

Recommendations to Realize the Sound Development of LNG Market

LNG Producer-Consumer Conference 2014

6th November, 2014
Tokyo, Japan

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Our LNG market study

Launch

- Proposed by IEEJ at LNG Producer-Consumer Conference 2013.
- To deliver messages for LNG market.

Expert's discussion

- Held two meetings in February and September 2014.
- To share the knowledge, and to discuss issues.

Recommendations

- Presented at LNG Producer-Consumer Conference 2014

Drastic changes in energy landscape

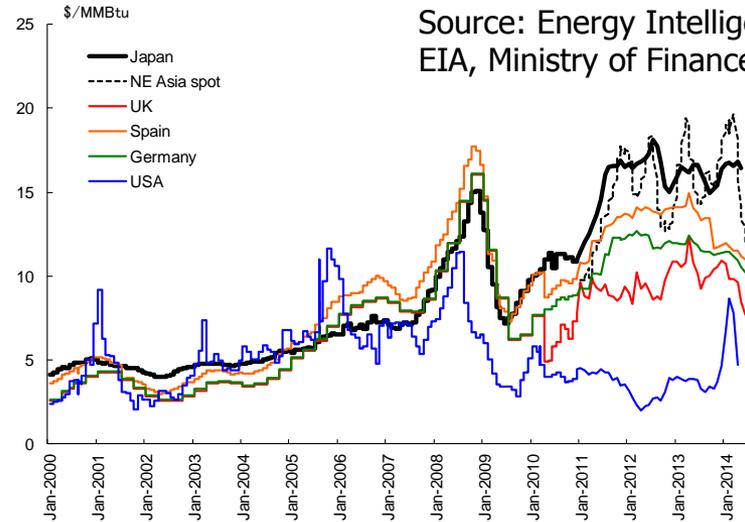
Difference in price
formation

+ Weaker fundamental in Europe and USA

In-flexibility in LNG
trade

Less arbitrage across the markets

Natural gas import prices



Source: Energy Intelligence,
EIA, Ministry of Finance GOJ

Wrong price signals to market players

Potential of natural gas use is not being
fully realized or commercialized

Multi-player's approach required

- Stakeholders in both *supply* and *demand* sides.
- While *the private sector* keeps the primary role, *the public sector* should create an enabling environment.

Pursue multi-type price formation

- Pursue pricing mechanisms that most *appropriately and timely reflect* prevailing *LNG market conditions* leading to *mutually acceptable levels of prices*.
- The public sector should *develop a market* that properly reflects regional supply and demand conditions.
 - i.e.) liberalizing end-user market, spot LNG transaction, Asian hub, develop necessary infrastructure, and reasonable open access.

Promote flexible and transparent market

- *Elimination or relaxation destination restrictions* are needed in FOB LNG transactions and in DES transactions respectively in order to develop a sound LNG market
 - * FOB = free on board; DES = delivered ex-ship
- Strengthen market function to *disseminate highly transparent prices and other market information*.

More specifically...

Difference in price formation and subsequent regional price differences



Market-base price formation in Asia

Enable diverse choice

Illiquid LNG market



Eliminate / relax destination restrictions

Disseminate price/market information and expand spot LNG market with Asian regional hub

Enable arbitrage to price mechanism functioning



Realize the Sound Development of LNG Market

Any question or suggestion?

The IEEJ gratefully acknowledge the assistance of many experts for providing useful comments and suggestions for the study. None of these expert is identified with the content of this report, with any errors and/or with the opinions expressed.

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