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ABSTRACT
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Risks and Demand of LNG Supply in the China and USA West Coast Markets

Demand for natural gas is growing in what can be seen as the world two highest profile economies, China and the USA. In both cases domestic supply is projected to fall short of this demand growth. While China is not yet currently an importer of natural gas, the USA imports are forecast to grow quickly as domestic supply shows signs of decline.

With significant reductions being seen in natural gas liquefaction and transportation costs, the opportunity presented by these two new markets for previously stranded gas resources looks attractive.

However, in order to capture consumers in these markets LNG needs to be delivered at a competitive price to domestic gas or alternative fuel sources such as coal. The consequence of this for natural gas producers particularly in Asia is near term downward pressure on the wellhead value of gas for conventional large scale LNG projects. In some instances this may make alternative commercialization options more attractive and could conversely constrain the availability of gas for these markets.

This paper will look at the demand profiles for the US West Coast and China and comment on the demand volume and timing, what uncertainties there are in these factors and, the risks that the supply to these markets can be executed. Import projects in China have already been launched but the size and number of import projects to the US West Coast will be a determining factor in LNG price setting with strong competition between potential suppliers. Economic incentives to import LNG are growing in the US because of rapidly rising gas prices in Canada and the US since 2000 and the rising F&D costs of domestic production coupled with accelerating decline rates.