

## **2nd Meeting of Multilateral Joint Study Group on LNG**

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On September 9, the Second meeting of Multilateral Joint Study Group on LNG took place at the Institute of Energy Economics, Japan. The establishment of the Group was announced at the second LNG Producer-Consumer Conference held in September last year. The latest Study Group meeting followed the first one at our institute in February this year.

The global LNG market continued expanding. Particularly, the Asian market for this clean energy source is expected to continue to expand substantially. But Asian LNG prices are higher than European and American prices, representing the problem of the “Asian premium”. Industrial, government and academic sectors as well as media and consumers have growingly been interested in challenges for the LNG market to be developed further and play greater roles in the world including Asia. Under the circumstances, the study meeting attended by the representatives from relevant countries' research institutes discussed challenges for the further sound development of LNG market, with an aim to submit a report to the third LNG Producer-Consumer Conference scheduled for November 6 this year.

Participating in the study meeting were experts from the International Energy Agency and research institutes in eight countries -- Australia, India, Singapore, Taiwan, Thailand, the United Kingdom, the United States and Japan. Including observers from other major countries, nearly 30 participants had frank and active discussions. In this report, I will not explain the results or achievements of the meeting, as they are planned to be reported to the third LNG Producer-Consumer Conference. Instead, I would like to give my personal comments and impressive points on the study meeting as one of the participants.

First, I would like to point to the presence of various uncertainties about the future LNG market. I personally expect that the supply-demand balance in the Asian LNG market will ease as expanding U.S. LNG exports and new Australian LNG projects indicate sufficient supply to fully satisfy growing Asian demand until around 2020. Even after 2020, I foresee (excessively) sufficient supply potential in view of new LNG projects in Canada, Russia and eastern Africa. But many participants in the study meeting pointed out that there might be very great uncertainties regarding

both supply and demand.

This means that there are factors that could accelerate and decelerate growth in supply and demand. Among factors cited as contributing to accelerate demand growth in the meeting were an accelerated switch from coal to natural gas under tougher measures against air pollution and a natural gas demand expansion due to unexpectedly sluggish nuclear power generation. Those viewed as holding down demand growth included economic growth deceleration in major countries, smooth progress in Japan's restart of nuclear power plants and LNG prices remaining at high levels.

On the supply side, there are great potential LNG project candidates in addition to massive LNG development projects that are expected to be implemented as noted above. But some participants in the study meeting noted that there might be various factors for revising supply growth downward, including output drops for existing (mature) LNG projects, unexpected interruptions to LNG supply as seen recently, higher project costs, and the potential postponement or cancellation of planned projects amid uncertainties about demand.

Another matter of concern to the participants was the presence of geopolitical risks that could influence the world natural gas/LNG market, including the Ukraine situation and its impact on Russian and Eurasian gas markets, and the destabilizing Middle East situation.

Anyway, the key point is that we should seriously consider how to further develop the LNG market amid the uncertainties and what governments and relevant companies in LNG supplying and consuming countries should do to allow LNG to play its expected great roles.

In 2013, international natural gas trade totaled 1,035.9 billion cubic meters (BCM) of which LNG accounted for only some 30% or 325.3 BCM.. LNG trade, though having continued expanding, is still small in the entire international natural gas market or the entire international energy market. But from a different angle, it can be expected to expand further. At the same time, LNG accounts for large shares of gas supply in Japan, South Korea and Taiwan. LNG is now significant for Asia as China and India have grown into large LNG importers with Thailand and Singapore having become LNG consumers over recent years. The LNG market's sound development is an Asian problem and a key Asian challenge.

Another impressive point to me regarding the study conference is that the sound development of the LNG market and its functions is expected to contribute to the Three E's -- energy security, environment protection and economic efficiency -- in Asia. All stakeholders in relevant countries may have to bring together their wisdom to consider how to remove impediments to and constraints on the sound development of the LNG market and its functions, not necessarily being captured by the existing concepts.

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