Asia wants to cut emissions, so why is it still buying so much Australian gas?

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Highlight: Australia's top ***gas*** shippers forecast a huge lift in demand over the next decade, even as debate continues about the role of ***gas*** in the clean energy shift.

Body

Australia's biggest ***oil*** and ***gas*** exporters forecast a significant lift in demand for liquefied ***gas*** over the next decade, even as debate continues about the role of the fossil ***fuel*** in the transition to cleaner energy.

Shell, which produces natural ***gas*** off the coast of Western Australia and in Queensland, bumped up its long-term demand predictions last week, saying it now expects the world's consumption of liquefied natural ***gas*** (LNG) to increase 60 per cent by 2040 amid faster economic growth in Asia.

The energy giant's revised outlook for LNG is 10 percentage points higher than at the same time last year

"China is significantly increasing its LNG import capacity and aims to add piped ***gas*** connections for 150 million people by 2030 to meet increasing demand," ***Shell*** said. "India is also moving ahead with building natural ***gas*** infrastructure and adding ***gas*** connections to 30 million people over the next five years."

Woodside, the largest Australian LNG producer, said Asian population growth, economic development and rising living standards would underpin a demand increase of at least 50 per cent by 2034. At the same time, a wave of new LNG projects threatening to cause a glut in coming years was unlikely to materialise as quickly as first thought because of delays faced by developers, the company said.

"Asia is going to be the engine room for LNG growth," Woodside chief executive Meg O'Neill said.

LNG - natural ***gas*** super-chilled down to a liquid so it can be loaded onto special ships - is one of Australia's biggest exports, raking in at least $64 billion in revenue this financial year. Demand and prices for Australia's LNG, which is mainly sold to Japan, China, Taiwan and South Korea, surged following Russia's invasion of Ukraine in 2022 as efforts to replace Russian piped ***gas*** to Europe unleashed a global scramble for spare shipments of the ***fuel*** to keep lights and heaters on.

While ***gas*** remains widely used in electricity generation, heating and manufacturing, its longer-term demand could vary significantly depending on how aggressively the world decides to ratchet up goals to slash planet-heating greenhouse ***gas*** emissions.

According to some forecasts of how the energy transition could play out, ***gas*** demand may be driven sharply higher for its use as a "transition" ***fuel*** - one that's cleaner than coal, but can still be used to back up intermittent renewables during periods of low wind and sunlight.

But other pathways suggest the role of ***gas*** could be limited, especially if Asian nations pursue plans to reduce the use of fossil fuels in their electrical grids and if the world doubles down on efforts to electrify the economy as much as possible.

Woodside said it believed LNG, rather than being negatively affected by the shift to lower-carbon energy, would be increasingly needed to decarbonise Asia, as governments and utilities stepped up efforts to cut emissions by replacing coal-fired generators with ***gas***-powered plants, which are less-emitting.

"If just 20 per cent of Asia's coal-fired power stations switched to ***gas***, it would reduce carbon emissions by 680 million tonnes a year," O'Neill said. "That's more than one-and-a-half times Australia's annual net greenhouse ***gas*** emissions."

But forecasts of significant growth overlook the risk of several "tangible barriers", said Christopher Doleman, an analyst at the Institute for Energy Economics and Financial Analysis, which discourages further investment in LNG.

While ***Shell*** identifies coal-to-***gas*** switching as a key driver of LNG demand growth, Doleman said the cost of LNG was likely to limit its ability to displace coal across Asia. One-off deliveries of LNG cargoes in Asia are selling for around $US13 per million British thermal units today.

"LNG prices would likely need to fall into the $US4-5 range to compete with coal, a level that is too low for LNG facilities to earn an adequate rate of return," Doleman said.

Vietnam had reduced the scale of its LNG-to-power plans in a recent update, he said. Meanwhile, LNG demand in Japan, the biggest customer of Australian cargoes, had fallen 20 per cent since 2018 and could fall further under its plans to cut thermal electricity generation from 70 per cent of the energy mix to a range of 30-40 per cent by 2040, he said.

Although demand remains uncertain, investment analysts expect an influx of new LNG to hit the market later this decade as new projects come online in the US and Qatar, and raise the risk of an oversupply.

"We expect a tight LNG market in 2025 with global balances estimated to be in deficit ... before moving into balance in 2026 and an accelerating surplus from 2027," UBS analyst Tom Allen said.

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