

Goldman Tells Big Oil: Take the Gas Risk, Demand Will Follow

The world's largest energy producers will probably start hitting the gas on new projects, according to Goldman Sachs Group Inc.

Suppliers are better placed than buyers to bear the cost and risk of new liquefied natural gas projects, and may drive the next wave of investment, the bank said in a note. While the industry's aware of the need for more output, the traditional model, where financing for new LNG capacity is dependent on binding sales agreements, has become an impediment, Goldman said.

The oversupplied LNG market is at risk of swinging into a deficit early in the next decade if new projects aren't commissioned soon enough to meet increasing global demand. Large energy companies – including Royal Dutch Shell Plc and BP Plc, which have projects in the pipeline – will probably drive investments, according to Goldman.

“Natural gas is gaining market share relative to other fossil fuels, but new sources of supply must be developed to sustain this trend post 2020,” analysts including Christian Lelong said in the May 15 note. “A greater willingness to take on price risk should reduce the historical dependency on long-term contracts and leave producers firmly in the driving seat.”

Many consumers lack the risk appetite for long-term LNG supply agreements because the visibility on downstream demand is limited, particularly in the power sector given the rise of renewables, the New York-based bank said. Producers, which have stronger balance sheets, are better placed to mitigate

these risks, according to Goldman.

Gas buyers are delaying decisions and declining to go into long-term contracts, even as key markets including China and India need to clean up their air, said Charif Souki, chairman of U.S. LNG developer Tellurian Inc., in an interview at the Flame gas conference in Amsterdam.

“U.S. gas can be delivered to Asia very efficiently,” and so can low-cost Russian gas, Souki said. The fuel is a very attractive way for Asia to shift to cleaner energy, and buyers will need to convince sellers to invest in new capacity, he said.