The Asian Quest for LNG in a Globalising Market

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Global LNG trade is set to expand by one-third to 450bcm by 2019, and likely to increase further.

Increase in global LNG trade will be supported by Asia, mostly by strong demand from China and non-OECD Asia.
What is making the Asian gas price so high?

- Wide price gap exists among major regional gas markets for several years.
- Not only is it the fastest-growing gas market, Asia is even more attractive for producers because Asian buyers pay the highest prices.
- Less tight LNG spot market once new LNG projects start in the near future.
Southeast Asian countries are already interlinked by pipeline and plan to increase these linkages through Trans ASEAN Gas Pipeline (TAGP) and LNG.
Henry Hub indexation in new contracts is not the only solution

- US Henry Hub reached as high as USD 8/Mbtu in early 2014, whereas Asian spot prices fell below USD 11/Mbtu during this summer.
- Longer term, a mix of oil, Henry Hub and Asian hub indexation could govern LNG contracts.
Asian countries are looking for more competitive markets

- China
  - Unbundling and price reform are under way to tackle the issues related to a larger import dependency.

- India
  - There have been further attempts to change the pricing regime, although reform has not yet been undertaken.

- Japan
  - Electricity system reform progressing as well as discussion of gas system reform
  - Already launched new platform for LNG futures transaction

- Korea
  - State-controlled KOGAS efforting to reduce LNG import prices by teaming up with private companies as well as Japanese utility.

- Singapore
  - Already a liberalised market with LNG trading hub established, and waiting for its business expansion.

- Many Asian countries are undertaking their own market reforms to enhance market efficiency as well as market competition.