

LNG Producer-Consumer Conference 2016

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On November 24, the LNG Producer-Consumer Conference 2016 took place at the Shintakanawa Grand Prince Hotel in Tokyo. The annual conference has been sponsored by the Japanese Ministry of Economy, Trade and Industry and the Asia Pacific Energy Research Center since 2012. A total of some 1,000 people participated in the fifth one on a registration basis. Among the participants were 12 energy minister-level representatives from liquefied natural gas producing and consuming countries, including Japanese Economy, Trade and Industry Minister Hiroshige Seko and Qatari Energy Minister Mohammad bin Saleh al-Sada who delivered opening remarks respectively. In addition, LNG industry leaders and globally famed LNG experts attended the conference as speakers or moderators. Vigorous discussions came at the conference divided into six sessions. The following summarizes the conference's key points impressive to me:

First, participants in the conference clearly shared the view that LNG market is over-supplied now and will remain so for the immediate future. In the first to third LNG Producer-Consumer Conferences, LNG consumers had predicted a loosening supply-demand balance for LNG while LNG producers had denied or doubted the presence or possibility of oversupply. In this sense, LNG consumers and producers had differed widely over market conditions. Since last year's conference, however, the situation has turned around. At the latest conference, participants commonly recognized that LNG market is over-supplied now and will remain so until around 2020. Particularly, representatives from both LNG producing countries and supplier companies frankly discussed excessive LNG supply, leading me to feel changes of the times or the market.

Their speeches indicated that LNG supply could remain excessive or become even more excessive as LNG supply capacity is planned to increase by more than 100 million tons with production being launched under U.S., Australian and other LNG projects. They also suggested that the oversupply could remain for several years beyond 2020 depending on a pace of demand growth. The latest conference focused on how to address problems emerging from or related to oversupply at present and for the immediate future as recognized commonly.

Future problems that the present oversupply and weak prices would cause would include supply shortages and a tight supply-demand balance in the future. While projects that are being implemented with investment decisions made in the past to soon join the existing capacity are bringing about oversupply for the immediate future, the present oversupply and weak LNG prices are preventing investment decisions from being made for new LNG projects. The present investment shortages will prevent supply capacity from being expanded, leading to LNG supply shortages with

capacity failing to meet demand growth in the future. The deeper the trough is, the higher the next mountain. At present, LNG producers are in difficult conditions as oversupply has resulted in a buyer's market. If the buyer's market is reversed, however, LNG consumers may be put into difficult conditions. If the current difficulties for LNG producers are more serious, the future difficulties for LNG consumers may be more serious. Excessive market fluctuations are not favorable for anyone. The energy market always fluctuates cyclically. At the latest conference, LNG producers and consumers got conscious of and discussed future problems to be caused by the present oversupply.

Second, what is required to develop the Asian LNG market was an issue common to LNG producers and consumers at the conference. Factors behind the present oversupply include not only the substantial LNG supply capacity expansion as described above but also slower-than-expected LNG demand growth. Natural gas is known as clean, emitting the least carbon dioxide among fossil fuels. Natural gas supply is stable, with abundant resources and supply potential. Given these advantages, natural gas and LNG are expected to play a greater role in the energy mix in the world and Asia. A long-term outlook by the International Energy Agency indicates that LNG's share of international gas trade will expand from 26% in 2000 to a majority of 53% in 2040.

At the same time, however, LNG faces severe competition from coal in Asia and from renewable energy in Europe, making future demand expansion uncertain. Given the effectuation of the Paris Agreement, how carbon emission reduction initiatives in the world under the pact would affect gas and LNG demand in the future is also uncertain. In such situation, participants in the conference pointed out that how to enhance LNG's overall competitiveness is the key to sound development of the LNG market.

LNG's price competitiveness against competing energy sources is the first issue in this regard. The price competitiveness is surely important. However, LNG's overall attractiveness including flexibility and convenience responding to changing market conditions is also important. While LNG consumers or users at the conference pointed to the importance of improving LNG supply flexibility and market liquidity, producers provided views giving priority to responding to market changes and consumer needs. If initiatives both by LNG producers and consumers contribute to improving the attractiveness of LNG and developing the LNG market, the purpose of the LNG Producer-Consumer Conference will be achieved.

When the LNG market changes in the direction of increasing its flexibility and liquidity, one of the biggest problems may be whether financing is available for large-scale investment required for any LNG project. Interestingly, a live electronic poll at the conference found that about 50% of respondents were confident of finding some solutions to financing problems even if the LNG market becomes more flexible. The remainder made traditional responses saying that long-term contracts would be indispensable for financing. The poll thus indicated that new solutions to the financing problem involving LNG project investment could be explored during the course of future LNG market changes.

The LNG Producer-Consumer Conference aims to achieve the sound development of the LNG market through dialogue. All LNG market stakeholders must gather their wisdom and enhance market initiatives to let LNG play a greater role in the energy mix, benefit both LNG producers and consumers and contribute to the so-called Three E's -- energy security, environmental protection and economic efficiency.

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