

Special Bulletin

A Japanese Perspective on the International Energy Landscape (194)

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The Third LNG Producer-Consumer Conference

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On November 6, the LNG Producer-Consumer Conference 2014 took place in Tokyo. Japan, the largest LNG consumer in the world, has hosted the annual conference since 2012. Sponsoring the third conference were the Ministry of Economy, Trade and Industry and the Asia Pacific Energy Research Center. The number of participants in the latest conference hit a record exceeding 1,000. They had heated discussions on the future outlook and challenges for the LNG market.

In the opening and keynote address session, Japanese METI Minister Yoichi Miyazawa delivered a speech. So did the Qatari, Australian and Canadian energy ministers and the International Energy Agency executive director. Later, government officials, top executives of major LNG value chain companies and famed researchers made presentations followed by questions and answers in four sessions. In the following, I would like to compile impressive points for me about the conference.

First, participants in the third LNG producer-consumer conference increased their recognition of the annual conference as a key forum for discussing LNG problems. At the first conference that came in 2012, most of the foreign participants were groping for purposes, objectives and details of the gathering while being greatly interested in discussions there. Through the second and third conferences, however, major participants from Japan and other countries have deepened their understanding about the characteristics and importance of the forum. As a result, major participants have apparently become confident that it would be very important for them to take part in the forum as stakeholders and appropriately form opinions. Given the presence of many high-level participants, the conference has grown more significant as an opportunity for participants to conduct networking and have business talks.

Second, it was interesting for me to see discussions being deepened with additional inputs given by new participants. The first conference dealt with potential U.S. LNG exports as a major

topic. The second came as U.S. LNG exports grew realistic through approval by the U.S. government. Discussions at the third conference were based on new Asian LNG market developments including U.S.-approved LNG exports' expansion to nearly 80 million tons, new Australian LNG project launching, a China-Russia gas supply agreement and moves regarding Japan's restart of nuclear plants. These developments and the recent rapid fall in crude oil prices have created new uncertainties about global and Asian LNG markets. Major LNG market players are now required to consider how to respond to the emerging uncertainties. At the latest conference, LNG producers and consumers remained apart over some points related to the future course of the LNG market. But I felt that LNG market players were seriously exploring how to adapt and respond to new market developments and realities. Through such exploration, they will find solutions for developing the LNG market further.

It was significant that new opinions, knowledge and input in the conference included a Chinese perspective presented by a panelist from the CNPC Economic and Technology Research Institute, who participated in the conference for the first time as a speaker representing China. The Chinese panelist gave a clear, interesting message that more competitive LNG procurement would be decisively essential as LNG is now less price competitive than rival fuels including coal and other natural gas supply (such as domestically produced gas and imported pipeline gas). Many supply-side topics were related to future U.S. LNG exports. In this respect, it was significant that discussions covered Alaska and Oregon LNG projects that offer a new LNG supply option from the West Coast of North America and differ from those on the coast of Gulf of Mexico in terms of transportation distance and economic competitiveness.

Third, it was interesting that discussions on Asian LNG pricing were based on the emerging situation. The rapid crude oil price decline, as noted earlier, is now exerting downward pressure on Asian LNG import prices that are linked to crude oil prices. This development benefits Asian LNG importers. But it is a big problem for LNG projects subject to high LNG supply costs. Future crude oil price changes could affect the decision for Final Investment Decision and thus the start-up. Supply, demand and prices may inevitably be cyclic for energy products subject to international transactions. As noted by many conference participants (particularly those from LNG consuming countries), we must closely watch discussions on LNG contracts amid a soft LNG market expected for the next several years.

In this respect, we must pay attention to the point that discussions on LNG price levels are occasionally mixed or confused with those on the rationality of pricing formulas. While the rationality itself is difficult to define, a key point is that a desirable pricing formula should be trusted

by both sellers and buyers and be sustainable. A very interesting view presented at the conference was that given practices and experiences in non-Asian markets, Asia will take much time to establish the abovementioned sustainable formula and may have to depend on price adjustments responding to market supply and demand conditions for the immediate future. In this context, LNG market players will remain highly interested in future developments regarding institutional reform efforts to establish Asian natural gas/LNG trading hubs and enhance LNG market liquidity, as well as the removal or relaxation of the destination clause in gas contracts and other efforts to increase the flexibility of trading.

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