What do Asian LNG buyers want?

--looking for changes of LNG pricing mechanism

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Global LNG Supply and Demand

Key Figures 2012

- 236.3 million tons LNG imported
- 59.2 million tons LNG traded on a spot or short-term basis or 25% of total trade

LNG Exporting Countries 2011

LNG Importing Countries 2011

Sources: Waterborne LNG Reports, US DOE, PFC Energy

Source: GIIGNL
Global LNG demand will be 370-400 mtpa by 2020.
Global LNG liquefaction capacity will reach 450-500 mtpa by 2020.
LNG supply meets demand.
Asia Pacific region will have the biggest demand share.

Source: PFC
Global LNG Supply and Demand

- **Qatar** – existing plants, 80 mtpa
- **Australia** – under construction and proposed, 100~ mtpa?
- **North America** – under construction and proposed, 60~ mtpa?
- **Mozambique** – new discoveries and proposed, 70~ mtpa?
- **China** – shale gas potential
  - and.......... 
  - ................
  - ................etc.
- The biggest moment in global LNG history
Imbalanced regional demand and supply
LNG trade breaks geographical restrictions and links LNG markets around the world. Energy resources and gas consumption market are connected.
With LNG trade scope expanding, LNG importing countries increase to 26, exporting countries increase to 18 in 2012.
Asian demand is increasing rapidly and accounts for 71% of world total.

Source: GIIGNL, other
Regional LNG Pricing Mechanism

LNG Price in 2012

Source: Platts, other
Regional LNG Pricing Mechanism

- Significant regional characteristics of LNG price under different pricing mechanisms
- The regional market spreads widened

Source: BP, other
Regional LNG Pricing Mechanism

North America – gas-on-gas markets

- North American gas price has decoupled from oil price
- Market competition, gas price determined by market supply and demand

Source: BP, other
Regional LNG Pricing Mechanism

Europe – gas-on-gas markets, price indexation to substitute energy

- Europe gas price lower than Asia, price reference to NBP, Zeebrugge, etc.

Source: BP, other
Regional LNG Pricing Mechanism

Asia – oil-linkage indexation price

1970s-1980s
\[ P_{LNG} = 17.2 \cdot P_{Crude} \]

After 1986
\[ P_{LNG} = A \cdot P_{Crude} + B \]

After 1990
\[ P = A \cdot P_{Crude} + B + S \cdot \text{Curve} \]

Source: BP, other
Asia as the biggest market for LNG is supporting projects under-construction and proposed.

However, Asian LNG buyers has been paying high price premium.

Asia as developing region will be constrained in demand by high LNG price.

Asian LNG buyers are exploring new pricing mechanisms: Introduction of HH etc

Stable LNG demand in Asia and sustainable pricing help to support global LNG development.

Proposing changes of LNG Pricing mechanism in Asia:

• the integration of regional resources, the establishment of the region's natural gas trading center, the liquidity improvement of the LNG market
• the influence of market supply and demand on LNG price
• the promotion of gas-on-gas pricing mechanism
Global LNG Price Convergence in Future

- So what are we looking for?
- Let’s work together to find solutions, maybe:

\[ P_{\text{Asia}} = \frac{(\text{N.A. price} + \text{Europe price})}{2} + \text{premium/discount} \] (negotiable)

- It should be sustainable and beneficial to the global LNG development
Thank you for your attention!