20 February 2024

# The Active LNG Term-Contracting Deals and Impacts of the Pause of LNG Export Approval Process in the United States

Hiroshi Hashimoto[1]
Senior Fellow, Energy Security Unit
Institute of Energy Economics Japan

Companies have been active in marketing and procurement of LNG under term deals in the international LNG market since early 2022. Deals, including definitive sale and purchase agreements (SPAs) and preliminary agreement with certainty, amounted to 75 million tonnes per year each in 2022 and 2023. Additional deals amounting to 15 million tonnes per year were announced in the first one and half months in 2024. Underpinned by the sales deals, investment decisions were made on projects for in total 40 million tonnes per year of LNG production capacity in 2023 following 30 million tonnes per year of capacity in 2022. One of immediate features of LNG investment activities has been concentration in the United States representing 38 million tonnes per year of LNG production capacity in 2023.

LNG production projects in the United States have also led LNG marketing activities, representing 60 and 30 million tonnes per year of term deals in 2022 and 2023, respectively. China and the European Union led LNG purchasing markets, representing 30 million tonnes per year each of offtaking commitments in the two years.

Also noteworthy is the increasing share of portfolio players in primary offtake commitment from LNG production projects, representing 28 and 31 million tonnes per year of deals in 2022 and 2023, respectively. This implicates increasing volumes flowing through such portfolio players distributing cargoes to final consuming outlets depending on market conditions under secondary sales deals notably from the middle of the decade.

Thanks to increasing LNG exports from the United States, diversifying LNG supply sources in the world, and more LNG production projects of 20 years old or older, the global LNG market has incorporated more flexibility since the late 2010s.

As the global appetite for LNG slowed down along with decline in overall energy demand due to the pandemic in 2020, LNG production plants in the United States absorbed much of decline in the LNG requirements in July 2020 when energy demand in the Northern Hemisphere decreased, shipping out less than 2 million tonnes of LNG, or less than two-fifth of nominal LNG export capacity of that month.

Much of the loss of Russian pipeline gas supply to Europe was compensated with LNG from the United States in 2022 and 2023, when the EU shifted to phasing out from the dependence on Russian energy supply. The shift led to the share of the EU and the United Kingdom combined in shipments of LNG from the United States increasing from previous 30% to 60% in 2022 and 2023 and the share of Asia decreasing from previous a little less than half to a quarter.

The United States became the world largest LNG exporting nation surpassing Australia and Qatar in the eighth year of LNG export from the lower 48.

Under the circumstance, the U.S. administration announced in late January 2024 a pause of review processes of applications of licences to export LNG to those countries that do not have free trade agreements with the United States and a plan of renewed studies on economic and environmental impacts of LNG exports. The administration has emphasised that the pause will not affects already approved non-FTA LNG exports of 350 million tonnes per year and LNG exports to allied countries. The 350 million tonnes per year includes 100 million tonnes per year of capacity already in operation and 50 million tonnes per year to be

[1] This paper represents only the author's view and does not represent views of IEEJ.

exported through LNG export facilities in Mexico.

The assumption is that even with the pause the LNG export capacity will continue expanding in the next five years or so, enabling the LNG production from the United States to meet the requirements of the international market including allies of the United States.

Five studies were conducted by the Department of Energy on macro-economic impacts of LNG exports between 2012 and 2018. After the last study, LNG exports from the United States have almost quadrupled. The announcement points out that it is necessary to review the economic impact and consider climate change implications.

Hearings were held at the Energy Committees of the House and Senate of the Congress to examine the "pause" in early February. Although specific timelines were not stipulated for the pause, DOE would complete its review as quickly as possible, and in "months, not years" according to the hearing. DOE's April 2023 guidance on seven-year export commencement deadlines was also confirmed - *unless the authorization holder demonstrates both that: it has physically commenced construction on the associated export facility, and its inability to comply with the existing export commencement deadline is the result of extenuating circumstances outside of its control*[2]. In other words, it would be possible to extend the deadline if the project demonstrates both.

One-fifth of the volumes committed under term deals of 75 million tonnes per year each in 2022 and 2023, are ones from those projects with pending approvals of the authorities of the United States. While the "pause" announcement said it "*will not impact . . . ability to continue supplying LNG to . . . allies in the near-term*"[3] the pause is already directly impacting on LNG procurement activities by Japanese and European companies. If the pause is translated into corresponding delays of LNG export deliveries, the relevant buyers will need to revise their procurement plans.

On the longer-term, the pause increases uncertainty over development of LNG production projects in the United States.

From late January to February, world leading LNG producing companies announced their 4Q and full-year 2023 results. The results show growing trajectories of the companies' LNG business and bright prospects of LNG projects the companies are involved in.

At the same time, in recent years the companies have incorporated term-contract volumes into their LNG supply portfolios from LNG production projects that are operated by other companies, making offtake commitments under term contracts as a primary LNG buyer of such projects. 25 million tonnes per year of LNG supply was committed by the world leading LNG producing companies from LNG production projects in North America, out of 59 million tonnes per year to be offtaken by portfolio players under term sales deals agreed in 2022 and 2023.

Successful development of LNG production projects in the United States holds the key to the long-term stability of the global LNG market. It is important for LNG consumers to ask an earlier termination of the pause, and at the same time to configurate LNG procurement measures incorporating potential impacts of the pause.

Contact: report@tky.ieej.or.jp

[2] *Policy Statement on Export Commencement Deadlines in Authorizations to Export Natural Gas to Non-Free Trade Agreement Countries*
https://www.energy.gov/sites/default/files/2023-04/Commencement%20Ext.%20Policy%20Statement%20-%20FINAL%2004-21-23%20signed%20with%20blurb.pdf

[3] White House announcement JANUARY 26, 2024, https://www.whitehouse.gov/briefing-room/statements-releases/2024/01/26/fact-sheet-biden-harris-administration-announces-temporary-pause-on-pending-approvals-of-liquefied-natural-gas-exports/