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IN THE MARKETPLACE / LNG likely to run short in 2010

Sachio Nikaido, Chiaki Toyoda and Izuru Jitsumori / Yomiuri Shimbun Staff

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As the amount of liquefied natural gas imported from Indonesia is expected to fall significantly from 2010, Japanese companies likely will be seriously affected by reduced LNG imports.

Indonesia currently supplies 22 percent of LNG imported by Japan.

A final agreement on the reduction is expected to be reached between Indonesia's state-run oil company and six Japanese companies by the end of this month.

Besides being used as fuel at power plants, LNG also is used as the main feedstock for city gas. As a result, the envisaged cut in imports of LNG from Indonesia will result in electricity and gas fees being hiked.

Indonesia's state-run Pertamina, Kansai Electric Power Co. and five other Japanese utility companies will enter the final stage of import negotiations on Feb. 19.

Subject to the negotiations is LNG imported from the Bontang LNG plant. As the parties have basically agreed to reduce the amount of annually imported gas from about 12 million tons to 2 million to 3 million tons, pricing will be the focus of the negotiations.

Indonesia has decided to reduce LNG exports to secure the gas for its own use in the face of a worldwide shortage and the rising cost of energy resources.

Indonesia has raised the margin of the reduction from its original plan to halve its supply. Consequently, Japan is likely to see a shortfall of about 9 million-10 million tons.

For the time being, Japanese companies will deal with the problem by increasing imports from Australia and other suppliers with which they have already concluded contracts.

However, LNG development projects are slowing down worldwide due to the difficulty of turning a profit from the product due to the associated cost of building LNG plants.

In the Sakhalin-2 oil and gas development project off Sakhalin, Russia, LNG supplies destined for Japan will be delayed from the originally scheduled 2008, to spring 2009.

It was also planned to import 4.2 million tons of LNG annually from Gorgon, Australia, starting in 2010, but this also is likely to be delayed until 2012 or later.

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Competition intensifying

Despite all this, the Economy, Trade and Industry Ministry is merely taking a wait-and-see attitude, describing the issue as a "negotiation within the private sector." A senior official of the Natural Resources and Energy Agency also expressed optimism, saying the gas can be acquired from Qatar or through the spot LNG market.

However, Qatar is notorious for its aggressive business approach and spot LNG prices are heavily affected by day-to-day market fluctuations, thus increasing the likelihood of significantly higher procurement costs.

Japan currently has about 100 power plants that use LNG as fuel. Because LNG has a high burning efficiency and emits little carbon dioxide, demand for the gas is expected to increase.

In addition to China, India and other rising economies, the United States and European countries, which have been importing gas through pipelines, are also increasing LNG imports.

"Demand and supply for LNG is expected to become extremely tight around 2010," said a source at a major trading firm.

Wako University Prof. Koichi Iwama pointed to the danger of relying on spot LNG.

"Spot LNG is currently priced 1-1/2 to 2 times higher than LNG purchased via a long-term contract, and the price gap is expected to widen further," Iwama said.

The electric power and gas industries have started calling on the government to help solve the problem.

"We want the government to help us turn the tide of the negotiations in our favor through such measures as proposing an extension of official development assistance programs," a source said.

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Efforts to secure energy

Japanese oil companies and trading firms are making various efforts to secure energy.

Between November and December, Nippon Oil Corp. acquired the right to develop unexplored oil fields in three locations in Southeast Asia, including one off south Vietnam.

Itochu Corp. is due to start developing an undersea oil field in northern Britain this year.

In October, Tokyo Gas Co. acquired a 5 percent stake in a natural gas field off Western Australia--the first such step taken by a firm in the electric power and gas industries.

"As a partner in the LNG development project, we see this as significant as it means we'll be able to procure the product without difficulty," said Shigeru Hamada, who heads the overseas project department at Tokyo Gas.

However, projects to develop natural resources tend to be affected by the countries that initiate them.

For instance, Japanese companies were forced to reduce their stake in the Sakhalin-2 project because of pressure from the Russian government, which used the environmental impact associated with the project as an excuse for the decision.

In the Sakhalin-1 oil and gas development project, for which Japanese companies have high hopes, industry sources fear that natural gas from this project may be sold to China.

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