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Significance of the First-ever LNG Producer Consumer Conference

Ken Koyama, PhD
Chief Economist, Managing Director
The Institute of Energy Economics, Japan

On September 19, liquefied natural gas producing and consuming countries held a meeting in Tokyo. Japan, the world's largest LNG consumer, took the initiative in hosting the first ever meeting between LNG producers and consumers, "LNG Producer Consumer Conference". More than 600 people participated in the gathering, including energy ministers as speakers from major LNG producing/exporting and consuming/importing countries and top executives as panelists from international oil/gas majors, state-run companies in gas producing countries and Japanese LNG-related companies.

Energy ministers from Japan, Qatar, Australia, South Korea and Canada and others gave six keynote speeches at the meeting, followed by presentations and question-and-answer discussions among 26 panelists in four sessions. Session 1 dealt with LNG supply/demand outlooks, Session 2 with Asian and other LNG market trends, Session 3 with new gas supply chain frontiers, and Session 4 with LNG financing and technology. The conference thus covered a wide range of key topics. I had the opportunity to make a presentation as one of the Session 2 panelists. I here would like to discuss key points that impressed me through the LNG Producer Consumer Conference.

First, I strongly felt that the speakers and panelists, despite the differences in standpoints between LNG producers and consumers, are commonly expecting and predicting LNG to expand its role in the world's energy portfolio. While specific long-term demand forecasts are various, they share a feeling that LNG demand in the world, particularly in Asia, will likely increase over a long term of 10 to more than 20 years. Forecasted paces and degrees of future LNG market expansion differ, depending on economic growth projections and how the challenges for and constraints on the market expansion are assessed. But great expectations are placed on LNG as a highly realistic energy option backed by its cleanness, abundant resources and great supply potential.

Second, meeting participants, while placing great expectations on LNG, emphasized some important challenges that must be overcome for the further expansion and sound development of the LNG market. One of the major challenges cited at the meeting is whether LNG can strengthen its price competitiveness. This topic was discussed mainly at Session 2. Particularly, discussions focused on LNG's price competitiveness in the Asian market where LNG demand is expected to grow conspicuously. Given that Asian LNG prices have been higher than European and American prices, LNG's price competitiveness has become a great matter of concern particularly to Japan that has increased its dependence on LNG since the March 2011 Fukushima nuclear plant accident. Asian LNG consuming countries are conscious of the facts that lower LNG prices would contribute more to LNG demand expansion and market development and that maintenance of the present high prices would impede future LNG demand growth. One meeting participant noted that more competitive LNG prices would lead to a further LNG market expansion that would increase sales channels for LNG suppliers and be significant for them. Also subject to discussions at the meeting was the problem of pricing mechanisms as a structural factor behind the wide LNG price gaps between Asia and the Europe/America market. Discussions touched on the rationality and adequateness of the present basic Asian LNG pricing method linked to crude oil prices and how new LNG pricing methods should be designed to reflect gas supply/demand conditions.

But the problem is complicated. On the reverse side of Asian LNG consuming countries' awareness of the pricing problem is LNG suppliers' concern about demand and investment security. Overall costs for LNG projects covering upstream development operations and the construction of natural gas liquefaction plants and LNG carriers have recently been increasing, despite such cost-cutting factors as technological advancement and larger economy of scale in LNG project, according to some participants in the meeting. From the viewpoint of securing investment cost recovery and appropriate profit and rate of return, the rising costs are expected by some to affect future LNG project launches, depending on business environment changes in the future.

Toward resolving the challenges, Sessions 3 and 4 discussed new gas supply chain frontiers, the importance of financing for LNG projects and the roles of new technologies for floating LNG equipment, LNG carriers and LNG plants. Another topic of discussion was the significance of LNG buyers' participation in the upstream stage of the LNG value chain to take some development risks.

Discussions at the meeting did not necessarily lead to any concrete solutions to the challenges being specified or agreed on. Since these challenges are complicated problems in the real business world and have major bearings on business interests, solutions to them may not be easy to find immediately.

The major purposes of a meeting between energy producing and consuming countries with different standpoints and interests are to produce clear mutual understanding on their different standpoints through frank discussions on significant problems for both sides and to build on such understanding to promote serious talks toward solutions benefitting both sides. In this sense, the first meeting of LNG producers and consumers achieved the first milestone for the future development of such talks.

Efforts have continued for talks between oil producing and consuming countries to overcome the conflict of interest, as seen in the 1970s, between the Organization of Petroleum Exporting Countries as a major club of oil producers and the International Energy Agency as a major organization of oil consumers. Such efforts were further enahnced with the first International Energy Forum in 1991. Since then, experiences and achievements at such talks have been accumulated in the oil market over a long time. The history of these talks exceeding two decades has not necessarily been smooth. Over recent years, however, oil producers and consumers have regularly exchanged views on short to long-term oil market outlooks and considered differences between their outlooks at the technical level. They have thus continued talks to promote mutual understanding and to help stabilize the oil market.

The newly-started talks between LNG producing and consuming countries are significant as great expectations are placed on the development of the LNG market. The greater the importance of LNG issue is, more serious the conflict of interest between relevant parties can be. But LNG producing and consuming countries are required to continue serious talks with a view to both sides benefitting eventually from the further expansion and sound development of the LNG market.

Contact: report@tky.ieej.or.jp
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