

26 April 2024

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Peak LNG: Is the LNG business building itself into structural over-capacity?

Publication date: 06 April 2023

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ISSN: 0964-8496

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For a fossil fuel, LNG has an enviable record of growth. Over the last decade, output grew by an average of a little under 5% per annum – around twice the global growth rate of natural gas. Recently, new demand for LNG has been created by the loss of Russian gas exported to Europe by pipeline, while more demand is expected from Asia, both from established and potential new markets. It means that this growth seems set to continue, and may accelerate in the medium-term.

But in the face of net-zero ambitions and plans to phase out the use of fossil fuels, how long can growth continue? In BP's latest energy outlook, two out of the three main long-term scenarios show global LNG demand peaking in 2030 and then declining, while the outlook released by the International Energy Agency (IEA) in October last year also features "peak LNG" in its scenarios.

For an industry fundamentally based on long-term investments and contracts, the prospect of a reversal of the historical growth trend, even if it is some way in the future, has impacts today. The recent reluctance of European utilities to sign long-term supply contracts, despite the evident shortage of LNG, is perhaps one of the first major manifestations of the peak LNG phenomenon. In this article we look at how peak LNG, and the expectations of it, are likely to impact the LNG business from now on.



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