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‘In time, LNG shipping will become more liquid, like tankers and dry bulk’: SSY

For Toby Dunipace, managing director of LNG at shipbroking firm Simpson Spence & Young (SSY), the past year’s volatility in the natural gas market, felt more acutely in Europe, underscored the importance of LNG shipping. Short-term concerns over a tightness in LNG supply and tonnage – with a glut of vessels anticipated in 2024-25 – should not distract from the fact that substantial volumes of LNG will become available from 2026 onwards, which is set to galvanise demand for LNG globally, while helping make the sector even more liquid, Dunipace tells LNG Business Review in this exclusive interview.

[1]

Increased transparency

Dunipace has been part of SSY since 2016, having previously worked for just over three years at another shipbroking firm, Braemar, where he also covered LNG. He has been running SSY's LNG desk since 2019.

"My day-to-day role is very active," he says. "As a broker, I cover chartering, spot term, newbuildings, sale and purchase, day-to-day projects, and business development. But I'm also responsible for running the department, which has been a huge privilege over the last few years. I help promote SSY LNG externally, as we build up our presence in the market. SSY has over 400 people working for it around the world, and this worldwide presence is such a key part of our business, because LNG is still a relatively small growth market. It has tremendous potential to be a massive shipping market, and will in time become more liquid, like tankers and dry bulk."

Dunipace's career in LNG has overlapped with a pivotal moment in the sector's evolution, bookended, he explains, "by two natural disasters or, as we say in shipping, acts of God. On the one end is the Fukushima disaster in 2011, whose knock-on effect was still being felt when I started in 2013, with the ships that were ordered on the back of it being delivered that year. Fast forward to 2023, and we're dealing with the aftermath of Covid-19 and the war in Ukraine. These two recent, monumental events are defining the market at the moment, creating great volatility and uncertainty in shipping and energy. How the market has crashed and rebounded to such great heights in such a short space of time has been incredible."

For Dunipace, the rapid evolution of LNG shipping technology has been one of the most striking aspects of the business he has witnessed.

> *Europe's energy security would be even more exposed if it wasn't for natural gas travelling by marine transport.*

"In my 10 years, we've seen a huge shift in the way that ships are run," he highlights. "The efficiencies achieved by LNG shipping have made a massive difference to our market, which has in the meantime become much more liquid and transparent. We've also witnessed the emergence of the trading houses, with traders more used to the dry bulk and tanker markets coming into LNG, adding a certain level of aggression to what had been seen before. We no longer have national companies selling to national companies, A-to-B for 20-25-year charters. There's a more active spot market and shorter SPA contracts are being signed. This has given LNG a more liquid feel to it. When I began my career in 2013-14, we had well below 100 fixtures a year in the market. Now, 300+ fixtures in a year would be considered normal."

Building relationships

Founded in 1880, SSY has been involved in LNG since 2004. According to Dunipace, SSY "is a great brand, synonymous with shipping around the world." However, "the brand can only get you so far," he stresses. "In the end, it's about the brokers that are sitting on that desk, the teams that work with you. When I joined SSY, we had three people looking at LNG shipping. We now have 13, which includes two in business development. The team has been growing consistently year on year. When our clients pick up the phone, they know who they're speaking to and what we offer, which is something different to our competitors. I'm not saying our competitors are bad – they are not – it is just that everyone does things differently and therefore some clients gravitate towards us and how we do it. We're adding value in our own way, and that comes down to the right people. You can knock on doors, but to actually get through, you need the relationships that have built up over many years."

In a business where face-to-face interaction is gold, "Covid was a tough one," Dunipace admits. At the same time, the LNG team he had only recently begun running, is small compared to other SSY departments, which made it easy to maintain relationships through daily Zoom calls, he says.

"In general, the market was able to do things over Zoom quite efficiently, but if you have 150 people on your team, it's harder for everyone to communicate as a whole. As a desk, even as things return to normal, we've continued to have team calls every day, which has created a lot of synergy between our colleagues in the US, London and Singapore. We all work as one team together – this is in part as a result of the pandemic and relying on online meetings. But there is absolutely no substitute for face-to-face interaction. No matter what people say, and whatever support data, online platforms and IT can offer, this it is a relationship business – this will never change."

Dunipace is often asked whether a shipbroking firm like SSY feels threatened from online broking platforms. "I personally don't, because when a client picks up the phone, they want to know who they're dealing with," he says. "That comes from years of providing a service and building up a relationship over time. An online platform can't do that."

Tight market

Meanwhile, the volatility the energy market has experienced in the last 12-18 months has highlighted "the importance of the LNG carrier as a floating pipeline," says Dunipace. "In Europe's case, we always viewed it as a sort of empty bucket. If you had LNG molecules, they could just go to Europe because it's got a very advanced infrastructure – its vast regasification and pipeline networks. But that's now changed. We no longer have Russian pipeline gas flowing as it once did, and LNG has been the saviour of Europe's gas market. In 2022 LNG was going to Europe, no matter the cost. And shipping is a absolutely instrumental to that."

Europe's energy security would be "even more exposed if it wasn't for LNG as a commodity – for natural gas travelling by marine transport," Dunipace points out.

