

Participating in GIIGNL General Assembly Meeting in Paris

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On November 14-15, the International Group of Liquefied Natural Gas Importers, known as GIIGNL, held its general assembly meeting in Paris. Attending the first face-to-face GIIGNL general meeting in three years, following online meetings under the COVID-19 crisis in the previous two years, were top executives of Japanese and other LNG importers. I only had the opportunity to participate in a panel discussion titled “LNG: Remedy to the energy and climate crisis?” on the first day of the meeting. At the conference that came in Europe at a time when European gas price spikes and market destabilization were attracting global attention, I heard various interesting arguments about the future of LNG. In the following, I would like to comment on two impressive points regarding the GIIGNL meeting.

First, I reaffirmed the existence of various destabilizing factors regarding short-term LNG market challenges. As Russian gas supply to Europe through Nordstream pipelines declined substantially, a key European gas price benchmark soared in August to close to \$100 per million British thermal units, or nearly \$600 per barrel of oil equivalent, amid concern about a potential gas crisis toward the coming winter. In line with European gas price spikes, Asian spot LNG prices shot up, leading the destabilization of the gas/LNG market to loom as the biggest challenge in the international energy situation.

Until early November, however, temperatures in Europe remained relatively higher, leading high prices to suppress gas consumption. As a result, European gas inventories have come close to the storage capacity limit, prompting gas prices to fall back to around \$30/MMBtu. Even this level translates into nearly \$200/bbl of oil equivalent, indicating a high price. However, the fallback has led market players to expect that critical gas shortages may be avoided in the coming winter.

However, talks at the GIIGNL meeting indicated that we should not be optimistic but keep close watch on future market developments. Gas prices may shoot up again in the coming winter depending on low temperatures or additional gas/LNG supply disruptions. Even if a crisis is avoided in the coming winter, the supply-demand balance in the European gas market in 2023 could be tighter than in 2022. As Europe dips into gas inventories now close to the capacity limit in order to tide over the coming winter, inventory levels early next spring may be far less. The 2023 European gas market may have to start with low inventory levels. Given the current gas/LNG market, it may not be easy for Europe to pile up gas inventories toward late 2023. The supply-demand balance in the European gas market and in the international LNG market could tighten from 2023 to 2024.

In such situation, future Chinese LNG imports were cited as an uncertain factor at the GIIGNL meeting. In 2022, LNG imports in China slowed down due to economic deceleration,

allowing some LNG to flow into the European market. The Chinese gas demand slowdown came as a help to the European market. If China's LNG demand expands again as seen until 2021, the global supply-demand balance may tighten dramatically. The current economic stagnation in China is attributable to the zero-corona policy that is unlikely to change easily. However, the Chinese economy has the potential to grow again next year. We will have to closely watch the Chinese economic trend and its impact on the LNG market.

Furthermore, the GIIGNL meeting left me impressed with a strong feeling that Europe is greatly ambitious and willing to procure LNG from the global LNG market if necessary for its energy security. My impression was that Europe has positioned itself as a premium LNG buyer that purchases LNG even at high prices, being determined to race with other regions in the world to obtain LNG supply. As the global gas supply pie shrinks due to a Russian pipeline gas supply decrease, a zero-sum game race to obtain LNG may intensify in the global LNG market in and after 2023. Depending on LNG demand in China and in the whole of Asia, the global LNG supply-demand balance may tighten dramatically. Such tightening supply-demand balance and subsequent price hikes may deal a severe blow to developing and emerging countries that cannot afford to pay high prices for LNG. Sky-high prices resulting from an intensified race to obtain LNG may impede developing countries' access to gas/LNG and exert serious economic impacts on them. Given this point, developing countries can be viewed as among those that have been hardest hit by the international energy market destabilization triggered by the Ukraine crisis.

Second, various arguments were made at the GIIGNL meeting on the medium to long-term future of LNG, indicating hopes and challenges for LNG's roles. Most importantly, it was noted that efforts to phase out dependence on Russia and enhance energy security amid the escalation of the Ukraine crisis could accelerate decarbonization initiatives, pushing down gas and LNG demand over a long term. In the panel discussion in which I participated, the International Energy Agency's World Energy Outlook 2022 was introduced, indicating that the IEA has sharply lowered its global gas/LNG demand projection from the levels in its previous projections. I think that the latest IEA gas/LNG demand projection strongly reflects the current perception in Europe.

In response to the IEA outlook, I referred to the IEEJ Outlook 2023 of the Institute of Energy Economics, Japan, and built on market realities to forecast that global LNG demand would remain robust over a long term and increase by 13% from 2020 to 2050 in a scenario where cutting-edge technologies would be introduced to the maximum extent to tackle climate change and enhance energy security. Regarding Asian emerging countries, particularly, I argued that gas/LNG would remain a key energy source and that a two-stage approach using gas would be effective for promoting decarbonization. In fact, however, the current high gas/LNG prices are destined to impede sound market development. It is indispensable to secure investment in supply expansion to change the current supply and demand environment. A prospect that LNG investment will not lead to stranded assets is required for expanding investment. In this respect, long-term LNG procurement contracts may play a key role in recovering investment. This point was made frequently at the GIIGNL meeting. Regarding the important long-term LNG procurement contracts, there are the impacts of electricity and gas market liberalization, the future course of renewable energy and nuclear, and other various factors that make it difficult to make decisions. At the meeting, I felt that energy policy planners and LNG-related industries would have to frontally tackle the investment issue and share wisdom to solve problems.