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China Replaced Japan as World's Largest LNG Importer in 1st Half of 2021

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China replaced Japan as the world's largest LNG importer in the first half of 2021, boosting its January-June imports by 26.5% from the same period of the previous year to 39.78 million tons against 38.89 million tons for Japan, up 6.8%, according to customs clearance trade statistics for the period. In recent months, China outdid Japan in importing LNG on a monthly basis. However, it was the first time that China became the world's largest LNG importer on a half-year basis. Given that China is likely to retain robust growth in LNG imports in the immediate future, it can be well expected to become the world's largest LNG importer for the whole of 2021.

When China's LNG imports accelerated growth in 2017, it was expected to replace Japan as the world's largest LNG importer by the middle of the 2020s. Recently, it was expected to do so in 2022. By overcoming the impact of the COVID-19 pandemic in 2020, however, China became the only major country to achieve economic growth and energy consumption expansion in the year. China's natural gas and LNG demand then grew steadily, allowing China to become the world's largest LNG importer one year ahead of the previous expectations. Japan's LNG imports in the first half of 2021 scored a year-on-year increase of about 2.5 million tons or 6.8% due partly to severe cold waves in the beginning of the year. However, China posted an even more remarkable rise of about 8.3 million tons or 26.5%, winning the position as the world's largest LNG importer.

Japan has played key roles as LNG importer/consumer in the history of global LNG market development. Since its first LNG import that came from Alaska in 1969, Japan has continued to expand LNG imports. After the two oil crises in the 1970s, LNG imports were expected to contribute to Japan's energy security through the diversification of energy sources and the reduction of dependence on the Middle East. Initially, LNG imports were expected to help ease air pollution. Since the 1990s, LNG was expected to serve as a low-carbon clean energy source to help decelerate global warming or climate change. In this way, Japan's LNG imports have continued great growth, allowing Japan to remain the world's largest LNG importer over a long term. In 2019, it celebrated the 50th anniversary of LNG imports. In only two years, however, Japan is ceding its position as the largest LNG importer in the world to China.

As the largest LNG importer in the world, Japan has exerted great influence on the development of the global LNG market and the formation of LNG business in various ways. As LNG market players, Japanese power and gas utilities have imported LNG for power generation and city gas services, Japanese oil development and trading companies have engaged in natural gas production, liquefaction and sales to power and gas utilities, and Japanese financial institutions such as the Japan Oil, Gas and Metals National Corporation and the Japan Bank for International Corporation have provided financial support for LNG business. The Japanese government has made and implemented LNG policies and strategies and engaged with LNG development and procurement from policy perspectives. Due to Japan's position as the largest LNG importer in the world, the government policy of Japan has continued to have certain impact on global LNG market and business development.

On the other hand, the world's major LNG market players such as state-run gas companies in gas-producing countries, international oil companies and LNG traders have considered Japan, as the world's largest LNG market, and Japanese players in implementing their respective business strategies. They have cooperated with major Japanese players in launching LNG projects where huge initial investment is required for natural gas development, liquefaction and LNG transportation and in arranging financing, sharing business risks and recovering investment, which has contributed the continued expansion of the LNG market. As a result, traditional LNG business characteristics including take-or-pay and destination clauses for long-term contracts and the indexation of LNG prices to the so-called Japan crude cocktail (JCC) import price have become standards not only in the Japanese LNG market but also in the Asian LNG market that accounts for most of the global market.

Through the development and structural transformation of the LNG market, however, LNG contract terms have been shortened, with short to medium-term contracts increasing and spot transactions expanding. The reconsideration of the destination clause and the implementation of new LNG pricing initiatives have made progress. Increasing U.S. LNG linked to U.S. gas hub prices and the growing influence of spot LNG prices are exerting various impacts on JCC-indexed LNG prices for long-term contracts. In view of European and U.S. gas hubs for pricing natural gas, Japan, China and other Asian countries have implemented their respective initiatives to develop gas hubs. These changes have accelerated in the past decade.

Japan initiated the LNG Producer-Consumer Conference as a forum for all the stakeholders including Japan as the world's largest LNG importer and other major countries and LNG market players to constructively discuss the stabilization and development of the LNG market after Japanese LNG imports rapidly expanded in the wake of the Great East Japan Earthquake and the Fukushima nuclear power plant accident. This represented an initiative that Japan implemented as LNG consumption and import leader in consideration of the global LNG market.

Under such status, the year 2021 may become a turning point for the global LNG market. This is because China is likely to become the world's largest LNG importer and further expand its LNG imports in a manner to increase its influence on the LNG market. Japan's government and industry will remain in a position to respond to structural changes in the LNG market and further enhance their response. As a new giant in the LNG market, China for its part will enhance and develop its own strategy for responding to structural LNG market changes.

While seeking to reach carbon neutrality by 2060, China that depends on coal for some 60% of its primary energy supply will use natural gas and LNG to reduce its heavy dependence on coal. Natural gas and LNG use will also be effective for responding to air pollution to which China may give greater priority as an immediate and serious problems. Given these points, China can be expected to expand natural gas and LNG demand over the long term. LNG players in the world will have to be conscious of this point. As explained above, LNG business is now changing amid structural LNG market changes. Attracting attention are China's LNG strategy, as well as approaches by its three state-run oil companies and new gas and LNG market participants that have emerged through domestic market reforms. As the LNG market's gravity center shifts to China, its actions will inevitably exert great influence on future LNG market changes.

As Japan considers revising its Strategic Energy Plan, its LNG policy may be reconsidered. Given China's even greater presence in the LNG market, Japan will be required to formulate the next strategic LNG policy.

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