion. This project will replace the depleting output from its NWS and Pluto gas fields. The good news is that the gas field contains negligible CO₂ levels. In addition the overall production capacity has been raised from 6.5 Mta to 8.0 Mta. The new supply of gas will allow an additional liquefaction train to be constructed. FID should take place later this year. It is estimated that LNG produced at this expansion project will be globally competitive at around \$6.8/MMBtu.
- The Barossa gas field located offshore the Northern Territory gained FID back in March from Santos. The new gas will extend the life of the Darwin LNG facility which had been sourcing its gas from the depleting Bayu-Undan field. Santos is exploring the potential of CO₂ neutral LNG from Barossa, but this will be a future development of the project.

Down but not out

Although the development of future LNG projects are facing increased scrutiny across the globe, it seems that Australia will still be a major player in the near-term. Its relationship with China will in no uncertain terms dictate its future export volumes. But it could be that we now see the total extent of the LNG production within the country.

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