Brand New Day: Russia's Invasion of Ukraine Upends Energy Markets, Heightens Call for More LNG Production

U.S. looks to ramp up LNG exports as Europe moves away from Russian energy; three U.S. projects could reach a final investment decision in 2022

- **The U.S. and its European allies have been working on ways to move away from Russian energy supplies after the invasion of Ukraine. Increased LNG exports are expected to play an important role in that transition.**
- **U.S. LNG exports are at an all-time high and European offtakers are looking for every molecule they can get, especially as the war in Ukraine threatens energy security across Europe. But how much more LNG could the U.S. send to Europe?**
- **Global demand for LNG is at record levels, putting some important U.S. projects closer to reaching a final investment decision (FID).**
- **Three U.S. export projects have the best chance to reach FID this year: Venture Global's Plaquemines LNG, Cheniere Energy's Corpus Christi Stage III project, and Tellurian's Driftwood LNG, the most discussed and reported-on project in the market.**

1. Introduction

As recently as the mid-to-late 2000s, the U.S. was expected to become a major importer of LNG. Instead, the opposite occurred. Once forecast to need tens of millions of metric tons of LNG each year to meet its own power-generation needs, the U.S. is now producing about the same amount and sending it to Asia, Europe and other markets. That swing — from the expectation of being a major LNG importer to the reality of being a top-tier producer/exporter — has had a huge impact on the global market, and the influence of that reversal cannot be overemphasized, especially after Russia's invasion of Ukraine, which has sent much of Europe scrambling for more LNG.

Possibly the most important characteristic of U.S. LNG — especially in the current environment — is that it is mostly destination-flexible, allowing lifters to ship product to any importing market (other than those under U.S. sanctions), with deliveries having been made to 37 different countries since 2016. The customers are a diverse mixture of (a) utilities such as Korea Gas, Osaka Gas and Endesa; (b) portfolio players such as Shell, BP, Naturgy and TotalEnergies; and (c) traders such as Mitsubishi and Mitsui, plus a few independent oil companies (IOCs) such as Woodside.

In commodity markets, the marginal cargo "follows the money." This is amply demonstrated by the changes in delivery destinations observed for U.S. LNG volumes over the past year. Asia was the best-paying market for LNG during most of 2021, but Europe became the preferred destination in the fourth quarter of 2021 as concerns over Russian gas supplies and low storage ahead of winter pushed prices at the Dutch Title Transfer Facility (TTF) to record levels. That trend accelerated in the first quarter of 2022 after Russia's invasion of Ukraine. The result has been the diversion of multiple U.S.-sourced cargoes away from Asia and into European markets.

As an example, let's look at the winding route of Trafigura's *Hellas Diana* in Figure 1. The ship lifted a Corpus Christi cargo on November 28, passed through the Panama Canal, performed a 180-degree turn off Hawaii, transited the Panama Canal again, and finally delivered its cargo to the South Hook terminal in the UK on January 20.

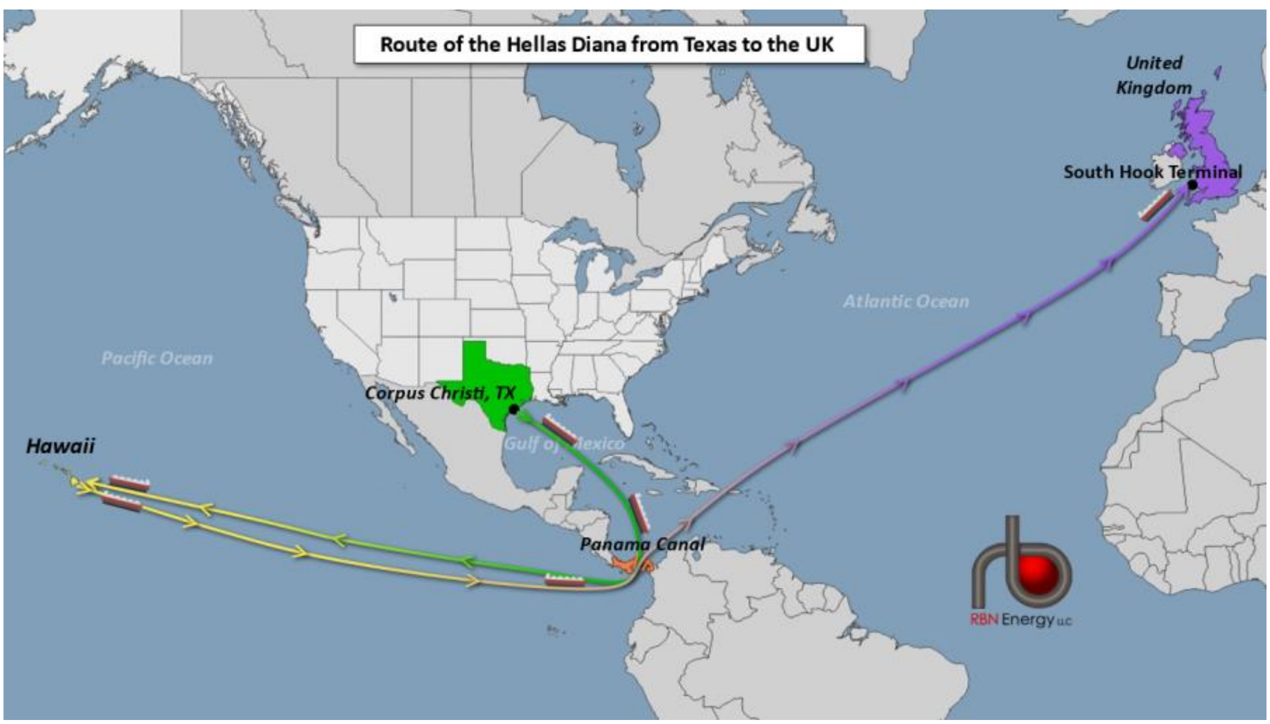

Figure 1. Path of the *Hellas Diana* from the U.S. Gulf Coast to the UK. Source: RBN

The U.S. role in LNG commoditization was also apparent during 2020, albeit in a very different way. As the COVID-19 pandemic took hold, global economies fell into recession. Demand for natural gas and LNG fell to the point where some LNG buyers could not accommodate the physical volumes they were contracted to receive, giving rise to discussions over the extent to which the pandemic could qualify as a *force majeure* event. This unprecedented decrease in demand resulted in several lifters of U.S. LNG canceling cargoes and a significant fall in feedgas demand. Some 150 cargoes were subject to cancellation, an important example of commoditization at work: when marginal demand falls, marginal supply is the first to suffer. In essence, the U.S. has become the global swing supplier of LNG, with Europe now clamoring for all the gas it can get.

Feedgas demand for U.S. LNG exports is at an all-time high, with many of the existing U.S. terminals operating at peak capacity for extended periods to produce additional LNG cargoes above long-term contract levels. With such a profitable year for existing LNG terminals, LNG operators and developers are excited at the prospect of building more LNG capacity. And after a long, COVID-induced hiatus, offtakers — both big global portfolio players and end users, like utilities — seem ready to commit to more medium- and long-term capacity.

Multiple U.S. projects are racing to capitalize on the momentum that the extended run of high global gas prices has brought. Just how many projects will be able to achieve FID is unclear, but it is likely to be more than one in the U.S. Gulf Coast, and once that decision is made, it will reshape the global LNG landscape and the U.S. gas market for years to come. The three closest to FID are Venture Global's Plaquemines LNG, Cheniere Energy's Corpus Christi Stage III and Tellurian's Driftwood LNG.

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