

Gas Asia Summit

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On October 29-30, the third Gas Asia Summit took place in Singapore. It served as a regional event of the higher-positioned Gastech conference and as one of the international conferences for the Singapore International Energy Week under the leadership of the Singapore government.

The Asia Gas Summit dealt with various problems for the growing Asian natural gas/LNG market. A large number of natural gas/LNG market participants from not only Asia but also the rest of the world held active discussions in eight sessions after three keynote speeches. Session topics were (1) energy mix and natural gas's roles, (2) Asian natural gas/LNG trade, (3) potential growth in Asian natural gas demand, (4) North American, Russian, African and other new gas supply sources, (5) projected natural gas import growth in China and India, (6) power generation market and natural gas/LNG, (7) LNG market and innovation, and (8) Asian LNG hubs. At each session, panelists' presentations were followed by questions and answers.

In discussions on the above wide range of topics from various angles, there was a consensus that Asian natural gas demand will continue robust growth. But participants put forward various views, including conflicting opinions, providing me with an opportunity to reaffirm that many uncertainties exist about the future course of the Asian natural gas/LNG market. Opinions conflicted with each other particularly over Asian LNG supply and demand forecasts. A dominant view for gas consuming and importing countries was that the gas supply-demand balance will ease toward 2020 as supply grows due to expanding U.S. LNG exports, Australian LNG project launches and new supply sources in Russia, Canada and Eastern Africa. A view reiterated for the supply side was that the gas supply-demand balance will remain tight instead of easing due to possible faster gas demand growth, potential gas supply project troubles, delayed project launches, supply cost growth, and growing difficulties in launching new supply projects in the absence of buyers' commitment. In a sense, gas producing and consuming countries remained apart over gas supply and demand.

Asia Gas Summit participants also presented various views about the future picture of the Asian LNG pricing mechanism and possible Asian gas/LNG trading hubs, indicating no specific direction for their convergence. At a time when crude oil prices were plunging, participants were

divided over what the most desirable pricing mechanism would be based on the viewpoints of price levels and reasonability of pricing. Since the conference took place in Singapore, many participants indicated their great expectations on Singapore as a potential LNG trading hub. But some other participants also pointed to various problems regarding insufficient trading liquidity, market transparency and market liberalization. There may still be many challenges regarding the future Asian LNG market.

Through discussions at the conference, I gained some new viewpoints. In the following, I would like to describe the three most impressive points on different problems.

First, the Asian coal market's structural changes over the past two decades may be significant for anticipating the future Asian LNG market. The development of the Asian LNG market had already been compared with that of the oil market and the European and U.S. gas market in the past. At the Singapore conference, however, one participant presented a view that the coal market had featured a dominant bilateral and rather inflexible pricing system for long-term contracts in the 1990s and has turned around due to an increase in spot transactions and the growing importance of spot prices for pricing determinations for long-term contracts amid supply/demand and market structure changes. Impressively, the participant indicated that how players should respond or adapt (innovatively) to structural and trendy market changes is important as these changes make it difficult for those players to resist the existing forces to keep the status quo.

Second, participants indicated their strong interests in a comprehensive alliance between Tokyo Electric Power Co. and Chubu Electric Power Co. as announced in early October, while presenting various views about alliances within LNG consuming countries. This alliance will produce the world's largest LNG procurer with annual purchases reaching about 40 million tons. Attention will thus be paid to what implications this alliance would have for the future Asian LNG market, supply and demand, the impact the alliance would have and whether it could successfully procure LNG at more competitive prices. Although major topics regarding Japan at this kind of conference had been nuclear power plants' restart, and related decline in LNG demand, and future trends, the alliance might have become a new attention-attracting topic for market players.

Third, one participant pointed out that Russia could implement the Altai project for providing China with natural gas via pipeline from Western Siberia in addition to pipeline gas supply subjected to a Russia-China agreement in May amid the tense Ukraine situation and related Western economic sanctions on Russia. And it was argued that Russian gas supply to China could exceed 100 billion cubic meters including the supply under the May agreement if supply via western route could be expanded. Such expansion in pipeline gas supply to China could greatly affect future LNG demand growth in China, exerting great impacts on the Asian LNG supply and demand environment. We may have to closely watch future developments regarding Russian gas supply to China.

The three points, though not related to each other, were interesting takeaways from the Singapore conference for me. We must collect up-to-date information on the Asian LNG market and analyze the market based on such information.

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