



# What does it take to develop new LNG supply?

Gastech leadership roundtable post event report



# The roundtable

The Gastech Leadership Roundtables formed an integral part of the Gastech 2022 thought leadership agenda. Several closed-door roundtables, on a range of topics, took place within the event's exclusive Gastech Energy Club.

The invitation only roundtables provided a forum for participants to influence and lead the future direction of energy production, supply and use, while building high-level industry connections, with deep networking opportunities.

The aim of the Leadership Roundtables was to create a series of high level, productive discussions with tangible takeaways and reports. Participants benefitted from making extensive, high level industry connections with unique networking and discussion opportunities.

The discussion were held under Chatham House rules, with key takeaways and topic reports produced by Knowledge Partner, Wood Mackenzie, and agreed with all stakeholders.

**No comments are attributable to any one participant.**

## Knowledge partner



Gastech are pleased to announce Wood Mackenzie as the official knowledge partner for the Gastech Leadership Roundtables.

Wood Mackenzie is a global research and consultancy business, partnering with organisations and governments to inspire better decision making. For nearly 50 years, Wood Mackenzie has been providing quality data, analytics, and insights used to power the natural resources industry.







# What does it take to develop new LNG supply?

## Introduction

**Tuesday 6 September, 2022 | 15.30 – 17.00**

*Executive Boardroom Gastech Energy Club*

The war in Ukraine, a global cost of living crisis and the spectre of COVID-19, which continues to loom large, have created a perfect storm for energy providers. With a heavily sanctioned Russia sending little to no natural gas to the West, demand for LNG has soared. But, even before the gas supply shortages, demand for LNG had been expected to increase exponentially. According to Shell, global demand could reach 700 million tonnes by 2040. The question is, how do energy producers ensure that there is enough LNG to meet demand? One way of ensuring constant supply is to search out and explore new production hubs, which was the focus of this Gastech roundtable.

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# The roundtable participants were:

## CONFIRMED PARTICIPANTS



**Freeman Shaheen**  
President  
**Chevron Global Gas**



**Octávio Simões**  
President and  
Chief Executive Officer  
**Tellurian**



**Iqbal Z Ahmed**  
Chairman  
**Pakistan GasPort  
Consortium Limited**



**Anatol Feygin**  
Executive Vice President and  
Chief Commercial Officer  
**Cheniere**



**Alex Sanna**  
Chief Executive Officer,  
Oil and Gas  
**Glencore**



**Augustine Mano**  
Managing Director and  
Chief Executive Officer  
**Mineral Resources  
Development Company  
(MRDC)**



**Andree Stracke**  
Chief Executive Officer  
**RWE Supply & Trading  
GmbH**



**Cederic Cremers**  
Executive Vice President, LNG  
**Shell**



**Pablo Galante Escobar**  
Global Head of LNG  
**Vitol**



**Atsunori Takeuchi**  
Executive Officer and General  
Manager of LNG Business  
Department  
**Tokyo Gas Co., Ltd.**



**Dr Philip Mshelbila**  
Managing Director and  
Chief Executive Officer  
**Nigeria LNG Limited**



**Olalekan Olufemi Ogunleye**  
Deputy Managing Director  
**Nigeria LNG Limited**



**Gaku Takagi**  
Executive Officer, Head of  
Resource Procurement  
Investment Division  
**JERA**



**Douglas Shanda**  
Chief Executive Officer  
**Mexico Pacific Limited**

## MODERATORS



**Giles Farrer**  
Head of LNG Assets  
**Wood Mackenzie**



**Kristy Kramer**  
Head of Gas Markets  
**Wood Mackenzie**

## FACILITATOR



**Arthur Hanna**  
Board Member  
**Copenhagen Institute for  
Future Studies**  
Visiting Professor of  
Energy Economics  
**Loughborough University**

# Roundtable Summary

Gastech has summarised the main points of the discussion in 14 succinct bullet points.

They are as follows:

## 1) Alignment of buyers and sellers

Around the table, there was a consensus that the world is facing a gas supply crisis. Participants were keen to find ways to bridge the gap between buyers and sellers, thus ensuring more affordable supply lines. Those who attended agreed that broader associated LNG and gas infrastructure needed to be developed.

## 2) What does it take to develop new LNG supply?

On identifying new potential supply lines, with Russia restricted in its ability to fund and develop new projects because of sanctions, participants singled out two distinct geographies that have the potential to fund new projects. They were identified as Qatar and North America.

Participants noted that the number of new LNG contracts that were signed with North American projects compared with other supply provinces had surprised some U.S. developers. And although other new innovative sources of supply, such as Floating LNG were mentioned, those attending did not believe it was a major theme.

## 3) Affordability crisis

There was also agreement that, with wild surges in gas and LNG prices, the world is facing a gas affordability crisis. Participants believed that this was a potential threat to gas demand in both the short and long term.

## 4) Averting a Supply crisis

Some buyers – even those with heavily contracted positions (which limit their exposure to high spot prices) discussed the possibility of rationing supply this winter. Buyers in emerging markets talked about full-scale crises in their gas industries. They declared that if high prices persisted for a long time, it would force them to use alternatives such as coal in the near term, and renewables in the longer term. One buyer pleaded with the suppliers in the room to continue to invest in market development. They made the point that that if the cost of gas continued to soar, they would need to consider other alternatives to meet demand.

