Special Bulletin

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# 2012 Global LNG Demand (Imports) Down 1.9% to 236 Million Tonnes

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A remarkable change has emerged in the global liquefied natural gas (LNG) market. According to “The LNG Industry in 2012” released recently by the GIIGNL international group of LNG importers, global LNG demand (imports) in 2012 totaled 236 million tonnes, down 1.9% from the previous year.

Global LNG demand (imports) had expanded steadily before 2012. Even in 2009 when global demand for natural gas turned down on a global economic slump following the 2008 Lehman Shock, LNG demand continued rising. Nevertheless, LNG demand ended a long-term upward trend last year. What factors were behind the downturn?

Specific factors can be found through an analysis of regional demand trends. A direct factor behind the global LNG demand fall in 2012 was an extreme demand depression or a substantial demand fall in Europe. European LNG demand (imports) in 2012 plunged 27% from the previous year to 47.47 million tonnes. LNG imports declined 16% to 14.46 million tonnes in Spain, the largest European LNG importer, 44% to 10.38 million tonnes in the United Kingdom, the second largest, and 32% to 7.17 million tonnes in France, the third largest. Major European LNG importers substantially reduced imports.

The biggest factor behind the substantial reduction in European LNG demand (imports) was an overall energy demand depression amid an economic slump. While the global economy expanded 3.3% in 2012, with the Organization for Economic Cooperation and Development boasting a growth rate of 1.3%, the European Union posted a contraction of 0.4%, according to the International Monetary Fund. The economic slump led to the overall energy demand plunge. Earlier, however, demand for natural gas as a clean energy source had been invulnerable to any general energy demand depression. Nevertheless, natural gas/LNG demand posted a large drop. There was a reason for the change. The reason is that gas/LNG has been put into a disadvantageous position amid a competition between energy sources.

The first important point is gas's relationship with coal. Europe has seen gas losing the market to coal, completely opposite the situation in the United States. This represents a direct

consequence of the U.S. shale gas revolution, which has led gas prices to fall amid a looser supply-demand balance and allowed gas to replace coal as fuel in the electricity generation sector in US, encouraging coal to flow out of the United States into other markets. In Europe, the market share is still large for gas whose prices are still linked to oil prices. As a result, gas prices in Europe are higher than in the United States, standing at $9-10 per million British thermal units. The inflow of cheap coal into Europe was combined with slack carbon dioxide prices to put natural gas in a difficult position in the power generation fuel market.

The second important point is gas's relationship with renewable energy. As is well known, the promotion of solar, wind and other renewable energy sources in Europe has been making rapid progress under policy support measures including the feed-in-tariff system. The competitive European power generation fuel market often has a “merit order system” where cheaper fuels may be primarily put into the market until a supply-demand equilibrium is achieved. Nuclear energy and coal may be selected ahead of natural gas. In addition to the abovementioned coal consumption expansion, the policy-backed increase in renewable energy's presence exerts great pressure on natural gas.

Anyway, natural gas demand, sandwiched between an economic slump and growing coal and renewable energy consumption, has plunged, resulting in a substantial drop in LNG demand (imports). Furthermore, none of the abovementioned factors are likely to change dramatically in the immediate future. We are now required to take note of the high possibility of the European gas market remaining in a severe environment.

While European LNG demand has slackened, the Asian LNG market has continued expanding. Asian LNG demand (imports) in 2012 expanded 9.2% from the previous year to 167 million tonnes. All Asian LNG importing countries scored increases. Particularly, Japan, the world's largest LNG importer, boosted its LNG imports 11.4% to 88.08 million tonnes to make up for a steep fall in nuclear power generation. China, the third-largest Asian LNG importer, increased its LNG imports 12.2% to 14.65 million tonnes.

As the substantial Asian LNG demand growth coincided with the sharp European demand decline, Asia's share of the global LNG market expanded to 71% in 2012 from 64% in the previous year. Asia had originally been the center of the global LNG market and has increased its weight further. Given European and U.S. conditions, the trend is expected to continue or accelerate. Therefore, how the Asian LNG market will develop and how various Asian LNG market problems (including the “Asian premium on LNG prices”) will be addressed have become Asian and global problems.

Even in the Asian LNG market, the economic environment and the competition between energy sources will affect demand, as indicated by the European case. In this sense, ensuring the

price competitiveness of LNG against other energy sources from the medium to long-term viewpoint in Asia will be important for the sustainable development and expansion of LNG demand and markets. Efforts to realize the sound development of the Asian LNG market may be a key future challenge for governments, companies, importers/consumers, exporters/producers and all other participants and stakeholders in the Asian LNG market.

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