

Event Report on the 76th IEEJ Energy Seminar

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On 9 January 2015, a briefing session on "The Dynamism of LNG Markets as seen from the Business Front" was held at the Institute of Energy Economics, Japan (IEEJ). During the briefing session, the 100 or so participants who took part had the opportunity to listen to Dr. Patricia Roberts, Director LNG of Worldwide Limited.

The main points covered were as follows.

The Global LNG industry is entering a phase of dynamic change between 2015 and 2020. However, Japan is expected to continue influencing the global LNG market as the largest LNG buyer in the world. While low and unstable oil prices will likely to reduce regional price gaps in the short-term, they will also have implications on investment decisions of new LNG production capacity. Only a few solid projects in the United States, one each in Papua New Guinea and Indonesia, and possibly a few in Canada and East Africa are expected to proceed under a low-price environment.

On the supply side, around 135 million tonnes per year (mt/y) of new capacity will start up, with different commercial business models co-existing and competing with each other: traditional Joint Venture sellers; buyers holding an equity stake and managing their own volumes (30 - 40 mt/y); and projects in the United States who have simply sold liquefaction capacity to off-takers (45 - 70 mt/y). During the same period, 52 mt/y of existing long-term LNG contracts will expire and their sellers will decide either to renew reduce volumes or to divert some into their domestic gas market. These two unrelated events will create a lot of LNG on LNG competition and will provide buyers with new choices, new risks and rewards to evaluate when buying LNG. By 2020 the global supply pool will reach 400 mt/y, bringing fundamental changes to the characteristics of the short-term market.

On the demand side, Japanese and Korean LNG demand will be affected by nuclear developments in their respective markets. Chinese demand continues to be a big mystery with coal and pipeline gas being significant factors. Price-sensitive markets in India and Indonesia are expected to grow and force LNG sellers to adjust their marketing strategies.

Along with the expected growth of production capacity, the global LNG market is expected to expand by 30%. LNG global market liquidity - a new commercial business environment

for transacting LNG - is arriving with more diverse choices for buyers. If an "Asian LNG hub" signifies a "more dynamic Asian price", those changes are certainly in that direction.

For the Japanese LNG industry, those changes are expected to work positively, while Japanese players need to adjust themselves to those profound changes. The increasing diversity and liquidity of LNG sources are expected to provide more flexibility in the market to cope with short-term fluctuation of gas demand. At the same time Japanese buyers need to manage their supply more dynamically, which requires them to obtain risk-management and portfolio-management skill not only as traditional buyers but sometimes as LNG sellers.

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