

Special Bulletin

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## **Significance of the Second LNG Producer-Consumer Conference**

Ken Koyama, PhD

Chief Economist, Managing Director

The Institute of Energy Economics, Japan

On September 10, the second LNG Producer-Consumer Conference took place at the Grand Prince Hotel New Takanawa in Tokyo. At the meeting following the first one held last year, experts from LNG producing/exporting and consuming/importing countries discussed challenges and solutions for the sustainable development of the liquefied natural gas (LNG) market.

At the conference, keynote speeches were delivered by ministerial representatives including Economy, Trade and Industry Minister Toshimitsu Motegi from Japan as the host of the meeting, Energy and Industry Minister Mohammed Bin Saleh Al-Sada from Qatar as the world's largest LNG exporter, and Petroleum & Natural Gas Minister Veerappa Moily from India. Chief executive officers from companies representing positions of LNG producing and consuming countries participated in discussions at four sessions. At a lunch session, International Energy Agency Executive Director Maria van der Hoeven made a special presentation. LNG experts attended a special session for discussion on challenges for LNG market. The number of participants in the second conference increased substantially from about 600 at the first one to about 1,000, making the conference one of the biggest international meetings hosted by Japan on energy issues.

Last year's LNG Producer-Consumer Conference attracted global attention as the first ever such meeting. Key points for the second that came one year after the first one included how discussions would be deepened, what market developments would help deepen discussions and how policymakers and market participants would address these developments.

In this sense, it is important to review major changes or developments in LNG market over the past year. The first development was the U.S. government's approval on a project for LNG exports to Japan that has no free trade agreement with the United States and which must obtain such approval to import LNG from the U.S. At last year's meeting, which came before the approval, participants discussed various impacts of the planned U.S. LNG exports to Japan on the future Asian LNG market. But the U.S. Energy Department's approval on the Freeport LNG project May this year allowed the project to make a step forward to a market reality. Just after the second meeting, the Cove Point LNG project was also approved for export to Japan. In this way, the second conference came as LNG market participants grew more confident that U.S. LNG exports to Japan or Asia would actually expand.

Second, attention-attracting developments came in Russia on the supply side. The Vladivostok LNG project had traditionally been expected to represent Russia's expansion into the Asian LNG market. Earlier this year, however, new players including Rosneft and Novatek indicated aggressive moves for LNG exports. Russia's negotiations with China on pipeline gas supply to China have also made progress that could be seen as a step forward to a final contract. Given the abovementioned moves for U.S. LNG exports, new Russian gas export projects are expected to face various challenges and uncertainties. But we must pay attention to these developments involving the new important gas supply potential close to the Asian market.

Third, interesting developments have been seen on the demand side over the past year. In Europe where overall energy demand has slackened due to a recession, particularly, demand for natural gas including LNG has declined substantially as inflow of surplus coal from the United States under the shale revolution has been coupled with policy support for renewable energy. This phenomenon was going on when last year's LNG Producer-Consumer Conference took place. But market participants have only recently begun to actually recognize the impacts of the phenomenon. This year's conference came as the phenomenon indicated that demand for even natural gas or LNG preferred as a clean energy source can be affected by competition from other energy sources. In Japan that has driven the recent global LNG demand growth, moves to restart nuclear plants have grown with interests rising in coal as a competitive energy source under the current energy supply and demand situation. In this sense, the demand side is urgently required to procure LNG at more competitive prices.

Under the new situation, the second conference came amid the recognition that "the door is open to competitive gas" as indicated by the subtitle of the conference. The subtitle represents the present situation where the door is open, though with competitive gas supply yet to be realized. There may be various views about competitive gas supply, depending on personal differences between positions.

In major Asian LNG consuming and importing countries including Japan as the host of the latest conference, calls have grown for LNG procurement at competitive prices and stakeholders have begun to explore specific measures to that end. Toward the latest conference, Japan proposed to utilize achievements through its joint research with the European Commission and India. In addition, the Institute of Energy Economics, Japan, offered at the conference to launch an international study panel on LNG market to expand the scope of cooperation. The progress in these efforts was one of the achievements at the conference. While cooperation between LNG consuming countries has grown even more important, geopolitical environments for Japan, China and South Korea as key players in the Asian LNG market have grown more difficult along with Japan-China and Japan-South Korea bilateral relations. We must pay attention to the fact that various challenges exist for promoting cooperation between LNG consuming countries.

Meanwhile, the supply side (including LNG producing/exporting countries and their relevant enterprises) is also required to take measures for achieving competitive gas supply in the future. In fact, however, conference participants pointed out that: huge investment is required in

capital-intensive LNG projects; LNG projects should be based on the recent trend of rising costs; and that uncertainties about long-term LNG demand outlooks emerge from various factors and could become challenges for forming LNG supply projects. The conference's function as a platform for frank discussions on challenges for LNG suppliers and consumers, even without their full agreement, would undoubtedly be important for the LNG market's future development. I would like to see the LNG Producer-Consumer Conference develop as a forum for stakeholders to gather their wisdom for the LNG market's great development in the true sense.

Contact: report@tky.ieej.or.jp

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