"The importance of LNG shipping has just been massively highlighted in the past year. When it comes to charterers with European end customers, most were willing to pay, no matter the cost for LNG freight, because nothing can substitute being able to supply your customers with energy, and the prices were frankly record-breaking. Companies making huge amounts of money on the back of high energy prices wouldn't be able to do so without shipping. In addition, the rapid advancements of LNG technology mean that you can efficiently store and float your cargoes and play, for example, winter contango markets. This would have been possible 20 years ago, but you would have lost a lot more money. Of course things have changed now in 2023, and we are seeing a lull period where demand for LNG in Europe, and in the Far East, has come off massively. This is not uncommon for this time of year as we are in the shoulder months."

But the surge in demand for LNG cargoes in the wake of the war in Ukraine and sharp decline in the flow of Russian pipeline gas to Europe have led to "a serious lack" of shipping that is in the control of independent owners, Dunipace points out.

> *We have a lot of LNG vessels delivering in 2024-25 without much new product to satisfy that new supply of freight.*

"You can count on one, maybe two hands, how many ships are open this year from pure independent ship owners. It's a huge concern. To load a single cargo, at the moment we're talking about tens of millions of dollars. If you can't find a ship to load that cargo, it creates a big, ongoing problem, which will probably keep freight prices healthy for most of this year, unless the demand is so poor that those in control of the tonnage extensively relet this freight, because of poor utilisation. If you look at the forecast for LNG as a commodity, it is still quite healthy in terms of the LNG price. Eventually that will come off, and there's a lot more LNG coming on stream from 2026 onwards, so it will eventually settle. But charterers remain worried about energy and freight security."

When it comes to LNG shipowners, "I think 2024 and 2025 look a little bit uncertain," Dunipace notes. In terms of shipping that is coming online, "we have a lot of vessels delivering in 2024 and 2025 without much new product to satisfy that new supply of freight. We're going to see a supply-demand imbalance. In 2024, 63 ships are scheduled for delivery, 75 in 2025 and 97 in 2026. It's a lot, and that's a concern, more so if you have older tonnage. The modern efficient ships will still command a premium as they are so sought after in terms of managing boil off."

Though LNG shipowners face short-term concerns – not to mention International Maritime Organization (IMO) emission regulations [2] that are coming into effect this year, which make them worried about what penalties they could pay if they fail to comply – Dunipace views the macro outlook for LNG over the next decade as "incredibly bullish" due to the investment in new LNG supply being made on the back of recent geopolitical events.

LNG as bunker fuel

Dunipace also expresses optimism over the growth of LNG as bunker fuel, a segment SSY is building expertise on.

"The fact that we've recently invested in the sector means I'm a big believer in it – and there's a great many reasons to believe in it. To begin, you've got an abundant supply of LNG, readily available, with more to follow thanks to the massive investment made in the last 12-18 months in new LNG product. You've got demand: there's no better alternative to marine bunkers than LNG at the moment. You could go down the ammonia or hydrogen route, but they are still in the developmental phase. With LNG, you have a tried and tested infrastructure as well. LNG terminals are everywhere. You have LNG all around the world, you can completely have this as a worldwide fuel solution. That can't be said for other alternative low-carbon fuels."

> *For the worldwide LNG business to continue to invest, it needs a low LNG price.*

Another supporting fundamental for LNG bunkering is the fact that nearly half of the worldwide orderbook of ships is LNG-dual fuel capable, says Dunipace. High LNG prices did result in LNG as a bunker fuel slowing down, “but all this LNG coming on stream in the next decade could push that LNG price down,” he adds. “LNG as a commodity is cyclical, like everything else.”

Dunipace anticipates “an uptick in LNG as marine fuel because it’s going to be cheaper than the alternatives. The fundamentals suggest that it’s going to work, but it will take time, just as the LNG business itself was very slow to develop 20 years ago. The signs are clear for LNG bunkering to be an exciting market. It just had a bit of a pause in the last 18 months because it’s been a more expensive option than oil-based marine fuels.”

Positive impact

From a technology perspective, LNG shipping has always been an innovative market within the energy sector, says Dunipace. “Firstly, you’re using your cargo as the fuel as well,” he explains. “That makes LNG shipping unusual in terms of how it’s evolved, how it continues to innovate. The big barrier for anyone to enter the LNG business is the asset price. It now costs USD 250 million+ to order an LNG ship, and you won’t get the vessel for five years. There aren’t many businesses that can justify that sort of investment.”

But for the worldwide LNG business to continue to invest, it needs a low LNG price, Dunipace notes. “Then you’ll start to see developing nations investing in LNG. It’s very hard for these nations to make LNG make sense at USD 20-40/MMBtu.

Though ?urope reacted to the war in Ukraine by investing heavily in floating storage and regasification infrastructure for importing LNG, it is also bound by strict climate goals, which are forecast to drive its gas demand down in the coming decades. “But supply projects coming online won’t shut down in 10 years – they will last for 40-50-60 years, contracts have been signed for 25-30 years,” Dunipace says. “This investment in LNG is enormous, which has to have an impact down the line on developing nations. More supply of fuel will galvanise demand to happen outside Europe. Coal-to-gas switching is an evolving and ongoing process. In China, they’re still burning huge amounts of coal. India is a massive burner of coal. This is not going to suddenly go away, and renewables are not there yet to satisfy demand for energy on such an international scale. In my mind, LNG is the bridging fuel between the two. This isn’t new – it’s only getting more apparent.”

Ultimately, the unpredictability and complexity of the current and short-term energy environment does not change the fact that there is still “a huge amount of LNG coming our way,” Dunipace adds. “It’ll have a big impact in the near term on the developed nations and regions, Europe and China, for example, but down the line, it will have a positive impact on the rest of the world, it is just timing.” - KT

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