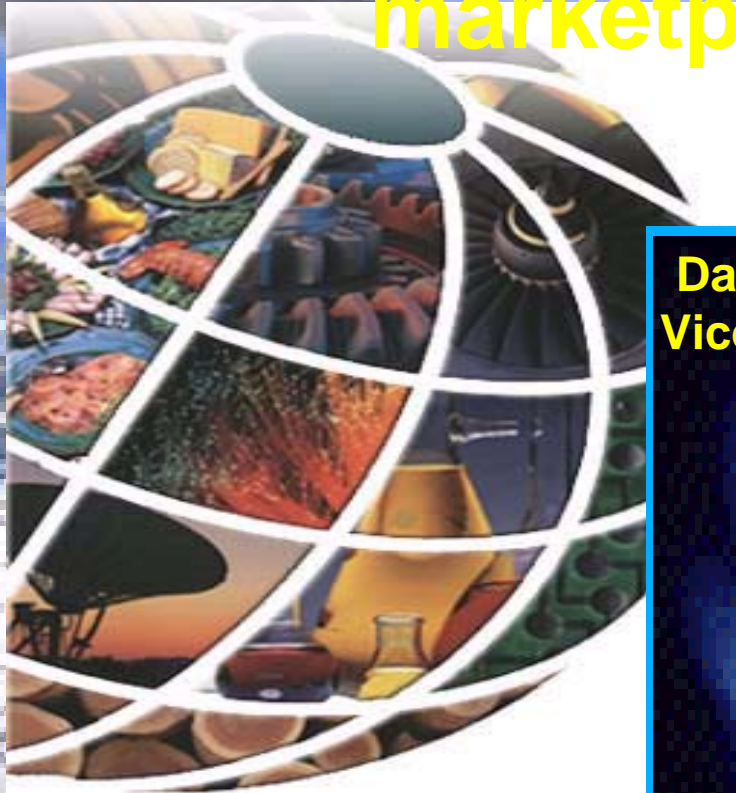


# Commoditisation of LNG and a more flexible contractual terms: A new marketplace for LNG?



By

