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“New Exploitation of the Natural Gas Market in Asia”

Energy security is a particularly critical issue in Asia, where energy demand is growing rapidly. In the context of this issue, natural gas has played an extremely important role, and I consider it highly meaningful to discuss its role in Japan, which has been a driving force in the development of the liquefied natural gas (LNG) market for the past 30 years.

Since 1969, exporters have shipped more than 16 thousand cargoes of LNG. Efficiency has been improved in each of the processes of liquefaction, transportation, and re-gasification. For example, more than five thousand cargoes of Brunei LNG have been shipped since production began in 1972, and the amount of production has increased by as much as 40% through technical innovation.

The LNG market in the Asia-Pacific region has developed based on strong trust and close ties between sellers and buyers. These factors will continue to be important, but the market environment is clearly changing. Amid such change, one of the most important points is how to cope with increasing demand. Also in the Atlantic market, demand for LNG is estimated to increase significantly due to an increase in energy demand and a decrease in gas supply within the region. Partly because the introduction of bigger LNG ships has reduced the transportation cost to less than half since 1990, more and more countries are starting to export gas.

Reflecting these situations, there are moves even in the Asia-Pacific market to try to depart from the traditional LNG market form. What is important here is whether the Asian market can set effective prices to meet increasing demand. This is because, due to soaring gas prices and high flexibility in the North American market, this region has come to be recognized as attractive not only by LNG exporters in the Middle East but also by those in the Asia-Pacific region.

In the Asia-Pacific market, LNG contracts have become more and more flexible, and enlargement of the LNG industry and changes in contract agreements have promoted flexibility. However, when we consider factors such as high transportation costs, transportation capacity, limitation of accepting facilities, and vast investment necessary for LNG projects, it seems likely that long-term contracts will continue to be dominant,. Spot markets for LNG will not extend beyond playing a limited role, and their share of overall LNG trade will not surpass 10%.

Aside from LNG, gas to liquids (GTL) is also perceived as another promising valid usage form for natural gas. The merits of GTL are that it can be used in

internal-combustion engines and that it can greatly reduce emissions of toxic substances. Shell conducted driving tests for GTL vehicles in Japan and Shanghai, and obtained the results that GTL vehicles can greatly reduce emissions of nitrogen oxide , particulate substances, hydrocarbons, carbon monoxide, etc. without damaging engine performance.

For the past 30 years, LNG has been stably and efficiently supplied in the Asia-Pacific region, and has achieved great success. In this region, it is possible to develop new capacity to supply LNG that can sufficiently cover increasing demand for years to come. In spite of some existing problems, the LNG business will continue to achieve success in the Asia-Pacific market in the next 30 years also, by using its experience and knowledge in this market.