## 5) Security of supply

Both buyers and sellers were in agreement that security of supply was one of the greatest challenges they faced. To facilitate supply security, several participants called for policymakers to provide greater clarity on gas and regulatory policy and





for permitting to be introduced on both the supply and demand sides, They were particularly keen to highlight pipeline permitting in the U.S..

### 6) Some grounds for optimism

Some buyers were confident that portfolio players and traders would ensure sufficient supply was developed, which meant that they would be largely insulated from a long-term need to contract LNG themselves. Without captive end markets or regulatory scrutiny, these players felt that they were better positioned to meet needs across regions – in Europe now, in established Asian markets later, and in the long-term in emerging Asian markets.

### 7) Financing new supply

Portfolio players and traders were keen to demonstrate their capabilities. They stressed the value that they brought in terms of financing new supply and helping buyers secure deals with tenures shorter than 15 years. They noted that over half of the contracts signed with North American projects have been with portfolio players and traders. They also stressed the importance of hedging to manage price risk.

### 8) Global spot market challenge

Portfolio players and traders also spoke about the challenges in the current gas supply crisis in terms of developing a global gas spot market. They said that higher collateral costs, and buyers concerned with the security of supply, have caused liquidity to fall and volatility to increase. This, they said, had created a smaller pool of counterparties with which to trade. As for the wider consequences of not addressing the problem, they explained that the collateral crunch means traders were unable to take as much cross-market spread risk to bridge the needs of buyers and sellers.

### 9) Resolving technical challenges and inflation

Contractors from the Engineering, Procurement and Construction (EPC) sector spoke about the challenges they faced in not just understanding market inflationary pressures but communicating it to developers. They began by providing a snapshot of the EPC sector, where the COVID-19 pandemic and the Russia/Ukraine war have delayed LNG projects. This, they explained, has had a ripple effect down the supply chain. The other difficulty, they said, was that the price of raw materials has been rising for some time. Even though those costs have now stabilised, they will







not come down soon. Many said they expected the world to be trapped in a high-cost cycle for many years.

### 10) Developing partnerships

Both the service sector and developers spoke about the importance of developing partnerships that allow them to understand and mitigate cost inflation. Operational risk for onstream projects were also highlighted as a growing area of concern, which developers had to plan for, given recent unplanned shutdowns at onstream projects.

According to participants, these partnerships between the service sector and developers also allow them to develop strategies to focus on reducing their carbon footprints. Several participants said that even with the current focus on supply security, development measures to reduce LNG's value chain carbon footprint remained critically important. These include increasing the efficiency of operations, the electrification of turbines and the use of renewable energy to drive those turbines. Participants also noted that electric drive facilities also support the industries' push for smaller modular LNG trains.

### 11) Attracting Finance

The discussion on financing proved a fitting finale to the roundtable. There was genuine debate as to how easy it was for the industry to attract finance.

Some developers were confident that if a project was structured in line with lender preferences, then attracting finance would not be an issue. Others emphasised that the industry had to be realistic about the challenges brought about by cost inflation. With EPC contracts being repriced every 30 days, they stressed the importance of an open conversation between the service sector, buyers, financiers and developers to ensure a project approached the Final Investment Decision (FID) with everybody aligned.

### 12) Project costs in a new era of rising interest rates

Participants were aware of the challenges that some projects faced in raising finance in recent months, particularly given interest rate rises. And they discussed innovation as a potential panacea in handling some of the industry's more complex and nuanced challenges.

Traders highlighted their ability to support the financing of some potential LNG reserves by replicating the pre-pay mechanisms they had used to support oil development in other parts of the world.

### 13) Equity financing

Other developers spoke of the importance of equity financing. Still, they noted that for the big International Energy Companies, LNG projects had to compete for capital among a broader portfolio of oil and gas projects, where carbon intensity and payback played a key role in financial decision-making.

### 14) A constant stream of capital required

Finally, some developers highlighted that a steady flow of capital was required at other stages of the value chain, particularly to support the development of downstream power and industry. In some parts of the world, it is getting hard to raise finance for new and existing gas projects due to energy transition concerns. However, several participants pointed out that if a project was set up the right way, with the right mitigation for carbon intensity, it was possible to still attract capital. Applying a robust, rigorous and innovative project approach, they believed, was the best way to ensure that LNG supply continues to develop for several years.

The content of this report is accurate as of the time of the roundtable which took place on Tuesday, 6th September 2022.

*End notes and citations*

*Reuters, Feb, 25, 2021*

*Global LNG demand expected to almost double by 2040: Shell*

*<https://www.reuters.com/article/us-shell-lng-idUSKBN2AP15SEuropean Commission>*

## Conclusion

As global demand for LNG soars and supply shrinks, this roundtable demonstrated the need for increased collaboration between buyer and sellers, if a supply crisis is to be averted. Most of all, it requires leaders to come up with brave and pioneering ideas and have the courage to carry them out. This roundtable provided the bedrock on which to build and develop innovative strategies that help solve supply, affordability, finance difficulties and a raft of other challenges.

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