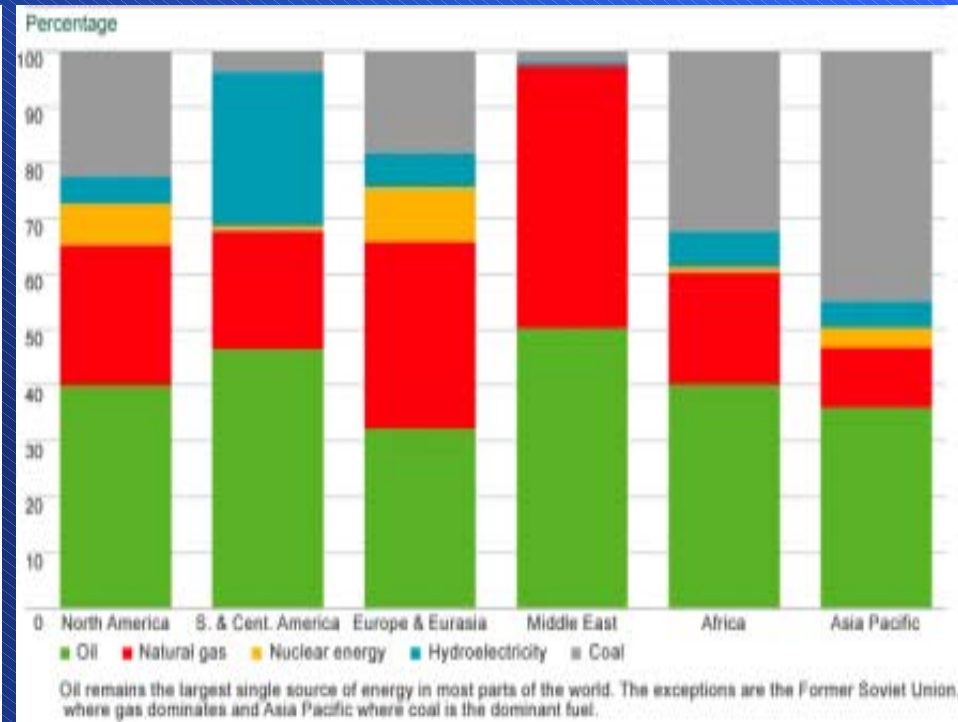
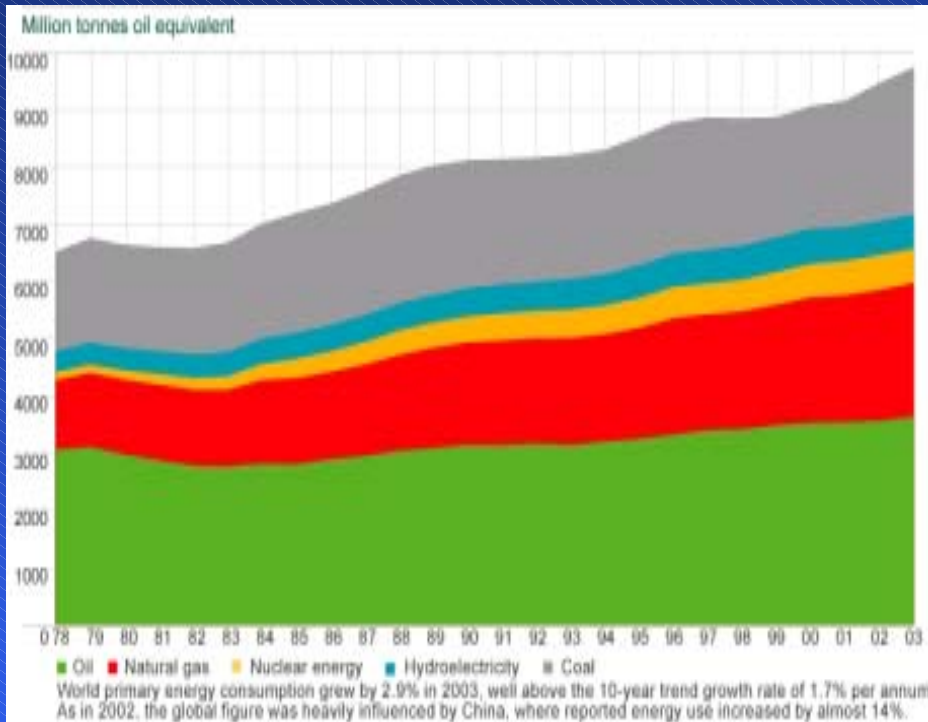
**Datuk Abdul Rahim Hashim**  
**Vice President Gas Business**  
**PETRONAS**



