

LNG Producer-Consumer Conference 2015

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On September 16, the LNG Producer-Consumer Conference 2015 took place in Tokyo. This was the fourth one since the first in 2012. Participating in the conference sponsored by the Japanese Ministry of Economy, Trade and Industry and the Asia Pacific Energy Research Center were more than 1,000 people from more than 50 countries and regions, including Japanese Minister of Economy, Trade and Industry Yoichi Miyazawa representing the sponsor, Qatari Minister of Energy and Industry Mohammed Bin Saleh Al-Sada, newly appointed International Energy Agency Executive Director Fatih Birol and other minister-level officials, as well as top LNG company executives. They discussed various challenges with a view on the development of the LNG market.

Following opening and keynote speeches, participants held discussions in five sessions -- Session 1 on gas security, Session 2 on LNG supply outlook and actions by producers, Session 3 on LNG demand outlook and actions by consumers, Session 4 on new LNG demand and natural gas as fuel (for transportation), and Session 5 on unconventional gas development. All these topics were important and timely for the future sound development of the LNG market. Given that space constraints prevent me from introducing all discussions at the conference, I here would like to sum up my impressions about the conference and key points that attracted my attention.

First, I feel that participants' discussions and networks have deepened steadily as the positioning of the LNG Producer-Consumer Conference has been established toward the fourth one. When the first conference took place in 2012 as proposed by Japan, the largest LNG consumer in the world, participants were apparently unsettled or cautious, failing to ascertain the positioning of the conference and Japan's objectives. Particularly, LNG's share of fuels for power generation in Japan rose toward the conference under the energy supply and demand environment following the March 2011 Great East Japan Earthquake, while LNG prices were as high as \$16-17 per million British thermal unit amid a crude oil price spike. Under the circumstances, Japan and other Asian LNG consuming countries were very interested in the so-called LNG Asian premium, while LNG suppliers were nervous about how the conference would be characterized.

As a matter of course, a conflict of interest between LNG buyers and sellers is not unnatural. Such conflict and competition can emerge even between buyers and between sellers. As discussions have been accumulated at the second, third and fourth conferences, however, participants have understood that LNG plays a greater role in the global energy mix and that the sound, steady development of the LNG market would be desirable for both LNG producers and consumers. As

their basic stance that they should discuss challenges to overcome for such development of the LNG market has been clarified for the conference, the positioning and significance of the conference have firmly spread among participants. In this sense, I feel that participants in the fourth conference sufficiently promoted constructive, fulfilling discussions. I also feel that as the conference has been settled and has become well known as a forum where a great number of major LNG stakeholders in the world gather, it has played a role as an opportunity for them to not only have discussions but also develop and enhance their networks.

The second point, related to the first one, is that the conference was the first to discuss LNG problems under low crude oil prices, leading participants to discuss how LNG producers and consumers should consider the further development of the LNG market under a new and very uncertain market environment. The previous three conferences came as crude oil and Asian LNG prices stayed very high. But the latest conference came in a very different market environment where crude oil prices were below \$50 per barrel with LNG prices being far below \$10/MMBtu. Given a more-serious-than-expected slump in Chinese LNG demand and an expected increase in U.S. and Australian LNG supply, the Asian LNG supply-demand balance is likely to remain loose in the immediate future, with crude oil prices predicted to stay weak. The market environment for the immediate future is favorable for LNG buyers and consumers. For LNG sellers and suppliers, however, the environment is severe. How to streamline operations, reduce costs and enhance competitiveness has become a challenge for them.

But I felt through the conference that as participants had difficulties predicting how far the current market environment would continue, some were conscious of the possibility of a reaction to the current low prices. They may think that excessively low prices have both advantages and disadvantages while excessive high prices are undesirable. In this sense, an attention-attracting point regarding the latest conference was that participants were conscious of exploring an environment that would be favorable for both LNG producers and consumers and allow the LNG market to soundly and stably develop over a medium to long term.

Third, participants in the latest conference made various arguments and proposals about specific measures to develop the LNG market in a manner to meet the interests of both LNG producers and consumers. While there were many arguments, an interesting point for me was that participants were agreeing that it would be important to enhance the flexibility of the LNG market. Given the growing uncertainties on the demand side, my impression is that the enhanced flexibility has become a “real necessity” for LNG consumers in a sense, while suppliers have growingly understood that they should also address the LNG market flexibility.

The problem of gas security, taken up as an issue for the first time at the conference, is also important. Participants pointed to a conventional concept of gas security based on stable contractual relations, a new concept of security backed by greater market flexibility and initiatives to enhance emergency response capacity, demonstrating gas security as a key challenge that both LNG producers and consumers should consider. The problem of gas security may become a key point regarding energy for Japan set to host the annual Group of Seven summit next year.

Lastly, it was impressive that participants saw dialogue as important because of high future uncertainties and pointed to the importance of enhancing and deepening discussions among stakeholders about market supply and demand outlook as part of such dialogue. Given that a similar approach has been taken at talks between oil producers and consumers to induce constructive discussions, this approach may be seen as important for LNG as well in the future. I would like to see various initiatives being implemented for the sound development of the LNG market based on discussions at the latest conference.

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