

Datuk Abdul Rahim Hashim Vice President, Gas Business Unit, Petronas Co.

“Will Commoditization of LNG and More Flexibility for Contract Conditions Create a New LNG Market?”

Primary energy consumption in Asia in 2003 increased by around 10% compared to the previous year, reaching 3 billion tons (oil equivalent). However, per capita gas consumption remains low in Asia, which makes Asia the most attractive region in this sense. Natural gas is more environmentally friendly than coal or oil and has been gaining stronger competitiveness compared to the other primary energy sources. Demand for natural gas in Asia will double over the next 10 years.

Looking at world supply and demand, a great deal of untapped natural gas and associated gas still exists in remote areas far from the markets. In utilizing this and equalizing the imbalance between supply and demand, LNG will play an important role, and in particular in Asia, promoting LNG development is extremely significant. In 2003, about 30% of the natural gas traded in the whole world was LNG. In Asia, and particularly in China and India, demand for natural gas will increase sharply due to development of the market for thermal power generation. In such a situation, the key point for LNG producers is “whether they can join the energy market with price competitiveness, securing economical efficiency on the LNG supply side.”

Traditionally, the natural gas industry has been based on long-term contracts and intraregional markets, and there has been no global LNG market. It is true that most LNG is being sold at different prices for different regions. The LNG industry is following the same track as the oil industry of 50 years ago, and is reaching a market turning point by reducing the costs of liquefaction and transportation and solving geophysical problems. As global LNG players emerge, producers have to make efforts to establish a global market. Globalization of LNG trade has proceeded due to factors including the following: (1) changes in the internal supply-demand balance caused by economic growth; (2) market liberalization; (3) technological advances; (4) developing Western markets for Middle Eastern LNG projects

Is it possible that commoditization, or in other words, expansion of trade by market flexibility and trade only with price terms will become widespread in the same manner as LNG? Does globalization have the same meaning as commoditization? In the case of LNG, commoditization has been prevented due to the following reasons: (1) concentrated project investment is required; (2) the required specifications differ for each market; (3) infrastructure is not sufficiently established; (4) buyers require strict credibility, security, supply flexibility, etc. In the process of future commoditization,

market players may have to change such ideas concerning LNG trade.

If commoditization ends up merely increasing price flexibility, buyers will have difficulties passing on the cost to end users, and sellers will have a risk of halts to production. We should strengthen trade flexibility, after securing a stable supply and stable prices, which are the key pillars of LNG trade. What is important is to carry out commoditization in a way that will increase the merits for both sellers and buyers.