

Gas Market Developments

- Efforts Toward Market Stabilisation -

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Toward LNG Market Stabilisation: Supply, Demand, and Price Issues

1. During the past 50 years since the oil crisis, natural gas, including LNG, has grown to become the cleanest of fossil fuels and one of the most important sources of energy. Its impact on energy security increased, and the importance of securing a stable supply of LNG has increased significantly.
2. Regarding supply, it is important to increase stable supply from non-Russian supply sources. In the short term, it is necessary to continue dealing with the reduction of the Russian pipeline gas supply, ensuring stable production in the existing LNG-producing countries, and smoothly launching new LNG production projects in the next couple of years.
3. Fluctuations in demand outlooks depending on the impact of the long-term decarbonization agenda, a shift of demand centres to developing economies, and requirements of flexible supply arrangements, are increasingly important factors. In the short term, uncertainty in demand due to the effects of nuclear power and renewable energy, fluctuations of gas demand reductions and decreases in Europe, and recovery in gas demand in growth markets such as China, will determine the balance of the market.
4. It is always necessary to diversify and optimize contract pricing and set prices in a balanced manner that supports both stable market growth and investment activities. The increasing volatility continues to pose challenges.

Volatility in LNG Market Prices

5. Spot LNG gas prices were on a downward trend in the first half of 2023. In the Asian LNG market, the advantage of oil-linked long-term contract LNG prices has shrunk. The situation may change quickly.
6. Spot LNG and spot gas prices in Europe soared from the second half of 2021 after a slump in 2020, amplifying fluctuations. From August 2021 to April 2023, those spot prices were more expensive than crude oil.
7. In the first half of 2023, an easing market balance (declining prices) is observed. However, a further reduction of Russian pipeline gas, a recovery in LNG intake by China, and unexpected LNG production problems could lead to a reversal of the supply-demand balance.

Factors Amplifying Market Instability

8. Russian pipeline gas supply to the European Union declined from just over 8 million tonnes of LNG equivalent in December 2021 to less than 2 million tonnes by December 2022. On the other hand, Russian LNG supply to the EU increased slightly in 2022. However, there are also uncertain factors in the trend of Russian LNG supply from 2023.
9. In 2022, the shutdown of an LNG facility in the United States and the prospect of its restart is another major factor in the market uncertainty. An outage of a large-scale LNG production facility could change the market balance significantly. The stable and timely start of new projects is also a major factor.
10. In 2022 - 2023, three regulatory changes affecting the LNG business were announced in Australia: ADGSM (Australian Domestic Gas Security Mechanism); Safeguard Mechanism regulating GHG emissions; and PRRT

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(Petroleum Resources Rent Tax). How long-term LNG export contracts are protected, how stricter reduction limits are enforced, and how LNG business economics are affected should be closely monitored, respectively.

Policy and Securing Investment Challenges Toward Stable LNG Market

11. While G7 recognized the importance of natural gas and LNG, it is important to establish standards for transition-compliant LNG. The importance of strengthening methane and GHG emission measurement and international standardization, and the importance of international cooperation in emission reduction efforts were emphasized at the G7 Ministerial Meeting and the LNG Producer Consumer Conference. The concrete measures to enhance the IEA's role in gas and LNG security are also critical.
12. LNG investment activities are expected to increase in the international LNG market, mainly in the United States, supported by an increase in long-term contract commitments. On the other hand, among the past investment decisions, the realization of projects in Russia has become uncertain, and there have been delays in projects in other regions, making it difficult to predict the prospects for securing supply capacity.
13. It is necessary to develop various financial instruments to meet the financing needs of LNG projects, emphasizing the economic and environmental advantages of LNG as investment and financing destinations.
14. In light of buyers' demands for flexibility and shorter contract periods, including in developing markets with relatively low credit ratings, it will be effective to build cooperation between buyers from different economies.

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