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Inter-American Dialogue's Latin American Energy Advisor

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Q and A: Which Factors Are Shaping LNG Markets in the Americas?

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Only 19 percent of Trinidad and Tobago's liquefied natural gas (LNG) exports went to the United States in 2011, down from 89 percent of LNG exports in 2005, the country's government said in January. What factors are most shaping the LNG market this year in the Caribbean and elsewhere in the Latin America? What is the mid- and long-term outlook for LNG, a commodity in which companies and countries of the Americas have invested significant sums of money?

A: Jonathan Benjamin-Alvarado, professor of political science at the University of Nebraska at Omaha:

"Ultimately, this is all about the difference in the price of LNG in regional and global markets. The U.S. price is now below $3 per million British thermal units (MMBtu), down 70 percent from its price of $8.64 in 2005. Conversely, European, Asian and South American markets are averaging over $13 MMBtu—so the reasons are clear as to why we have seen such a dramatic reduction in the U.S. market share. Moreover, it is sound trade policy to diversify trading partners and not to be so reliant on a sole source supplier or buyer. This is why we have seen recent LNG shipments to Argentina and Canada, and why Trinidad and Tobago are negotiating with India to begin exporting LNG, especially if the Indians are offering additional incentives such as FDI in critical sectors, as was recently reported. Trinidad's reserves are in excess of 400 billion tons and Latin American economies are growing at rates of 4 percent. The future prospects look good with such growth rates and the widespread use of LNG in different economic sectors of developing economies. Most, if not all, international oil and gas companies (IOCs) are not bound to only servicing the interests of the U.S. market. Even if IOCs have dropped hundreds of millions of dollars to develop the LNG infrastructure in Trinidad, there is no assurance that the supply is dedicated to U.S. interests. Unlike Latin America and Asia, the United States has been slow to embrace LNG in the transportation sector, or to radically restructure and diversify its energy supply. There are other domestic market distortions and priorities that have driven both the demand and price down in the United States, so LNG producers adjust their strategies to maximize their returns. It does not directly imply that the U.S. share will continue to decline, but so long as the price remains low they will seek other markets in which to trade. The LNG producers have proven to be very flexible in responding to shifts in market profiles. Should market conditions change, they will adjust again."

A: Paulo Valois, partner at Schmidt, Valois, Miranda, Ferreira & Agel in Rio de Janeiro:

"Before the U.S. government and the market started promoting shale gas, the strategy adopted by the United States was to secure the supply of natural gas from other sources and countries, such as Trinidad and Tobago. From the U.S. perspective, the appeal of shale gas is that it could supply the portion of natural gas needs that were to be secured from different international suppliers and markets. Shale has thus reduced the need for foreign natural gas sources and, as a consequence, may reduce U.S. natural gas imports. A similar situation could occur in South America, where Brazil still imports volumes of natural gas from Bolivia to supply its industrial needs. However, the exploration of the Brazilian pre-salt layer and the possible natural gas reserves (P2) which could be discovered during such exploration may cause a decline in such imports in the medium term. Furthermore, current natural gas prices are very close to the lowest prices of the last decade. This sharp decrease in natural gas prices could present a short- to medium-term problem for investors in trying to recuperate their investments. Considering the above, the natural gas industry finds itself at a moment of dramatic change. It remains to be seen how it will develop in the future and how the countries and companies who have made these significant investments will deal with this changing scenario."

A: Anthony T. Bryan, senior associate in the Americas Program at the Center for Strategic and International Studies and a senior fellow at the University of the West Indies in Trinidad and Tobago:

"Trinidad and Tobago's LNG exports to United States have dropped from 89 percent in 2005 to 17 percent currently, and 81 percent of its LNG exports now go to markets in South America, Europe and Asia, where prices for the commodity are higher. T&T's new LNG export thrust is primarily a response to new market opportunities. Despite a complex and capital intensive value chain, LNG is now regarded as a competitively-priced energy commodity, where once-rigid sales contracts are being replaced rapidly by short-term arrangements and arbitrage. If the International Energy Agency's "World Energy Outlook" proves correct, then natural gas is expected to play a much more significant role in the global energy matrix because of shale gas (as well unconventional gas such as coal bed methane) and LNG. Predictions are that LNG trading will grow twice as fast as the overall natural gas trade itself. The long-term outlook for the Americas is good with Brazil, Argentina and the United States (to a lesser extent) becoming major natural gas and LNG exporters. T&T's LNG future is also sound. It invented the LNG business in the Caribbean and despite expected competition from U.S. and Colombian LNG exporters, its producers intend to capitalize on the smaller regional markets in Central America and the Caribbean. With four existing LNG trains and the possibility of a fifth, it is well placed to compete. Hopefully, the geopolitical resource shift will work to its advantage and politics will not trump economics."

A: Hector B. Viana, attorney at Jiménez de Aréchaga, Viana & Brause in Montevideo:

"Latin American countries are facing big infrastructure challenges, including those related to energy projects (e.g. LNG receiving terminals). But while prices (and associated green benefits) can still support the preference for natural gas over oil, and consequently sound financing for these projects seems to be available, the question becomes how can this market be shaped to attain the necessary efficiency and transparency? And while it is true that shale gas reserves are also emerging in the region, if Latin American countries were not able to quickly cope with issues affecting drilling (lack of technology and technicians, political and environmental issues), the result is clear: increased imports of LNG into Latin America, despite the outbalances of Peru and Trinidad & Tobago exports (which are directed to other Latin American countries). Unlike other commodities with long established trading patterns for Latin American countries, LNG market rules need to be quickly devised to take on the opportunity. Though establishing an LNG supply chain is not a matter of days, the market should be sufficiently developed by the time the chain is completed. It is said that traders play an important role, not only by acting on pricing to align market prices, but also by financing transactions when needed. Education on market rules for the LNG commodity is a must for this market to fly, and traders may fill in this gap. Long term and comprehensive planning from governments, in turn, need to be out there also, replicating as possible the Norway model. Bringing into line the above, as well as adjusting other variables (shipping availability), will help develop an efficient and transparent market in Latin America for this super-cooled green fuel, influencing the price of energy for the region. It is not until then that they will be ready to abandon the premium price market club. Though the on-the-ground realities in Latin America get quite complicated, these countries should recall that a steady market is key to fuel diversification, which impacts energy security. It will also bring reduction in tariffs, leading to growth in the productive sector."

The Energy Advisor *welcomes responses to this Q&A. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*