**Asia Energy Forum**  
**September 28th, 2004**



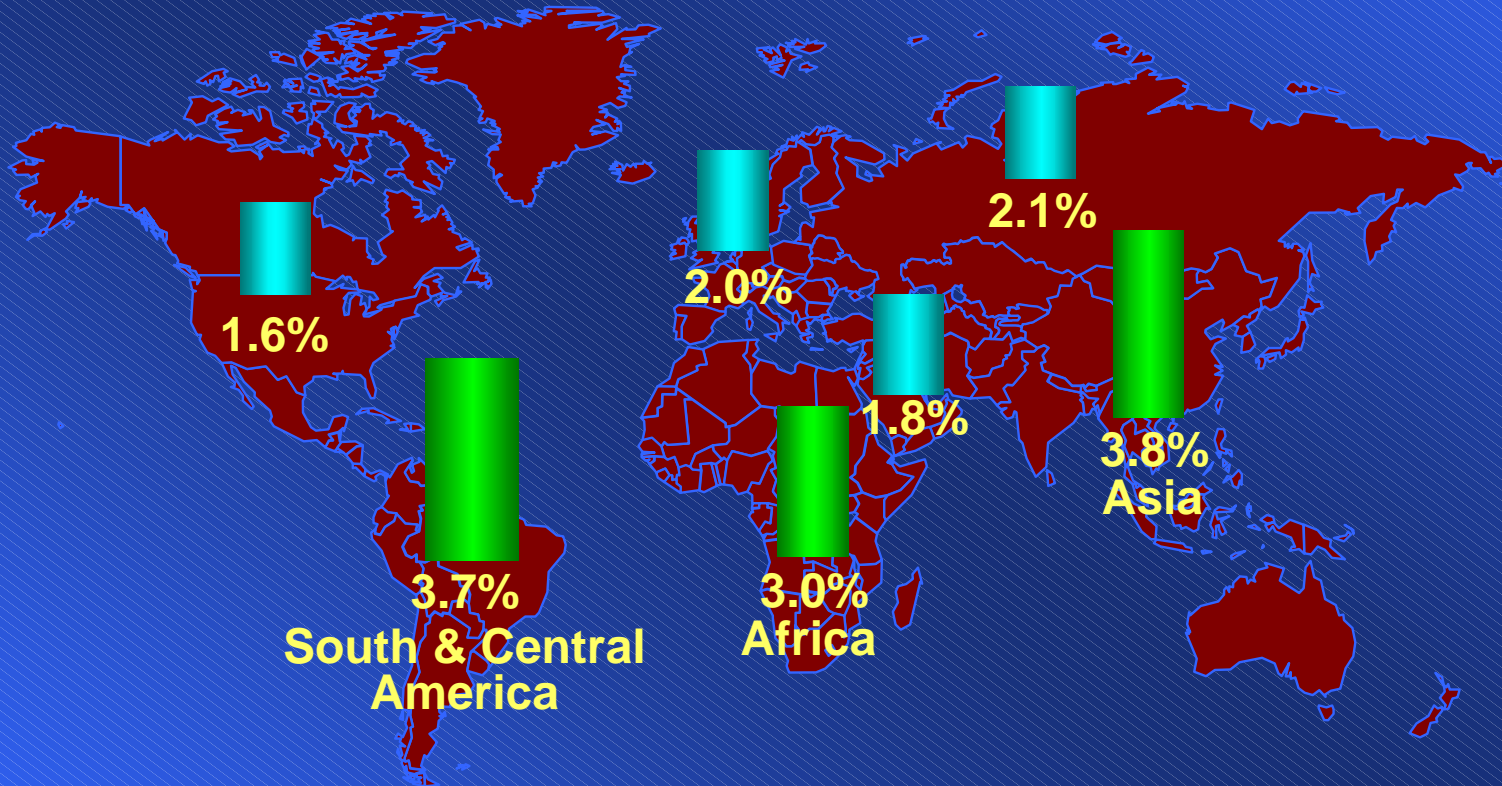
# THE ROLE OF NATURAL GAS IN THE PRIMARY ENERGY MIX



- Natural gas provides 24% of global energy demand, and the share is increasing
- Global natural gas consumption is projected to increase by 2.2% per year from 2001 to 2025, higher than the annual growth rates of oil at 1.9% and coal at 1.6%
- Gas to supersede coal by the end of the decade

