

Discussions in Singapore on Asian LNG Market Challenges

Ken Koyama, PhD
Chief Economist, Managing Director
The Institute of Energy Economics, Japan

On August 30 and 31, the Energy Studies Institute of the National University of Singapore hosted an international workshop in Singapore on the Asian natural gas/LNG market. Under the theme “Gas Market Transition in ASEAN and East Asia: The Role of Market Liberalization and Integration,” the workshop comprised three closed sessions and one open session. Some 40 people from Europe, the Americas and Asia, including energy industry officials, experts and international organization representatives, participated in the closed sessions for vigorous discussions. The following summarizes points that were impressive for me at the workshop:

The workshop, though touching on global natural gas and LNG market problems, focused on Asian market issues as indicated by the theme. A presumption for discussions was that oversupply and the buyer’s market will remain for the immediate future (until around 2020). Whether natural gas/LNG supply is excessive or not is no longer subject to discussions. At issue is how excessive supply is or how long supply will remain excessive. Asian natural gas/LNG prices have already plunged so that the Asian premium problem, far higher natural gas/LNG prices in Asia than in other regions, has almost been resolved. However, participants in the workshop indicated interests in a less-than-expected natural gas/LNG demand expansion in Asia even after the substantial price decline.

Great expectations are placed on natural gas as a clean fossil fuel that features rich resources, great supply potential, energy diversification opportunities and supply stability. Natural gas was once expected to enter a golden age where gas would meet the expectations and play a great role in the energy mix. Actually, the expectation has failed to be realized at least in Asia. Workshop participants discussed why the golden age of gas has failed to come in Japan, China, India, South Korea, ASEAN members and other Asian countries. They pointed out that the presence of coal with strong price competitiveness, fast-expanding renewable energy under policy support, LPG and other petroleum products with improved competitiveness through price plunges, Japan’s restart of nuclear power reactors and the construction of new nuclear plants in China and other countries have created various uncertainties for the future course of natural gas/LNG demand. These uncertainties have resulted in the impacts not only on the demand expansion but also on fluctuation in demand, which encouraged the buyers to seek for enhanced flexibility in supply. Particularly, workshop participants noted that the development of the Asian natural gas/LNG market would depend on how LNG would become more competitive in prices, supply flexibility and supply security.

Regarding the future and development of the Asian natural gas/LNG market, workshop participants discussed the market size problem and structural market changes including the trading hub development as key topics. Singapore, where the workshop took place, has steadily developed relevant infrastructure, including LNG receiving terminals, and taken initiatives to develop a trading hub for Southeast Asia. Even under the constraint of limited LNG transaction volume in Southeast Asia, countries such as Thailand, Malaysia and Indonesia have begun to import LNG, contributing to invigorating LNG trade. Singapore can exploit its position as the first mover in the trading hub development. Given that China's Shanghai imports LNG and has an option to supply domestic natural gas and imported LNG via pipelines, Shanghai may be able to take advantage of various supply sources for developing the trading hub. Workshop participants also indicated their great interests in how Japan would form an LNG trading hub after the Ministry of Economy, Trade and Industry in May announced an LNG market strategy calling for developing the trading hub in Japan.

In a sense, it is natural for natural gas/LNG market players in the world as well as the participants in the workshop to pay attention to Japan as the world's largest LNG market. The Japanese LNG market features not only the world's largest size but also uncertainties caused by the uncertain future restart of nuclear reactors, competition from coal, growing renewable energy power generation, progress in electricity and gas market liberalization and intensifying competition in the markets. This is the reason for Japan to attract global attention. It is pointed out that European and U.S. cases and lessons indicate electricity and gas market deregulation as a major factor behind hub development and highly liquid transactions at hubs. In this sense, Japan's ongoing market liberalization has prompted LNG stakeholders in the world to grow conscious of the Japanese market.

Some participants in the workshop argued that government roles and policy support would be significant for gas trading hub development in Singapore and China as well as Japan. However, others noted that actual market players' actions would be finally and decisively important. Impressively, they noted whether a trading hub could be developed successfully would depend on what market players want to do. In this sense, Japanese LNG market players' future actions, in addition to the LNG market strategy provided by the government, would determine the future course of the Asian LNG market. Many participants in the workshop vowed to closely watch and monitor Japanese trends and follow market developments and achievements in Japan.

As a matter of course, Japanese and other Asian market players' various efforts and initiative are influenced by changes in market fundamentals. We should pay attention to international oil market and price trends as well as the abovementioned current LNG market trend including oversupply and price plunges. Oil-indexed LNG prices under long-term contracts are susceptible to oil price changes and can deviate from spot LNG prices reflecting the LNG supply-demand relationship. The deviation could result in a new phase for pricing negotiations between LNG buyers and sellers. Oil price fluctuations also influence the relative competitiveness of U.S. LNG that adopts a different pricing mechanism (based on Henry Hub prices). Amid various future market changes, we will have to closely watch strategies and specific responses of Asian LNG market players in a changing market fundamentals.

Contact: report@tky.ieej.or.jp

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