Can demand for imported LNG in Asia increase because it is a `cleaner’ energy source?

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A 50% Surge in Global LNG Supply 2014-21, mainly from Australia, US and Russia is well under way

Source: Platts LNG Service, Rogers/OIES
Three questions that imported LNG has to answer in Asia (and elsewhere)

- Is it `clean enough’?
- Is it cheap/competitive enough?
- Is it secure enough?
Asian LNG Demand – high & low cases plus seasonality gives a 50 mt range by 2021

Source: Platts, Rogers/OIES
Mature Markets: Japan, Korea and Taiwan

Japan:
• Huge uncertainty range driven by a) pace and extent of nuclear re-start and b) achievement of energy efficiency policy.

South Korea:
• Future LNG demand growth muted by government policy to limit LNG in power sector, hoping to offset coal GHG’s by renewables and nuclear.

Taiwan:
• LNG the beneficiary of government commitment to phase out nuclear in the 2020s while containing growth of coal.
• Future power demand growth also a large uncertainty.

SOURCE: ROGERS, LNG MARKETS IN TRANSITION – THE GREAT RECONFIGURATION
Drivers of Future Asian Gas/LNG Demand Growth

Potential for gas demand growth – in aggregate significant.
Environmental challenges: air quality or carbon reduction?
Security must become a risk/reward calculation
Prices <$8 still too expensive for new markets in SE Asia (and India?)

Source: Adapted from Rogers/OIES
Clean Enough? Is gas demand/energy mix dependent on carbon reduction or air quality

Potential for gas/LNG in China, India and elsewhere in Asia is huge BUT:

- Does environment really matter enough to displace coal? And if so in which locations and how urgently?
- Renewables may be cleaner (and cheaper)

SOURCE: ROGERS, LNG MARKETS IN TRANSITION – THE GREAT RECONFIGURATION
Cheap/Competitive Enough? In relation to coal, (nuclear?) and renewables – short and longer term

$/mmbtu

SOURCES: Platts, EIA, Argus, CME
Cheap Enough: sufficiently competitive and affordable in Asia?

- The `Asian Premium’ has disappeared
- But costs/viability of greenfield LNG developments remain uncertain eg East Africa, new US projects
- Many LNG projects coming onstream in the late 2010s are `out of the money’ at today’s prices – Australia, US
- New LNG projects must be able to:
  - deliver to Asia at <$8/MMbtu (in many countries $5-6/MMbtu )
  - create markets as well as delivering gas
Secure Enough?

ASIAN POLICY ON ENERGY SECURITY:

- Still related to imports versus domestic production (‘1970s definition’)
- Still focused on physical security, insufficiently related to price security
- Insufficiently related to risk/reward assessments e.g., destination clauses

THIS POLICY MEANS IMPORTED LNG IS REGARDED AS LESS SECURE THAN:

- Domestic (and imported?) coal and nuclear power
- Renewables (despite intermittency)?

But are these policies/assessments correct?
Can Asian LNG imports increase on the basis of being a cleaner energy source?

“No, because environmental – either carbon reduction or air quality- issues are not sufficiently important in the majority of Asian countries”, and:

• imported LNG cannot compete with domestic coal (and probably also international coal) prices
• imported LNG may not be able to compete with renewables in many locations
• imported LNG is not regarded as `secure’

But in some countries – eg China, India, Thailand – big increases in LNG imports are possible if costs can be reduced to deliver LNG at $6-7/MMbtu
THANK YOU

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