

Special Bulletin

A Japanese Perspective on the International Energy Landscape (399)

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At the LNG Producer-Consumer Conference 2018

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On October 22, the LNG Producer-Consumer Conference 2018 took place at the Hotel Nagoya Castle. While the Japanese Ministry of Economy, Trade and Industry and the Asia Pacific Energy Research Center sponsored the conference, the private sector cooperated with the public sector in managing the latest conference for the first time. It was the first time that Nagoya was adopted instead of Tokyo as the venue for the conference.

Numerous minister-level representatives attended the opening address and ministerial keynote speech sessions of the conference, including Japanese Economy, Trade and Industry Minister Hiroshige Seko, Qatari Energy and Industry Minister Mohammed Bin Saleh Al-Sada and those from countries such as Australia, Brunei, South Korea, Mozambique, Thailand and the United States, as well as international organizations such as the International Energy Agency, the Economic Research Institute for ASEAN and East Asia, and the Gas Exporting Countries Forum. In Sessions 1 to 5, LNG industry top executives, high-ranking government officials and world-renowned experts participated as presenters or panelists for active discussions. The number of participants in the conference reached some 1,000 symbolizing that the conference has been established as a top-class international meeting on LNG problems.

As indicated by the conference's subtitle "Collaboration between Producers and Consumers in "the 2nd Gas Revolution" ~Efforts by Producers and Consumers towards ensuring the security of LNG supply in the new environment ~," participants considered how to deepen collaboration between LNG producers and consumers in developing the LNG market amid growing hopes on LNG and a new market environment.

When the first LNG producer-consumer conference took place in 2012, LNG producers and consumers differed widely over future LNG market conditions and relevant approaches. The differences have narrowed through actual market supply and demand changes, various developments and dialogues at forums such as the producer-consumer conference. As represented by the subtitle, the latest conference apparently emphasized how LNG producers and consumers should collaborate, instead of clashing, with each other to realize growing hopes that LNG would play a key role in the global energy mix in the "2nd Gas Revolution".

At a time when hopes on LNG are growing, new market developments that many stakeholders are closely watching have some key points. Here, I would like to point out faster-than-expected growth in global LNG demand first. The latest LNG producer-consumer conference highlighted an argument that dramatic growth in Chinese LNG demand in 2017 played a key role in bringing about a turning point in the LNG market. Energy stakeholders share the view

that the gravity center of the global energy market is shifting to Asia. Regarding LNG, particularly, China's demand trend since last year impactfully demonstrated the significance of China and Asia. As air pollution countermeasures and greenhouse gas emission reduction are promoted with some economic growth sustained, LNG demand is growingly expected to robustly increase mainly in China, India and Southeast Asia. At the conference, participants expressed expectations on LNG demand expanding mainly in Asia. At the same time, it was significant that they discussed how they should address issues related to price affordability and other challenges for realizing the expected LNG demand expansion mainly in emerging markets and how necessary infrastructure and human resources should be fostered for developing LNG market.

Many participants in the conference pointed out that new LNG supply moves are emerging at a time when robust LNG demand growth is expected. After final investment decisions for new large-scale LNG projects slumped amid weakening LNG prices after 2015, moves to expand LNG supply with new investment are steadily emerging in the United States, Mozambique and Canada. While LNG projects with earlier final investment decisions enter production stages one after another mainly in the United States and Australia to expand LNG supply toward the 2020s, the new investment moves mean the expansion of supply to meet growing demand and are expected to support the LNG market's smooth development. Production expansion is not limited to the United States and Australia. Qatar, which has an advantage in cost competitiveness, has also come up with plans to increase its LNG production capacity up to 110 million tons. In Russia as well, NOVATEK has taken leadership in expanding LNG projects.

While the expansion of the market size itself is of great importance, we must pay attention to structural market changes from the viewpoint of LNG market development. At a session I moderated, panelists from companies representing LNG producers and consumers made interesting arguments about how to increase LNG market flexibility and enhance market functions. While various views and arguments were presented, many participants impressively gave a positive view that the expansion or enhancement of market flexibility and functions has made progress since last year's LNG producer-consumer conference and is likely to make further progress. In fact, there have been moves such as spot transaction expansion, moves to relax restrictions on destinations in LNG transactions, growth in transactions using various LNG price indicators and standardization initiatives to vitalize LNG transactions. Given LNG's characteristics as a commodity, market flexibility for LNG is relatively lower than that for other energy commodities including crude oil. However, the LNG market is continuing to change on supply-side initiatives to respond to consumer needs and conditions. Among factors to support such market changes, we must pay attention to the significance of U.S. LNG expansion and the performance of so-called portfolio players.

The expansion of both supply and demand amid market changes meets the objective of the LNG producer-supplier conference. This forum aims to find demand expansion conditions that match supply expansion conditions and explore how to fill any gap between supply and demand expansion conditions. Given that each market player actually attempts to maximize profit and survive, however, the objective of the conference is not so easy to achieve. At the LNG producer-consumer conference, however, stakeholders may have to have exhaustive discussions and provide wisdom for developing the overall LNG market.