

## **LNG Producer-Consumer Conference 2020**

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

On October 12, the LNG Producer-Consumer Conference 2020 was held in the form of a teleconference. The annual conference, launched in 2012, has become an important meeting of top-level policymakers, businesspersons and experts related to LNG and natural gas. Until the previous year, the annual real conference had attracted more than 1,000 participants. This year's conference took the form of a teleconference for the first time due to the COVID-19 pandemic. According to its sponsors (the Japanese Ministry of Economy, Trade and Industry and the Asia Pacific Energy Research Center), more than 1,900 people from 52 economies in the world participated in the teleconference on a registration basis, discussing how best to achieve the development of the LNG market as a common goal for LNG producers, suppliers and consumers.

The website for the teleconference posted numerous video messages from relevant ministers, industry leaders and globally famed experts. In the first of the three sessions of the conference, opening remarks were delivered by Japanese Minister of Economy, Trade and Industry Hiroshi Kajiyama and Qatari Minister of State for Energy Affairs Saad Sherida Al-Kaabi, followed by a keynote address by International Energy Agency Executive Director Fatih Birol. Panel discussions by LNG industry representatives were held in the second session titled "Price mechanism favorable and sustainable for both producer and consumer of LNG" and the third one titled "Decarbonization through LNG value chain." I served as moderator for the second session. Various issues were discussed for the further development of the LNG market. In the following, I would like to make my comments on the LNG producer-consumer conference with main focus given to the discussion at the second session I moderated.

Great hopes are placed on LNG market development. LNG has grown as a clean, abundant energy source and is expected to diffuse further on the strength of economic growth mainly in Asia. While future demand for fossil fuels as a whole is uncertain because of global low-carbonization and decarbonization initiatives, LNG demand is expected to robustly increase mainly in Asia in the foreseeable future. This is because Asian emerging and developing countries are expected to continue robust economic growth and give priority to the clean energy source to counter climate change and air pollution. It is important that natural gas and LNG expansion is significant and efficient for improving environmental problems in Asia where coal accounts for a major share of the energy mix. If the ambitious target of carbon neutrality is set in Asia over the long term, demand for natural gas and LNG, the cleanest among fossil fuels, may be affected. Then, innovative approaches such as the decarbonization of natural gas and LNG will become more important.

If Asia and the world clean energy supply and use systems generally to counter climate change, it may be important to cut costs for transition to the cleaner systems as much as possible. In this respect, how best to use natural gas and LNG would be significant for the minimization of such transition costs, depending on national or regional realities. The effective, sound, and steady use of

LNG would be a challenge that all LNG stakeholders would pursue.

Although LNG consumption had smoothly grown and expanded, the impact of the COVID-19 disaster has been enormous. Even before the disaster, the LNG market had been expected to see oversupply in 2020. Then, the disaster plunged the global economy into the worst situation since the Great Depression, leading demand for LNG and other energy sources to crash. As a result, LNG market oversupply has become even deeper, with spot LNG prices hitting the lowest levels in history temporarily. The LNG market has made various reactions to the remarkable oversupply and low prices. The pressure of low prices has prompted high-cost LNG supplies to exit from the LNG market and refrain from investment in future supply expansion. On the demand side, low prices have been exploited to stimulate demand. All LNG stakeholders are trying to rebalance the LNG market still plagued with the COVID-19 disaster.

Price functions usually play a key role in rebalancing the market. The energy market adage that low prices are the best cure for low prices (and vice versa) is based on a simple economic principle that low prices push down supply and stimulate demand. In today's Asian LNG market, however, this simple economic principle is not necessarily plausible. This is because LNG prices are indexed to crude oil prices under term contracts that cover most of LNG supply in Asia. As a matter of course, there are reasons and backgrounds for the indexation of LNG prices to crude oil prices in Asia. The fact that the pricing formula has been adopted through various arguments and negotiations should be taken seriously. Participants in the LNG producer-consumer conference provided positive or constructive opinions on how and whether the Asian LNG pricing formula would or should be transformed, while fully understanding the role of the traditional pricing formula.

Given various structural changes seen in the LNG market, it may be increasingly understood that transitions from traditional business styles are becoming inevitable. A simple or straight opinion that prices of the commodity known as LNG should be determined in a manner to reflect supply and demand in regions or markets where it is traded has become stronger. In fact, Europe and the United States have already been making a transition to a natural gas pricing formula reflecting supply and demand of the commodity. In Asia, such transition could be slower than in other regions due to the dominance of traditional LNG transactions but would make steady progress, according to the discussion. As a matter of course, attention should be paid not only to the dominance of traditional business relations but also to how best to recover enormous initial investment unique to the LNG industry. The smooth implementation of enormous investment can expand both LNG supply and demand together.

An important point is that a pricing formula reflecting supply and demand does not necessarily guarantee low prices. As seen under the current COVID-19 disaster, sluggish demand and oversupply push down prices that reflect the supply-demand relationship. Conversely, supply shortages push up prices. Such price volatility is inevitable under any pricing formula based on market functions. All LNG stakeholders should fully understand this point and pursue a sustainable pricing formula. They are required to concentrate their wisdom to find solutions to how they should exploit looming signals of spot LNG prices reflecting the supply-demand relationship in Asia, what pricing formula should be pursued from the long-term point of view, and how the LNG market should change. For the LNG market's further development, all stakeholders' future efforts will grow even more important.

Contact: report@tky.ieej.or.jp

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