



APEC EGCFE Oil and Gas Meeting

11 April 2019

Sendai, Japan

Removing destination clauses: The implications on long-term LNG demand in APEC

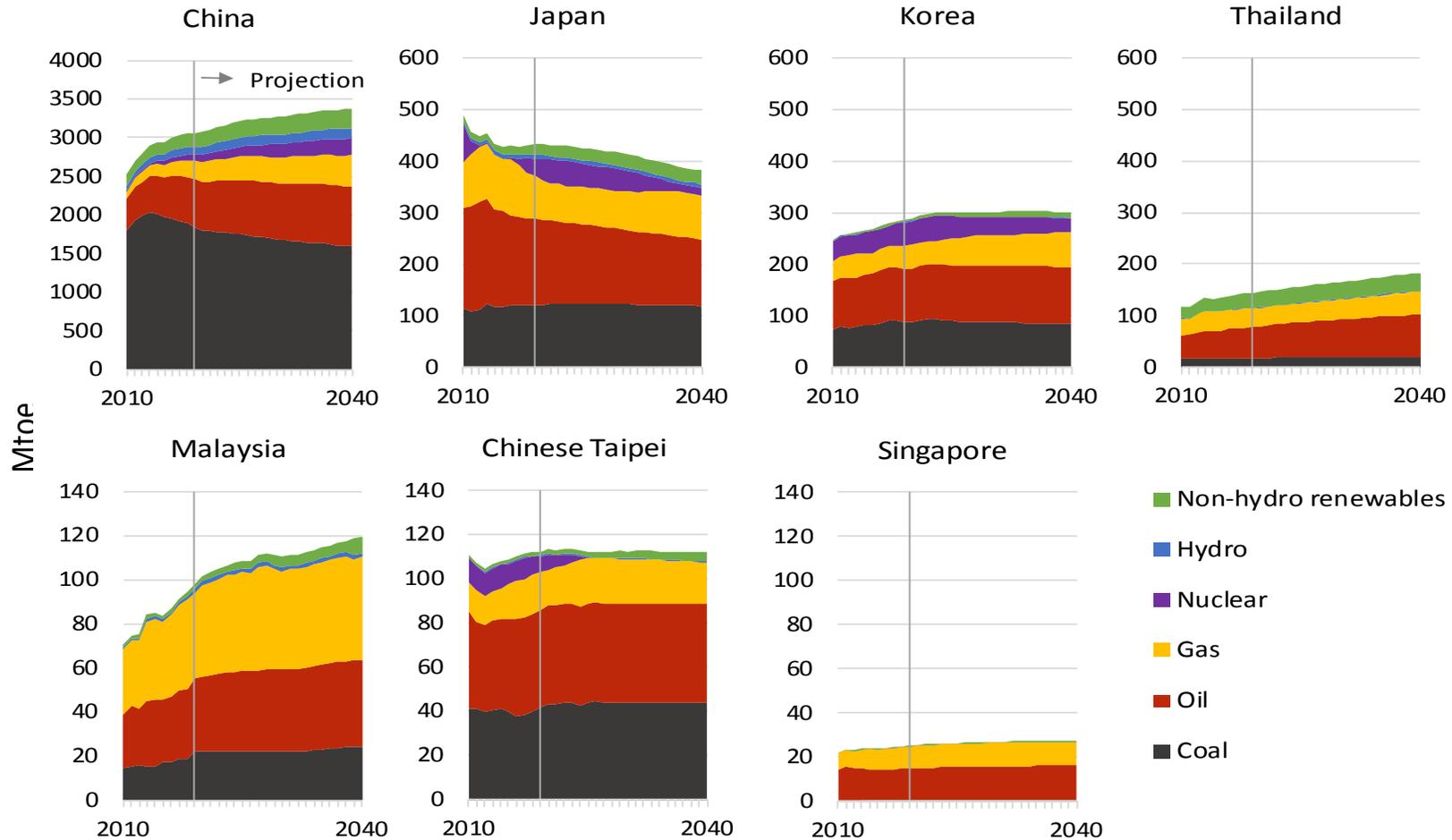
Fang-Chia LEE and Izham SHUKOR

APERC



**Asia-Pacific
Economic Cooperation**

Total primary energy supply by fuel, 2010-2040



Gas is projected to grow the most rapidly in APEC among all the fuels, which implies LNG demand continues to grow.

