

Toward the creation of Asian LNG hub

A horizontal bar composed of three segments: green on the left, orange in the middle, and blue on the right.

1st East Asia Energy Forum
Bohol, Philippines,

9 August 2017

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What is Asian LNG hub?

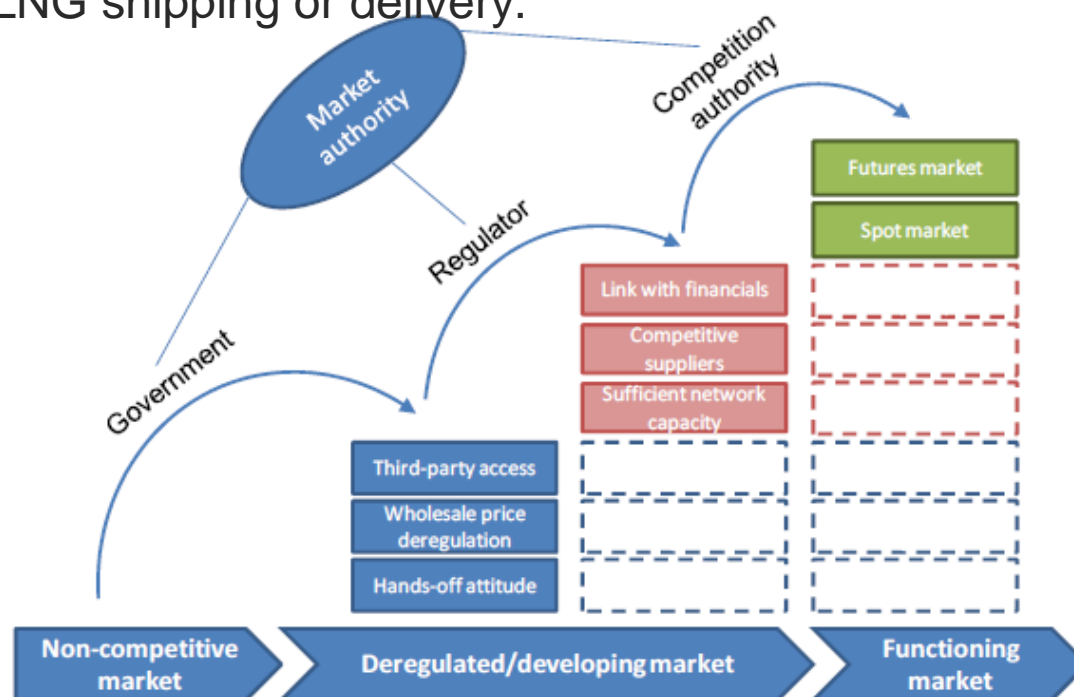
- Asian LNG hub is a focal point of active LNG spot trading in Asia.

- Asian LNG hub has to:
 - have its own benchmark price that represents the Asian LNG market
 - reflect the physical market balance of LNG
 - have various types of market participants

- Asian LNG hub can be:
 - physical hub or virtual hub
 - FOB point or Delivered point
 - traded in public market or be a reference point of price assessment

Do we follow the European way of hub creation process?

- European natural gas hub, a trading hub of domestic wholesale market, was created through market liberalization and activated spot trading.
 - It took more than 20 years to realize.
 - Well developed infrastructure, various pipeline supply sources, a variety of market players, soft market conditions were needed to realize the hub creation.
- Realistic path of Asian LNG hub creation will be to have a focal point of international LNG shipping or delivery.



Supply flexibility of LNG

- Inflexible contractual terms prevent liquidity improvement in Asian LNG market.
 - Contract duration (20 years+)
 - Take or Pay
 - Destination clause

- Background of inflexibility
 - Remote greenfield projects need traditional rigid contract to manage the investment risk.
 - Flexible LNG can cause additional cost in logistics.

- Changing realities in the world LNG market:
 - Increasing supply of US LNG without destination restriction
 - Operational flexibility in tolling business model in the US
 - More price elastic demand in emerging markets
 - Market liberalization of the uncertain demand for each buyer
 - Uncertainty in nuclear power generation due to policy and PA factors

- Flexibility is essential and useful for both importers and exporters because right price signal will adjust demand/supply efficiently.

Implications of JFTC's study on LNG trading

- Japan Fair Trade Commission (JFTC) published a study of international LNG trading practice.

- Significance of the study
 - The study clearly mentions that the destination restriction in the existing LNG long-term contract violates the Japanese Anti-Monopoly Act.
 - It urges Japanese companies not to accept the destination clause in the new and renewed contract.
 - It recommends the companies to renegotiate the destination restriction also in the existing contracts.
 - It first comments that Take-or-pay provision also can violates the Anti-Monopoly Act.

- Challenges
 - Effectiveness to foreign firms is the biggest challenge.
 - Application to DES contracts

- It can set a standard of long-term contract if FTCs in other countries may follow the JFTC study.