

At the Producer-Consumer Conference 2019

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On September 26, the LNG Producer-Consumer Conference 2019 took place at the Grand Prince Hotel New Takanawa in Tokyo. It was the eighth such meeting since the first one in 2012. While the Japanese Ministry of Economy, Trade and Industry and the Asia Pacific Energy Research Center have sponsored the conference, the private sector has cooperated with the public sector in managing the conference since the seventh one that was held in Nagoya last year. The 8th conference was convened in Tokyo again, just as the cases of the 1st to 6th conferences in the past.

Given that this year marks the 50th anniversary since Japan launched liquefied natural gas (LNG) imports, the conference reviewed the past half century and discussed how the LNG market would develop in the future. Following opening addresses by Japanese Economy, Trade and Industry Minister Isshu Sugawara and Qatari Minister for Energy Affairs Saad Sherida Al-Kaabi, International Energy Agency Executive Director Fatih Birol provided a background briefing on a natural gas/LNG market outlook. Then, keynote addresses were delivered by the largest ever number of minister-level speakers at 13 before an “Energy Dialogue” session. At the later four sessions, senior government officials, top LNG industry executives and famed experts made presentations for panel discussions. The number of participants (on registration base) in the conference exceeded 1,100, highlighting it as one of the world’s most representative conferences on LNG. In the following, I would like to summarize particularly impressive points of discussions at the conference.

First, talks focused on the significance of Asia as the center of the LNG market expected to develop further. While Japan, South Korea and Taiwan as traditional LNG importers retain their key positions in the global LNG market, emerging markets including China, India, Southeast Asia and South Asia will hold the key to LNG market growth. A symbolic point is that China is expected to replace Japan as the world’s largest LNG importer at some time in the future. While Asia drives LNG import expansion, LNG importing countries will increase and be diversified, with emerging LNG importers replacing traditional ones as major players. Such structural changes will coincide with market expansion.

Participants in the conference commonly recognized that LNG demand would expand mainly in Asian emerging markets. The problem is how fast and far the market would expand. This problem is important because LNG supply growth has exceeded demand expansion in a manner to result in oversupply and spot LNG price falls. Various factors exerting influence on the pace of Asian LNG demand expansion were pointed out at the conference. I felt that the affordability and competitiveness of LNG prices among these factors attracted attention from conference participants.

Given that LNG demand is expected to expand mainly in emerging countries with relatively lower income, a potential problem would be that their consumers could fail to pay for LNG at prices above certain levels. Participants in the conference were conscious that the problem of affordability

may exist from the viewpoint of absolute price levels. The problem of competitiveness is also important and closely related to affordability. In many emerging countries, natural gas/LNG undergoes competition from coal and renewable energy. Particularly in countries where natural gas/LNG demand is expected to expand due to growing switching from coal, the problem of price competitiveness is important. At the same time, how to realize the supply side's investment meeting demand expansion while satisfying the demand side's needs is a problem. Important here is how to secure sustainable development where natural gas/LNG producers and consumers would co-exist and co-prosper.

Second, participants in the conference pointed out that future LNG demand growth would depend on the extent and speed of switching from coal to natural gas/LNG or how strong responses to environmental problems would be. Japan's 50-year LNG history indicates that responses to air pollution have been a key driver of LNG introduction and demand expansion. The driver is apparently working or expected to work in China, India, Southeast Asia and South Asia. Many participants in the conference also pointed to LNG's compatibility with renewable energy promoted as clean energy. As renewable energy is a domestically produced energy source free from CO₂, and as renewable energy power generation costs have declined rapidly in recent years, renewable energy including solar photovoltaics and wind has expanded fast. At the same time, how to respond to the intermittency of renewable energy supply has been growingly recognized as important. Flexible natural gas-fired power generation is expected to play a key role in adjusting fluctuations of renewable energy power generation.

In this way, discussions at the conference indicated that LNG would play an even greater role in Asia as environmental protection measures including air pollution countermeasures make progress amid transition to a low-carbon energy system in Asia. However, discussions at the conference focused on LNG development and expansion in Asia and failed to cover the impact of thorough environmental protection measures including decarbonization, contrasting with talks at the Oxford Energy Seminar in which I participated until just before the LNG Producer-Consumer Conference. Amid energy transition toward "net zero" greenhouse gas emissions under European policy, natural gas would be subjected to decarbonization and replaced with biogas, synthetic gas or green/blue hydrogen. This would represent a great transformation for the existing natural gas/LNG business. In this sense, environmental problems would be a driver of such transformation rather a simple driver of growth for natural gas/LNG in Europe. The decarbonization problem was little discussed in the LNG Producer-Consumer Conference. Because of the reason described below, however, decarbonization may become a topic at the annual conference in the future.

Third, participants in the conference indicated their expectations that the LNG market would enhance its flexibility and liquidity as the market's development coincides with its structural change. As the overall energy market environment grows uncertain or unclear, calls are growing for enhancing the flexibility of the LNG market. LNG market flexibility and liquidity are increasing as indicated by the expansion of U.S. LNG featuring a flexible supply and pricing mechanism different from the traditional indexation of LNG prices to crude oil prices, the deepening efforts to repeal the destination clause for LNG contracts and the rapid growth of spot LNG transactions. Electricity and gas market deregulation, which has been accelerated in Japan and implemented gradually in other Asian countries, is bringing about market changes. In Europe where market deregulation has been realized earlier, a flexible, deep natural gas/LNG market has grown, allowing LNG imports to expand on recent declines in spot LNG prices. In addition, the enhancement of the global LNG market's flexibility and liquidity is expected to contribute to improving LNG supply security through the further development of market functions. Various arguments for promoting the market's flexibility and liquidity were made at the

conference. Particularly, it was pointed out that the standardization of LNG contract terms and conditions would be significant. Based on European experiences with natural gas trade development, future initiatives on this issue taken by relevant business operators and stakeholders may attract attention. It may be hoped that the LNG market would develop more soundly, mainly in Asia while overcoming various challenges.

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