

LNG demand in a transforming industry – impacts for sellers

KPMG Global Energy Institute



Introduction

The global liquefied natural gas (LNG) market is transforming. In early 2016, the USA is expected to start LNG exports from the Gulf coast, a plot twist that was unthinkable even 10 years ago. Australia will soon be an exporter on a scale to rival Qatar, while new importers are springing up from Panama and Lithuania to Egypt and Vietnam. LNG importers are becoming exporters and vice versa.

- **The LNG market is globalizing** as the buyer and seller numbers and types expand.

— **Pricing models are changing** under the stress of increased supply and lower energy prices. High prices destroy demand, but low prices destroy supply. Prices are set to converge between the major markets, while new pricing nodes may emerge.

— **There are major uncertainties over demand.** Participants' expectations on price and plans for new supply hinge on anticipated demand.

We have identified short-, medium- and long-term demand uncertainties:

Short-term	Medium-term	Long-term
<ul style="list-style-type: none"> — Japanese nuclear restarts — Ukraine crisis — LNG storage — Trading house vertical integration 	<ul style="list-style-type: none"> — New buyer alliances (JERA) — Japanese deregulation — Chinese economic growth — New Russian pipelines — New importers 	<ul style="list-style-type: none"> — Asian urbanization — LNG in transport — Renewable energy — Climate policy

This summary is from a longer report and is one in a series exploring LNG markets — how they are changing, and how participants should react.

KPMG has set out six considerations for LNG sellers

1. Understand LNG demand holistically

Compare the attractiveness of different end-user geographies, including large, but mature, markets, big markets with potential for growth, and emerging niches. On a global scale, strategic choices by gas exporters to shift from one market to another—for instance, Russia's changing pipeline focus from Europe to China—can open up LNG supply opportunities.

2. Segment markets by price-sensitivity and pricing basis

Some markets have gas-on-gas competition, some feature competition against oil-indexed pipeline gas, and in others, LNG competes against coal for bulk demand. Demand and price are further complicated by policies that distort pure economics. To understand demand intelligently, it should be measured against the right LNG price basis and policy mechanisms.

3. Create demand

Create demand by accessing niches and new markets and creating new import points by investing in or facilitating regasification terminals and connections. Joint ventures could be considered to create demand; for example, on gas-fired power plants in existing coal-using markets or on LNG shipping. Singapore's ambitions in LNG bunkering point to a way ahead that may be linked to China and India for both sea and ground transport.

4. Understand buyers' business strategies

Align with marketing and business strategies that will differ between a traditional large LNG project looking to secure anchor customers; a Henry Hub-based tolling project in the USA; a small floating LNG project; and a portfolio player or trader with many sources and destinations. These different business models need to match with the choice of pricing bases and contract durations and the access to physical infrastructure such as tankers and regasification terminals.

5. Maintain optionality and competitiveness

LNG is a cyclical business. The market will tighten again and prices will rise, benefiting companies with diverse portfolios that can be developed and traded quickly.

Supply needs to be competitive against other LNG and other energy sources. For projects not yet in construction, seek LNG liquefaction cost reduction. During downturns, only the most advantaged projects — large, close to market and/or geologically favorable, can go ahead.

Execution and cost control are essential, as discussed in the recent KPMG papers, including *Is Canada still considered an LNG supplier of choice?* and *Unlocking the supply chain for LNG project success*.

6. Determine a strategy for mixed LNG/pipeline exports

Determine a strategy for mixed LNG/pipeline exports, in the case of exporters such as the Eastern Mediterranean countries, Russia and Algeria, who have a choice between the two export methods. This involves balancing netback pricing against strategic objectives of buyer diversification and maintaining access to premium markets while opening up new ones.

Conclusion

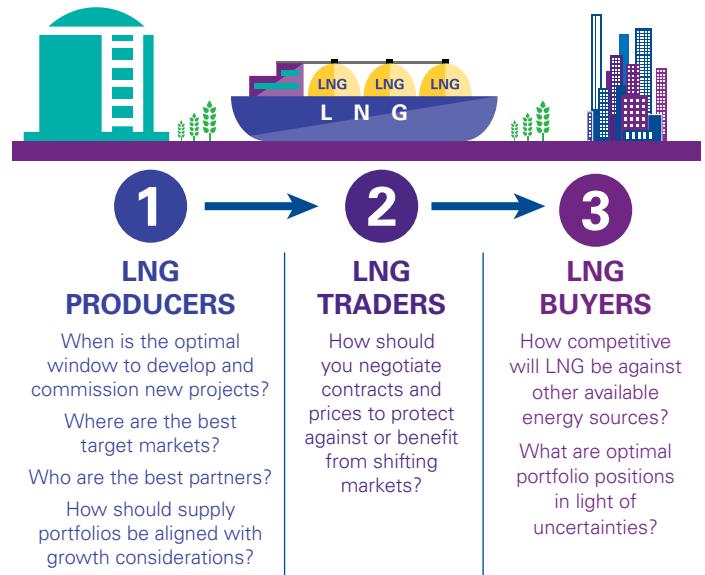
An LNG market that is globalizing, transforming and becoming more varied presents all participants with challenges. Uncertainty over demand from traditionally dominant buyers requires competitiveness and eyes for new markets from LNG producers and traders. Buyers, conversely, should make the most of their current strong position, while deploying new strategies.

The winners along the value-chain will be those who can act counter-cyclically, who can create and maximize markets, instead of reacting passively to them, and who can identify the

major long-term trends driving LNG demand, while also staying flexible to seize emerging opportunities.

LNG market strategies

In our next paper we will consider impacts on supply for buyers. These two reports bring together key strategic decisions for each part of the market, including LNG producers, LNG traders and LNG buyers.



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