# ASIA: AN IMPORTANT MARKET FOR NATURAL GAS

CAGR 2003-2025

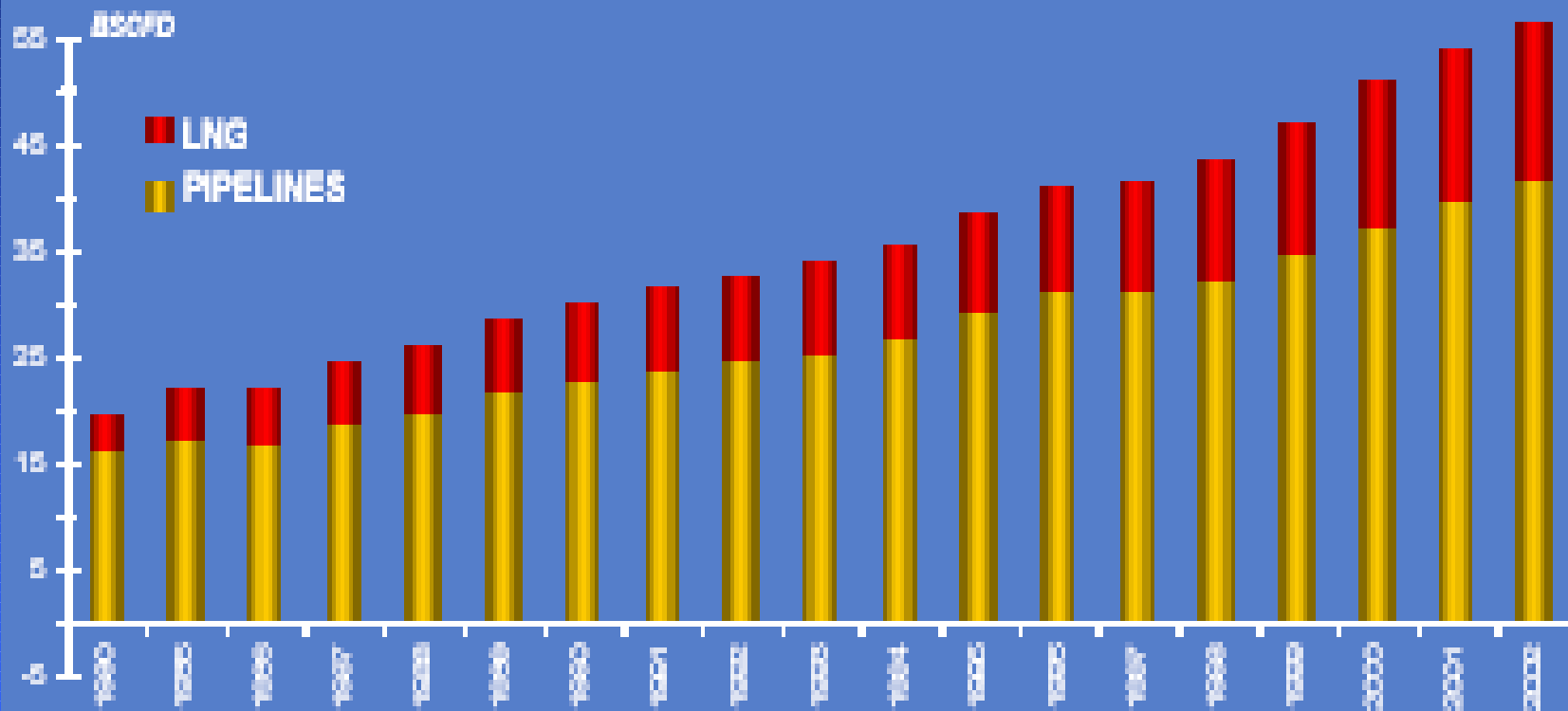


- Asia Pacific natural gas consumption of 3% was higher than the global consumption of 2.35 in 2003

# GROWING IMPORTANCE OF LNG IN GLOBAL NATURAL GAS TRADE

LNG's share of traded volume

15% 22% 22% 22% 23% 22% 23% 24% 24% 24% 24% 23% 24% 24% 25% 26% 26% 27% 28%



# FOCUS OF TODAY'S DISCUSSION

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**To discuss the prospect and impact of commoditisation of the LNG business as a result of the changing nature of the LNG trade.**

**To explore the impact of Asian LNG buyer's request for a more flexible contract on the nature of the Asian LNG trade.**

