

## Foot on the Gas - Waypoints Issue 03

**The geopolitical turmoil of recent months has placed the shipping markets, and in particular, the LNG sector, once again at the centre of global events. And with energy security adding further upside to a market already expecting plenty of underlying growth from Asian demand, energy transition dynamics and a lengthy export project list, LNG shipping looks set for a significant growth phase.**

**Stephen Gordon**  
(Managing Director, Clarkson Research)

### Tracking the Growth

Although progress can be uneven, LNG trade has a track record of underlying growth (20-year growth averages 6.5%, compared to 3.4% for gas pipeline trade, 2.4% for global gas demand and 1.0% for seaborne oil trade. And while trade growth is expected to slow a little next year (to 4% from 5% this year as we wait for liquification projects to come online), the case for future growth is supported by both strong export capacity expansion (the Clarksons database has 155mtpa of liquification capacity under construction, 303mtpa at FEED and 295mtpa proposed: for context current capacity is 459mtpa) and the prospect of LNG potentially benefiting, at least initially, from the energy transition (in our modelling, LNG trade grows more quickly in a Paris aligned rapid decarbonisation case in part due to coal to gas switching).

## Energy Security

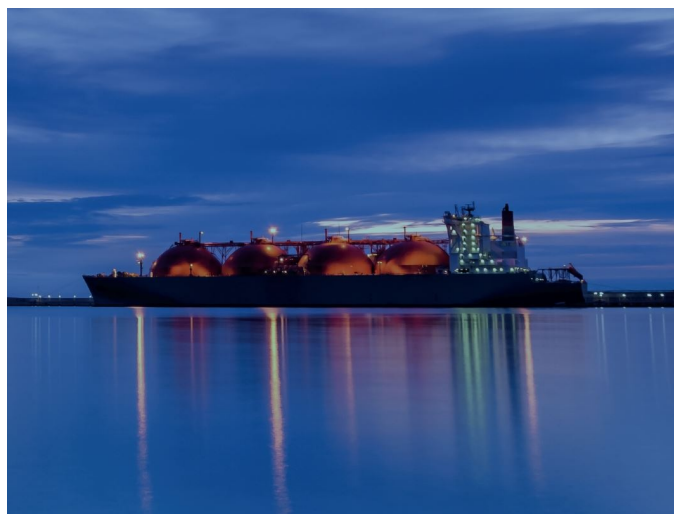
Anybody who has had the misfortune to open an energy bill of late will have appreciated the pricing shock being experienced across the gas markets. Initially driven by Covid-19 demand rebound, inventory building in both Europe and Asia, cold winters gas market tightness has been exacerbated by the supply concerns surrounding Russian gas.

For context, Russia is the second largest gas producer, with 17% of global gas supply in 2021, and met around 40% of European gas demand pre-conflict. And while these dynamics are contributing to inflation and macro-economic headwinds, for the LNG shipping markets the initial impact of the Russia / Ukraine conflict has seen European imports increase by 52% y-o-y in the first five months of 2022 as geopolitics and energy security move quickly up the agenda and Europe and Russia seek alternative import sources and export markets.

Further ahead, our early impact assessment work assumes much of Russia-Europe pipeline trade (which totalled 120mt in 2021) will be phased out with a long-term global LNG trade projection of 620mt by 2030 (a 40mt upwards revision from our projections prior to the conflict). But in a stretch case (replacing almost all Russian pipeline flows to Europe with LNG, and with Asian growth unaffected) trade could reach 695mt from 401mt today, potentially requiring approximately an additional 110 ships.

There is, of course, huge uncertainty: further lockdowns in China, a slowing global economy, pricing impacting demand, evolution of the conflict and associated politics, Chinese energy policy (the potential for coal use to increase or pipeline trade with Russia), the often lengthy timescales needed to complete shoreside infrastructure for liquification and regasification.

As much of this European activity is for the moment diverted Asian cargoes (reducing tonne-miles), the recent strong charter rates (please note recent news that Freeport LNG will be offline may weaken the short-term market) were driven by sanction uncertainty and an expectation that shipping requirements would rise. European countries (including Germany, Netherlands and Finland) have already chartered eight units since the start of the conflict in an attempt to accelerate LNG imports. Today a 1yr TC is assessed by Clarksons brokers at \$100,000/day for a TFDE LNG carrier unit, with a generally firm outlook for the charter market.



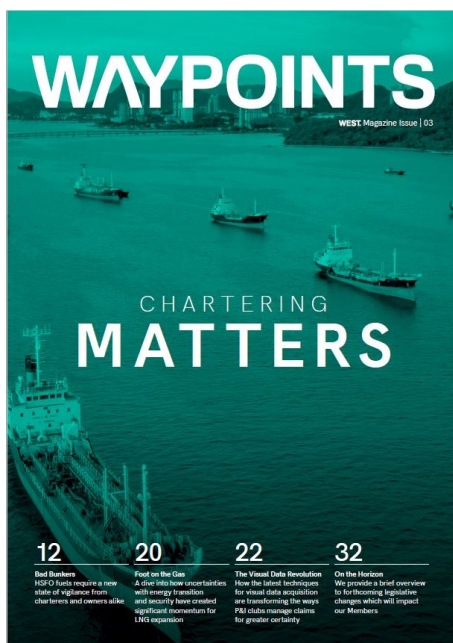
## Fleet Renewal

Today, the LNG shipping fleet has reached 632 ships (sized above 40,000 cbm) of a combined 103.3m cbm, with ~30% of the fleet still steam turbines and considerable uncertainty around the impact of emissions policies (e.g. EEXI, CII, methane slip). The total orderbook is now a sizeable 36% of the fleet after 86 ships (of \$15.6bn) were ordered in 2021: by mid-June we are already at a record half year of newbuild orders (80 vessels) and, with newbuild prices up 20%, already a record full year by investment (\$16.7bn).

While some of this activity relates to the pre-existing Qatari newbuild program, berth availability is now typically from 2025/6 even with Chinese yards expanding to beyond 20 ship annual capacity to add to the traditional strength of Korean yards in this market. With the orderbook spread over four years, we are projecting the LNG fleet will grow by just 3.6% in 2022 and 4.7% in 2023 and also estimate that by 2026, there will be more LNG vessels in the fleet than VLCC.

## Expansion Phase

Despite the uncertainties (and LNG veterans will warn that “projects get delayed, newbuilds deliver on time”), with the energy transition and now an energy security focus, there seems significant momentum for a material LNG expansion phase.



## Waypoints Issue 03

[View here](#)



Clarksons  
Research

Find out more about Clarksons  
Research [here](#)