

New wave

The IGU's Joe M Kang discusses how flexible supplies from countries such as the US, Australia and Russia will bring about more short-term trading and a new wave of commoditization.

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What is driving LNG toward becoming more commoditized in the 2020s?

There is, of course, an evidently greater elasticity of supply and demand, with many more players on each side than there ever were thanks to technology unlocking new volumes and accessibility. With significant additions of new liquefaction capacity and continued growth in production, particularly from Australia, the US and Russia, all of which are sources of flexible supply, commoditization is inevitable.

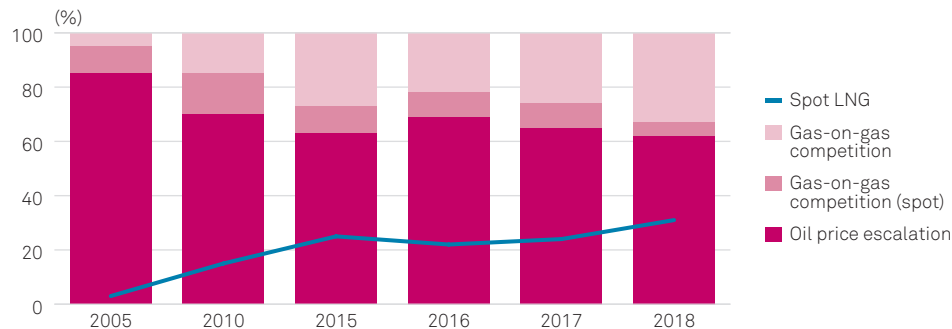
On the demand side, the increasing global need for energy will play a major role as a macro driver. There is ongoing

global economic development and gradual global progress in getting populations out of poverty.

Development and growth require energy, and so global energy demand is expanding, particularly in Asia, and hopefully Africa will also catch up soon as it is currently falling behind on poverty reduction. At the same time, there is an urgent need to improve air quality and reduce carbon emissions.

Natural gas is a vital fuel to meet both of these objectives, and LNG is making it possible to bring it to virtually anywhere in the world. Thus, greater demand for reliable and sustainable energy around the world will continue to drive further commoditization of this versatile fuel.

THE SHARE OF GAS-ON-GAS COMPETITION* IN GLOBAL NATURAL GAS MARKETS IS INCREASING, DRIVEN BY GROWING LNG SPOT LIQUIDITY



*Gas-on-gas competition is a price formation mechanism determined by the interplay of supply and demand, and a key indicator of market commoditization.

Source: IGU

How different will LNG trading look by the middle of next decade?

It is difficult in this highly dynamic, fast-paced world to make predictions, and that is the reason why most outlooks are scenarios and not predictions.

Despite that, on the whole, I expect to see more of the developments we are beginning to see now. The number of third-party traders and aggregators is likely to keep growing, adding more flexibility and hedging opportunities to the market. The share of non-long term trade will continue to grow. There could even appear a global benchmark hub price, since we do see a growing convergence between the different indexes already.

What are the biggest challenges and opportunities facing the LNG industry?

Most opportunities stem from challenges that LNG helps to overcome. The greatest determinants of growth for the gas industry will be cost competitiveness, sustainability and security.

The industry must focus on keeping its costs down, and this is particularly important for LNG as a commodity. In many of its growth markets, gas is competing with often cheaper marginal cost coal, because in most of these markets the externalities of pollution are not priced or regulated.

Second, the gas industry needs to continue to bolster its environmental credentials in order to deliver on the vital environmental role that gas is set to play in the sustainable energy future. The industry has been

showing great progress with initiatives like the Methane Guiding Principles Coalition and other voluntary emissions reduction programs. The IGU is very active in this space as well, as our global reach across all five continents and the whole value chain positions us well to be an effective advocate.

Finally, security of supply is actually a huge advantage that LNG delivers. Greater supply diversification and financing optionality, with smaller volumes available on the market, enabled new small players like Bangladesh and Panama to purchase LNG cargoes last year. The advent of floating regasification technologies has further added to the energy security advantage that LNG offers, making access more flexible in countries like Brazil where LNG provides seasonal reliability during fluctuations in domestic hydro power generation.

What are the key steps stakeholders should take to adjust to this changing marketplace?

At risk of stating the obvious, prudent planning, while keeping your ear to the ground, is always a good strategy in changing environments.

While it is an extremely dynamic marketplace and industry, it still is changing relatively gradually, allowing to plan ahead by making smart investments. Specifically, investments in infrastructure, like storage and investments in innovation and technology are really critical to avoid shocks and bottlenecks down the road.

Ultimately, the industry has to show leadership toward a more sustainable energy future.