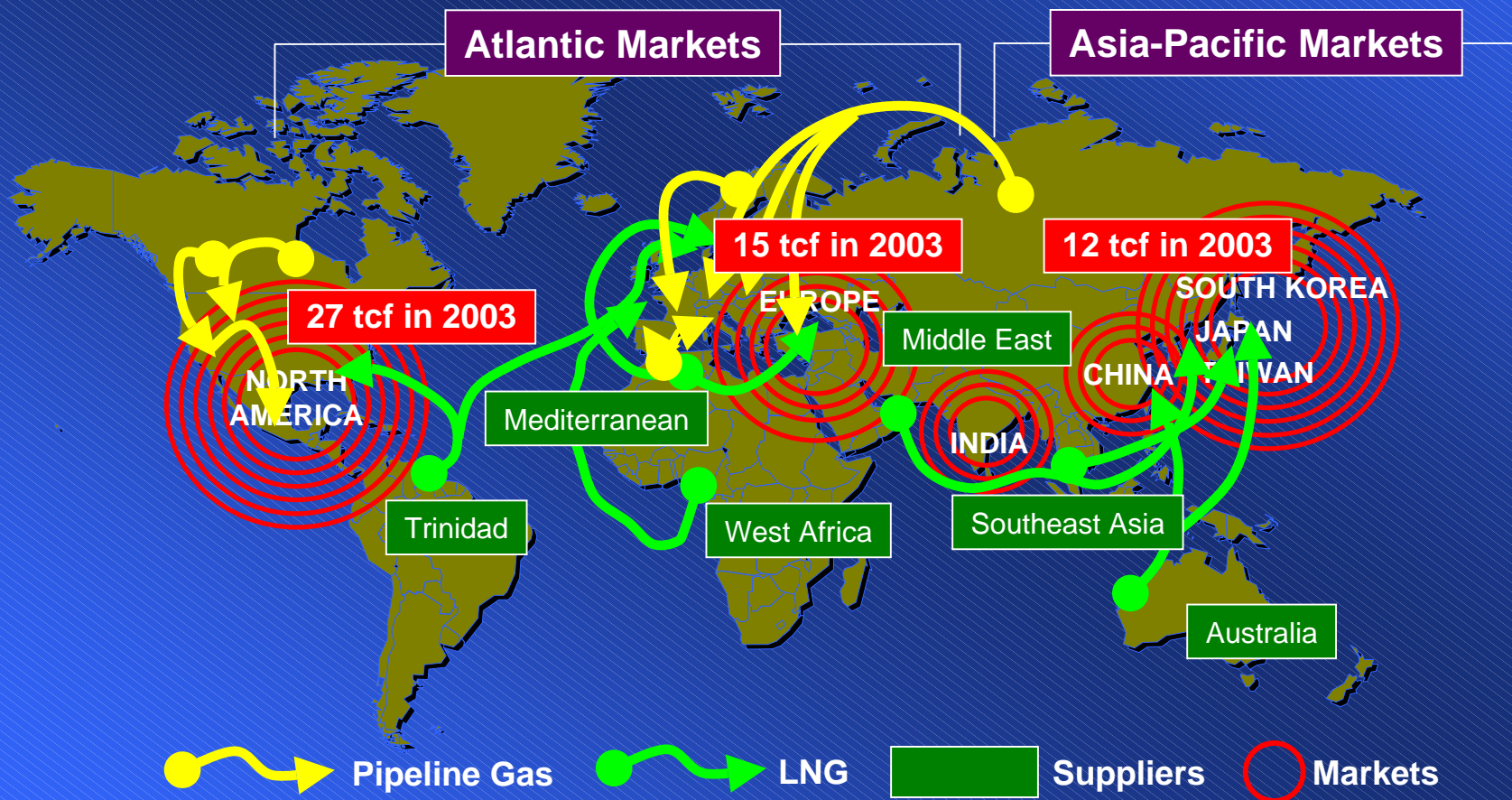


# THE PICTURE IN 2003 ....

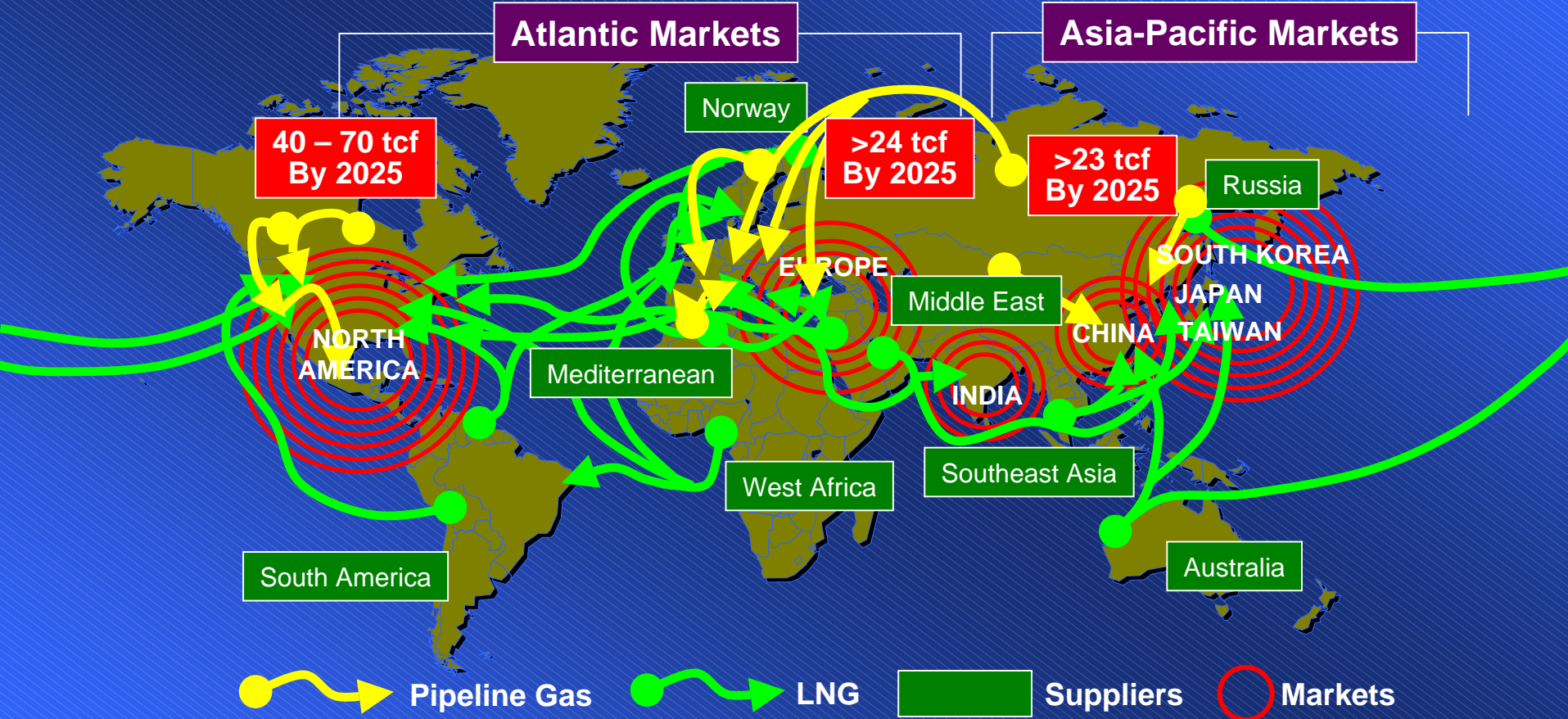
## 2003 Trade Movements :

LNG : 123 MT (or about 6 tcf of gas)

Pipeline : 16 tcf



# LNG LINKS MARKET GLOBALLY



Source : BP Stats 2004/Taylor-DeJongh/CIRU/Douglas-Westwood Ltd

# EVOLUTION IN THE LNG MARKETPLACE

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- Disparity in demand and supply
- Liberalisation in some economies in the East
- Technology
- Development of Middle East LNG projects



*Will the increase in liquidity lead to commoditisation of LNG and a more flexible contractual framework for Asian LNG market?*





# COMMODITISATION: A DEFINITION

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**A situation when illiquid financial contracts are changed or modified in a way that promotes trading and results in a more liquid market.**



**When a product becomes indistinguishable from others like it and consumers buy on price alone, it becomes a commodity.**

# CHALLENGES TO COMMODITISATION OF LNG

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## Commoditisation of LNG

- Capital intensive industry
- Gas quality – Disparity between markets
- Availability of infrastructures
- Buyer's request for reliability, security and flexibility of supply



*Is there willingness for a change in mindset amongst market participants?*



# IMPACT OF COMMODITISATION AND A MORE FLEXIBLE CONTRACTUAL FRAMEWORK

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**Prices may be subjected to manipulation by traders**

**Security of supply may be compromised**

**Change in the nature of buyer-seller relationship**

**Unclear demarcation between the role of buyers and sellers**



*If commoditisation is well and good, are we willing to make the necessary trade-offs?*

