

## Evolving LNG Market with Gas Security

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Your excellencies, ladies and gentlemen,

Thank you for participating in the LNG Producer-Consumer Conference 2015.

We are hosting this fourth Conference having more than 1,000 participants from around 50 countries and regions. I would like to express my sincere gratitude to all of you.

### 1. Changes in the LNG Market: Toward a Functioning LNG Market

The IEA has predicted the “golden age of gas.” The gas is on the way to become first fuel, with role of LNG on the rise.

Today, I would like to talk about key issues to make the age golden for both producers and consumers.

The first Conference was held three years ago. Since then, we have witnessed remarkable changes in the market. For example:

- (1) The share of spot transactions and short- and medium-term transactions has risen to 30% of worldwide LNG transactions.
- (2) More relaxed destination clause has provided new opportunities for buyers to resell LNG.
- (3) New gas-linked pricing in addition to conventional oil-linked pricing provides wider price-setting options.

These changes lead to creation of “well functioning market” with more flexibility and liquidity, which brings merits to both producers and

consumers. We must keep this momentum.

## 2. Changes in Behavior of Producers and Consumers

Behind these changes are, qualitative and quantitative changes of both producers and consumers.

On the consumer side, let us first look at quantitative changes in the case of Japan. In July, the Government of Japan formulated the Long-Term “Energy Mix” towards 2030. The share of LNG in the power generation mix will fall from over 40% today to around 27%. Last month, Sendai Nuclear Power Plant restarted after the Nuclear Regulation Authority confirmed its conformity with the new and stringent regulatory requirements. This event ended the more than two years of zero nuclear period. However, Japan will continue to be the largest importer of LNG in the world.

Concerning qualitative changes, Japan passed the bill for the comprehensive reform of the electricity, gas and heat supply markets in June. We will build a more competitive energy market. Buyers will focus not only on stable supply but also on economic efficiency. This qualitative change on consumer side is the “shift towards risk preference”. As a result, consumers will seek a wider variety of LNG procurement options. We will see more international joint procurement and formation of strategic alliances such as between TEPCO and Chubu Electric Power.

On the producers side, US shale gas will finally cross the Pacific Ocean next year. Other quantitative changes expected include new projects in Australia. The potential of Canada, Mexico and Argentina are also attractive. On the other hand, as a result of the falling oil prices since last year, upstream investment is shrinking in some producer countries. In order to maintain a stable LNG supply in the medium to long term, we expect continued investments on the producer side.

Now, producers also need to make qualitative changes. Contributing to

development of LNG market through more flexible contracts will become more important in making project investment decisions. Such a qualitative change on producers' side may involve risks in the short term. However, such change will eventually lead to building "well functioning market" with more flexibility and liquidity. This will benefit both producers and consumers by reducing their risks.

These changes in the behavior of consumers and producers will pose challenges on both sides. However, the changes will promote the evolution of the market, which in turn will promote further changes in their behavior. This synergy will improve the LNG market.

### 3. Evolution of the LNG Market with Gas Security

The golden age to come must be resilient. Emergency measures are crucial to respond to unexpected supply disruptions triggered by natural disaster, that cannot be solved by market mechanism. In Japan, after the Great East Japan Earthquake, we needed additional 20 million tons of LNG, equivalent to 8% of the global LNG demand, in order to compensate for the loss of nuclear power generation. Japan managed to procure additional supplies of LNG by borrowing supplies from other consumer countries, including South Korea, and by increasing supply from producer countries such as Qatar.

Europe is also paying attention to the risk of gas supply disruption through pipelines. Based on the result of the stress test assuming multiple emergency scenarios, Europe is now formulating an LNG strategy.

Unlike oil, LNG is difficult to store and has no IEA framework for emergency response. In this regard, we need to build an international emergency response capability for LNG.

Through the experience of the Great East Japan Earthquake, Japan learned the need for an accurate supply-demand information in case of emergency. This includes additionally available supply sources and the

possible amount of energy demand reduction by switching fuel sources. Such information becomes accessible by building mutual trust through regular information exchange between consumer and producer, as well as consumers' collaboration. Today, Dr. Fatih Birol, the IEA's new Executive Director, is attending this conference. I expect IEA will make further efforts to promote evolution of the LNG market through gas security, which is a new challenge in the 21st century. I would also like to address this issue in the G7 Kitakyusyu Energy Ministerial Meeting in next May.

#### 4. Producer-Consumer Cooperation to Make LNG More Attractive Energy Source

LNG has attracted attention as a clean fossil fuel with diverse supply and flexibility of transportation. If the LNG market functions better with more enhanced security, LNG will become a more attractive energy source. This will benefit both producers and consumers.

The LNG Producer-Consumer Conference serves as an open platform. Players of all kinds – governments, international organizations, companies and experts – can come together under one roof, and discuss on how to make the market function better. In addition to the excellent ideas and information developed in this room, our common aspiration to improve LNG market will make the “golden age of gas” come true even faster.

Thank you for your kind attention.