

Asian LNG Pricing: are buyers and sellers seeking a price level or a price mechanism?

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The search for an acceptable price level

- **Buyers seem to be requesting a level below \$12/MMbtu**
- **Sellers seem to be requesting a higher price level**

WHAT IS THE RATIONALE BEHIND THESE POSITIONS?

- **BUYERS:** believe a price above \$12/MMbtu will result in loss of competitiveness
- **SELLERS:** doubt that new LNG projects can be developed at a price below \$12; and need to be compensated for very expensive projects in operation or under development

Only a market price mechanism can provide an enduring rationale

- **The JCC mechanism had a rationale for many decades but (in most countries) no longer even approximates market prices**
- **A fall in oil prices removes some immediate financial pain for buyers – but does not resolve the basic problem**
- **There is a lack of established mechanisms for Asian countries to adopt but:**
 - **JKM and the Singapore hub are moves in the right direction**
 - **a Japanese futures market is a good aspiration**
 - **the Shanghai “hub” (is already?) will grow into a market price for China**



Mechanisms from other markets and hybrids

- **NBP and Henry Hub reflect supply/demand dynamics of other markets;**
- **A mix of NBP, Henry Hub and JCC may:**
 - **result in a lower short term price level**
 - **help to reduce/hedge risk**

**ALTHOUGH THEY DO NOT RESOLVE THE
BASIC ASIAN PRICE PROBLEM –THEY
HAVE BECOME TRANSITION MECHANISMS**



Do Asian LNG Buyers Want Significant Change?

IN OTHER MARKETS (North America, UK, Continental Europe):

- **Buyers and sellers did not voluntarily create a new price mechanism**
- **Commercial crisis and/or liberalisation policy drove the development of hub pricing**
- **Buyers became clear about the need for hub pricing**

If buyers are seeking a sustainable market price for gas then they will have to create a credible mechanism; until that happens the parties will continue to rely on price level adjustments

THANK YOU

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