What is destination clause?

A destination clause

a clause that designates a list of unloading terminals as destination ports of LNG ships. In other words, the clause prevents buyers from reselling LNG to other users.

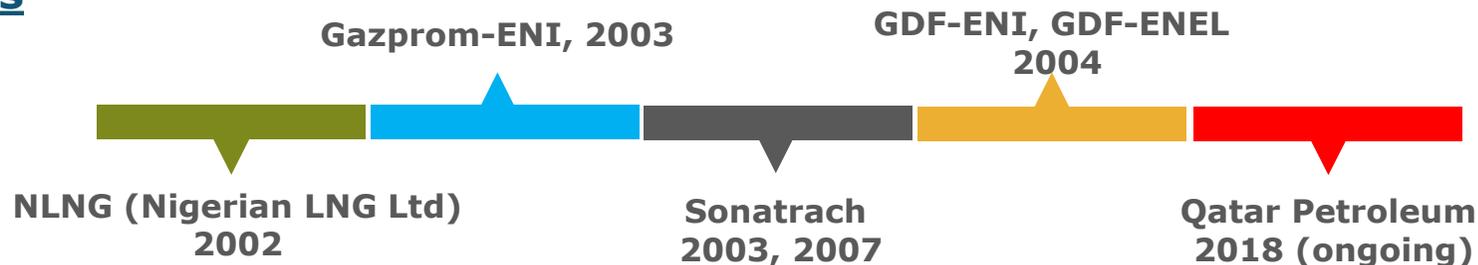
Japan's survey

Japan Fair Trade Commission (JFTC) released a report *Survey on LNG Trades: Ensuring of fair competition in LNG trades*. It concludes destination clause is *highly like to breach Antimonopoly Act*.

Possible factors of the inclusion of destination clause

- 1) For buyers: to ensure stable supply when there were few suppliers
- 2) For sellers: to restrain competition; to ensure recouping their investment (for equity holders as well); to include as a guarantee to get approval from authorities and obtain a lower interest rate loan
- 3) For buyers and sellers: minimize the delay or interruption of a supplier's operation; to serve to guarantee the trade as distance may create various uncertainties

EU cases



Methodology – Gas supply gap

Total gas import

$$Im_{i,y} = PS_{i,y} + Ex_{i,y} - P_{i,y}$$

Where:

$P_{i,y}$ = Domestic gas production projection for economy i in year y .

$PS_{i,y}$ = Primary gas supply for economy i in year y .

$Ex_{i,y}$ = Total gas export for economy i in year y .

Gas supply gap

$$S_{gi} = Im_{ti} - Im_{pipe} - Im_{lngc}$$

Where:

