Domestic LNG Pricing in China

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China has developed the world’s largest Downstream LNG market, reaching 24 million tonnes in 2018.

Source: Sublime China Information
Downstream LNG Pricing

- ~25% of LNG imported to China is sent out in liquid form
- DLNG pricing is de-regulated and relatively transparent
- The cost of DLNG can be estimated:
  - in coastal areas as LNG import price + VAT + terminal fee
  - in inland areas as pipeline gas price + liquefaction cost
- The price of DLNG depends on multiple factors …
Ex-terminal DLNG prices vs. CLC and JKM (adjusted)

DLNG prices (US$/MMBtu)
Southern China

Note: CLC and JKM are adjusted for regasification fee and VAT
Sources: IHS, China customs, Sublime
Ex-terminal DLNG prices vs. CLC and JKM (adjusted)

DLNG prices (US$/MMBtu)
Southern China

Ex-terminal closer to CLC

Ex-terminal rises with JKM

01/2017 04/2017 07/2017 10/2017 01/2018

Ex-terminal Guangdong  JKM-ex-terminal
CLC-Guangdong

Note: CLC and JKM are adjusted for regasification fee and VAT
Sources: IHS, China customs, Sublime
Ex-terminal DLNG prices vs. CLC and JKM (adjusted)

DLNG prices (US$/MMBtu) Southern China

Ex-terminal closer to CLC

Ex-terminal rises with JKM

Ex-terminal DLNG prices vs. CLC and JKM (adjusted)

DLNG prices (US$/MMBtu) Northern China

Ex-terminal rises faster than JKM

Ex-terminal closer to CLC

Note: CLC and JKM are adjusted for regasification fee and VAT
Sources: IHS, China customs, Sublime
Onshore DLNG and Pipeline Gas Prices

(US$/MMBtu)

Sources: China customs, IHS, CEIC
Onshore DLNG and ex-terminal Prices

(US$/MMBtu)

Sources: China customs, IHS, CEIC
Conclusions

- DLNG accounts for a significant part of China’s LNG imports.
- DLNG is generally priced at (or above) the higher of average and spot LNG import prices.
- At times of gas shortage, DLNG supplies may be restricted in favour of residential gas use.
- Thus, DLNG acts as a sort of safety valve for the China gas market.
- This leads to higher price volatility in DLNG, especially inland, which may deter wider adoption.
- A shift towards market-based pricing in the wider gas market, will likely also reduce volatility in DLNG prices.