

**Challenges in Japan's LNG procurement toward achievement of its 7th
Strategic Energy Plan
—The need for both private sector initiative and stronger government
engagement—**

<Report Summary>

Takafumi Yanagisawa

Executive Analyst, Manager, Gas Group, Energy Security Unit
The Institute of Energy Economics, Japan

Points related to LNG procurement are indicated in the 7th Strategic Energy Plan

1. Under the “risk case” scenario in which decarbonization technologies are insufficiently advanced and costs are not adequately contained, Japan's demand for LNG is expected to increase by 8 million tons over the FY2023 actual level to 74 million tons by FY2040. Demand is forecast to fall slightly from current levels under the other scenarios, but in any case, it is necessary to secure long-term LNG contracts from the perspective of ensuring a stable supply.
2. Securing long-term LNG contracts is becoming harder due to increasing uncertainty in fuel demand forecasts, a result of electricity market deregulation, growing adoption of volatile renewable energy, and lowering rates of LNG thermal utilization.
3. Japan must consider how to secure a steady fuel supply across normal times as well as emergencies, in preparation for LNG price spikes amid tight supply or strong demand and sudden shifts in the international situation.
4. Without compromising private sector initiative, coordination between the business and the public sector is necessary in areas of highly uncertain demand.
5. Strive to produce Japanese companies with global level competitiveness by relaxing destination clauses, a flexible approach to using tank facilities in Asia and elsewhere, joint procurement, and strengthening trading functions.
6. Promoting cooperation with IEA in the field of decarbonization of the whole LNG value chain, advancing the CLEAN partnership, and decarbonization policy based on the “various pathways”, taking into consideration the different situations of each country, which is seen in the statements by G7 and AZEC.

Future outlook for Japan's LNG procurement

7. Japan is close to facing a series of expiration of existing LNG long-term contracts. In order to secure the long-term volume of LNG required in FY2040, it will need not only to “maintain and strengthen the relations with existing suppliers”, but also to “find new suppliers”.
8. Japan's continuing efforts to diversify and make flexible its LNG procurement would be required in order to cope with the “uncertainty” of energy supply/demand stemming from decarbonization and the development of AI and data centers, in addition to geopolitical and policy change risks. A “sustainability” perspective based on decarbonization targets would also continue to be vital.
9. In order to secure long-term LNG procurement, enhanced government support would be required to manage “uncertainty,” which firms have been struggling with, without compromising the principle of “private sector initiative” for procurement.
10. One of the vital issues for Japan to enhance its LNG procurement is boosting the function of Japanese companies as “portfolio players.” In fact, some of them have already been trying to diversify and make flexible its supply sources, like through the participation in the new projects not only in the United States but also in Canada, the UAE, Mozambique, and so on, as well as agreeing on the new long-term procurement. Meanwhile, companies are required to minimize the risk from market fluctuations, so it will be necessary for the government to provide not only support for traditional country risks, but also to prepare a kind of compensation mechanism for the uncertainty of the LNG market, including the possible loss by resale. In addition, stronger inter-company collaboration will also be needed.

Indirect support by the Japanese government for securing a stable LNG supply

11. Taking into consideration the difference with the other region, including Europe, where underground gas storage is possible, the Japanese government proposes three different types of reserves depending on geological conditions, such as policy measures and flexible contracts, in addition to underground gas storage.
12. Meanwhile, with increasing expectations toward the role of LNG, it would be required to examine the risk of reserve shortages in times of crisis and to raise the reserve level (for around 2 weeks, as the current level). While from the point of viability, the basic approach by the Japanese companies has been to secure stable LNG procurement while keeping reserve level to a minimum, on the procurement side, they have been promoting diversification, increasing flexibility, and boosting procurement for winter, a season more prone to supply and demand tension. In this context, it is important to explore stronger public-private partnerships in terms of raising reserve levels and

storage tank capacity, for example.

13. “The highlight on the importance of LNG for the future” by the government is also expected to provide a “tailwind” to the signing of long-term LNG contracts by companies. In fact, positive statements have already been made at AZEC, G7, and the LNG Producer-Consumer Conference.
14. Furthermore, Coalition for LNG Emission Abatement toward Net-zero (CLEAN), as an initiative for methane emission reduction in the LNG value chain promoted by Japan, is not intended to introduce stronger regulation, but rather to promote “the spontaneous movement toward methane management and reduction by companies”. While the Japanese government is also providing stronger support, such as by actively collaborating with international organizations to establish a certification system, and the utilization of data from observation satellites.

Future challenges

15. In the 7th Strategic Energy Plan, the details of effective policies remain unclear and are left to future discussion between the public and private sectors. Amid a changing international situation for energy security, there is an urgent need for productive consideration on stronger LNG procurement both in ordinary times and in crisis through public-private partnership.

Contact: report@tky.ieej.or.jp