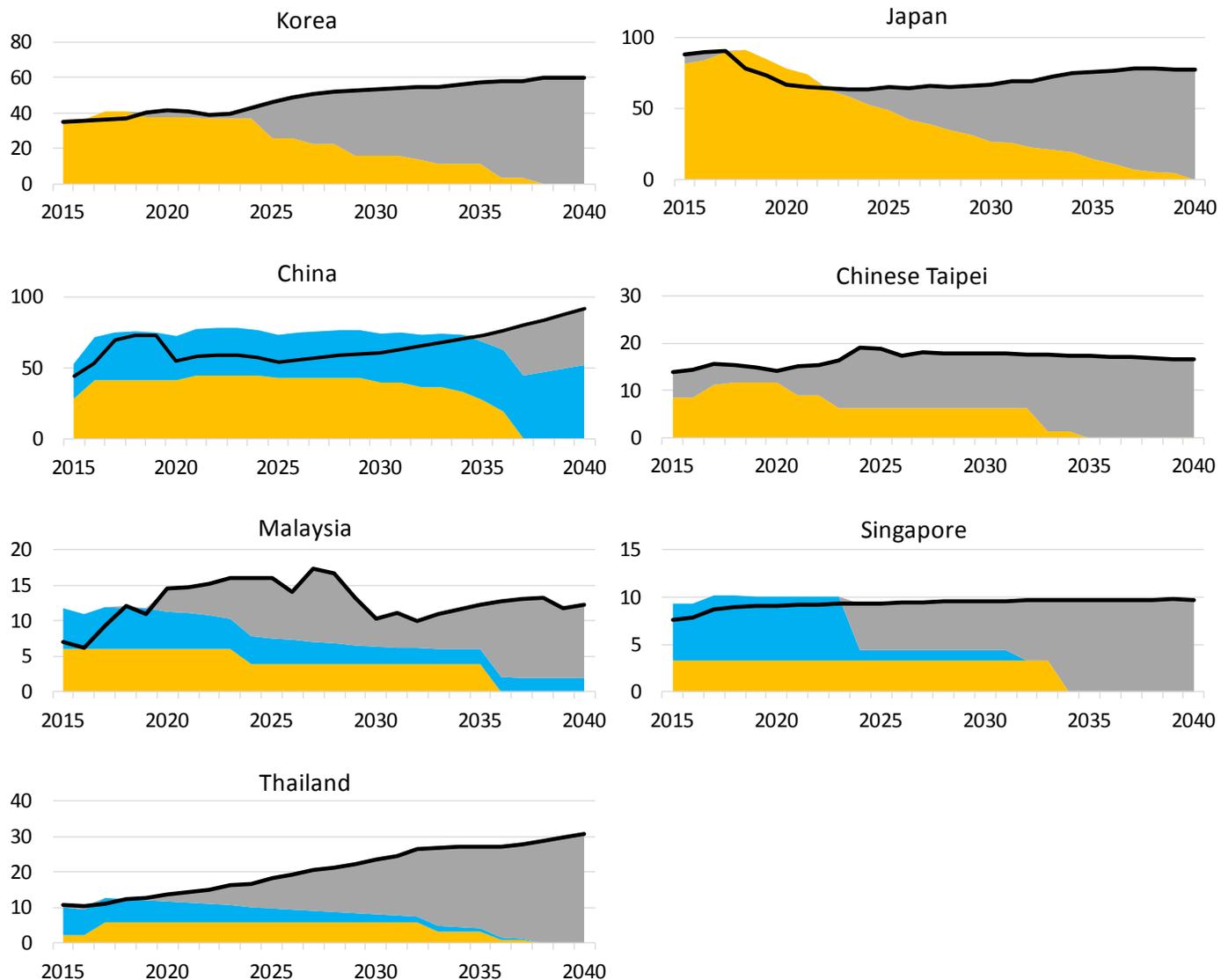
Im_{ti} = Total gas import projection for economy i .

Im_{pipe} = Projection of gas pipeline import based on existing pipeline capacity for economy i .

Im_{lngc} = LNG imports based on existing LNG supply contracts at 100% for economy i .

