

## Health crisis exposes need for LNG floating storage

*One veteran calls for investment in flexible floating storage to facilitate arbitrage trade, which will ease the pressure from divesting cargoes with no pre-defined destinations during difficult times. One issue that still needs to be resolved is the boil-off loss stemming from storing LNG for an extended time in vessels*

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by **Hwee Hwee Tan** | HweeHwee.Tan@informa.com

Floating, rather than onshore tank, storage holds the key to promoting liquidity in the liquefied natural gas market



FLOATING STORAGE CAPABLE OF MITIGATING BOIL-OFF LOSSES IS NEEDED TO PROMOTE LIQUIDITY IN THE LNG MARKET, ONE EXPERT SAID.

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THE coronavirus pandemic, in triggering a collapse in energy demand and prices, has made apparent one flaw in today's liquefied natural gas market.

Prices for both crude and LNG have fallen to record lows, bruised by demand destruction from the pandemic and an oil price war stoked by a face-off between Saudi Arabia and Russia.

A yawning gap in its supply chain clearly would not have helped cushioned LNG from this recent fall from grace.

One analyst estimate suggested that as many as 16 LNG tankers around the world were seen storing cargoes as of late February.

These are commonly, though inappropriately referred to, as one industry veteran argued, as floating storage for LNG.

Unlike the case for crude, storing LNG for a prolonged time on board a tanker is not feasible given that the boil-off loss cannot be mitigated adequately at present, said seasoned shipbroker and LNG Easy founding chief executive He Yiyong.

LNG evaporates when stored in and ferried by carriers over time, resulting in boil-off gas or loss in cargo volume. That feature sets LNG apart from crude, which can and has been stored for months in tankers without having to contend with significant volume losses.

So it follows that whatever is held in the so-called LNG floating storage, would be regarded as distressed cargoes. Owners of such cargoes face increasing pressure as time passes to let go of the volumes held in floating storage. This is one situation cargo owners would want to avoid as far as possible. During the winter months from October through to this February, excess cargoes have thus sought refuge in large underground storage facilities found in Europe.

Mr He noted that in this respect, Europe serves as “the sink” absorbing excess supplies though the underground facilities available that are designed to store natural gas, meaning LNG needs to be regasified before going into storage.

China, Japan and South Korea, as the biggest LNG importing countries, have opted to invest in onshore LNG storage tanks.

However, Mr He argued that investing in any onshore storage there would not bolster arbitrage trade in light of energy security concerns.

Chinese national oil companies, for instance, would not want to store strategic LNG reserves in South Korea. He counted only three onshore tanks in Asia — two in Singapore and one in Malaysia, both considered as politically neutral countries — offering “genuine” third-party access through which the largest LNG buyers in Asia may turn to for arbitrage opportunities.

Still, by his estimate, the cost of building each onshore tank easily ranges up to \$500m, including the jetty for berthing LNG carriers.

On the other hand, easily more than 200 older LNG ships powered by steam turbines more active in spot trades these days can be mobilised to store cargoes with no designated buyers.

As the US further ramps up its liquefaction capacity, more LNG volumes with no predefined destinations would flow into the market.

Analyst estimates showed 40% or more of the export capacity in the US has been sanctioned in recent years without securing contracted offtake.

Mr He argued that for the long-term health of the LNG market, it is imperative that the industry invests in floating storage that comes equipped with boil-off-gas solutions.