
NATURAL GAS WEEK®

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MON, OCT 26, 2020

US LNG Exporters Pin Hopes on a Cleaner China

Will China really be carbon neutral before 2060 as President Xi Jinping told the UN in a speech last month? And what impact would that have on Chinese gas demand along the way?

The answer to those questions is of major interest to US LNG export terminal developers seeking Chinese partners and access to that country's vast gas market -- particularly as the effects of the US-China trade war linger.

Not everyone is convinced that the Asian nation will get there. "China is actually constructing 120 gigawatts of coal now," Scott Tinker, director of the Bureau of Economic Geology at the University of Texas at Austin, told Energy Dialogues' North American Gas Forum (NAGF) last week. "And so when [Xi] pledges zero emissions, it's simply not going to happen."

Tinker pointed out that more coal is being built in China now than in the past, and those plants are designed to last decades. He also advised skepticism about pollution-abating power operations there.

"Sometimes they turn off the the SOx and the NOx and the particulate scrubbers, because each of those modules adds a component of cost," Tinker explained. "To keep it cheap, you turn them off and then when you need to you turn them on."

But China's push toward carbon neutrality is still expected to benefit gas. "We are very positive on LNG growth for China," Majed Limam, manager of Americas for Poten & Partners, told the NAGF, adding that China will require an all-of-the-above energy strategy.

He sees China's LNG sector riding along with the "massive growth in wind and solar. The requirement for gas to balance the intermittent nature of renewables in China is becoming a very important aspect to it. ... We see it becoming the No. 1 importer again."

But he, too, has doubts about China's path toward a carbon-free future. "What keeps me up at night ... is making sure the Chinese government remains committed to the environmental benefits, because that's what's really driving gas demand," Limam said.

"There are markets and buyers in China that could take long-term take-or-pay type agreements that are key to getting projects all over the world [to become] bankable and move ahead with finance," he added. And yet "when we look at China, obviously, coal is very cheap and the competition from coal, purely from an economic fashion, is very difficult for LNG."

That is why the government's leadership is key. "The reason LNG and gas is growing in China is because of government push," Limam said. "Is the government remaining committed to reducing pollution in China, living up to its Paris [climate accord] commitments, and cleaning up the air in major large cities?"

Another factor affecting China's move from coal to gas is trade competition from neighbors such as coal-rich Vietnam, according to Tinker.

Vietnam is going to build 50 new 400 megawatt coal-fired power plants over the next 20 years, in part because the

country is maxed out on hydro capacity. And renewables such as wind and solar are out of the question because Vietnam "is a long, narrow country. So they're not going to cut down their jungle to put up turbines or panels," he said.

Vietnam is also building a series of LNG-to-power plants all along its 2,000 mile coastline, putting further pressure on China to seek the cheapest energy sources.

Michael Sultan, Washington