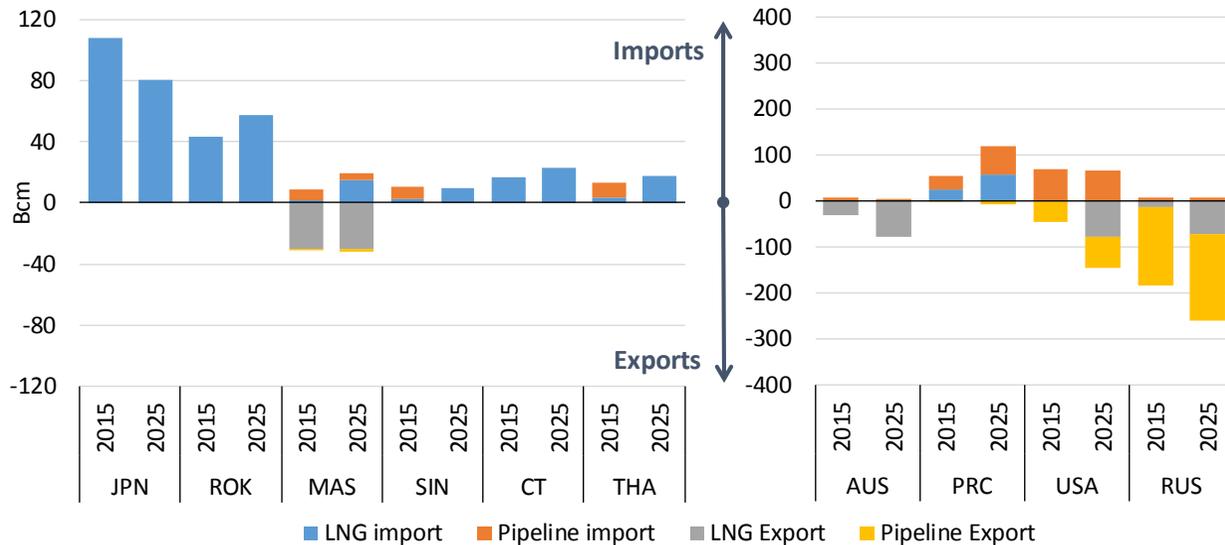
The gas import and export is based on capacity limitation, possible trade flow, domestic demand and gas production.

Projected natural gas supply gap in APEC, 2015-2040 (Mtoe)

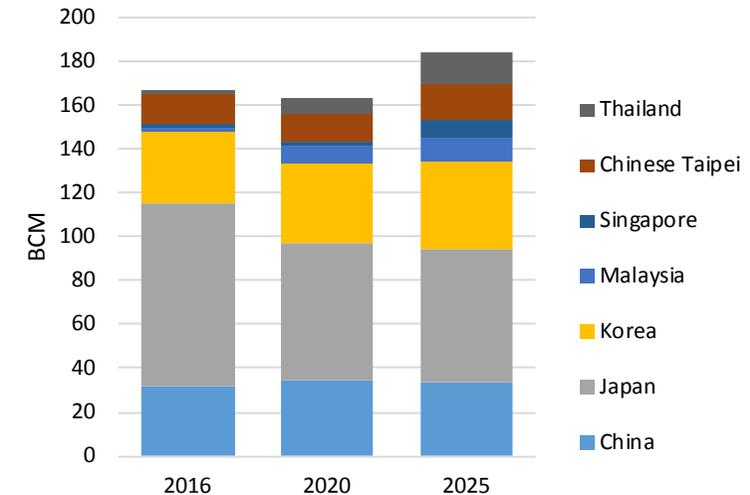


Gas trade and LNG demand projection in 2025

Gas trade, 2015 and 2025



LNG demand, 2015-2025



- **LNG is projected to become the main source of gas imports in the future.**
- **The US, Russia and Australia are projected to expand LNG export capacity in order to meet demand**

Possible effect of destination clause removal on future LNG trade

Supply security

Destination clause provides more security layer for gas importer (but lack of flexibility to re-sell the cargo). However, removing destination clause can provide options for buyers to acquire gas from spot markets

Gas pricing

There is a possibility that the removal of the destination clause will affect the LNG price as a producer may factor in the effect of removing the clause (some producers may see it as an additional risk to the business)

Gas hub creation in Asia

Removing destination clause provides more liquidity to the LNG market in Asia - to buy and sell LNG without restrictions.

Gas demand

Gas is considered one of the most flexible fuels despite the challenge in transportation. Flexible and faster fuel switch can help improve demand

Conclusion

- Gas is projected to grow the most rapidly in APEC among all the fuels, which implies LNG demand continues to grow.
- The projected gas supply gap in APEC economies presents opportunities for LNG exporters.
- Removing destination clause may be a challenge for some LNG producer and consumer, but the benefits can be huge for all in the long term.
- The US and Russia are the most promising LNG exporter to fill up the supply gap, given that these exporters do not have legacy issues of a destination clause, which makes them very flexible options for importers in APEC.



Thank you

<http://aperc.ieej.or.jp/>

