

Japan Faces Indonesian Gas Cuts

[Analysis] Indonesia to make a draconian cut in Japan-bound LNG exports

Published 2008-02-17 12:32 (KST) Korea

http://english.ohmynews.com/ArticleView/article_view.asp?menu=A11100&no=381795&rel_no=2&back_url

In 2006, Japan purchased 62.2 million tons of LNG from abroad, up 7.2 percent, or 4.2 million tons, from 2005, to supply 96.4 percent of its LNG needs. Indonesia was the largest supplier to Japan in 2006, exporting 13.99 million tons, followed by Australia, Malaysia, Qatar, Brunei and the United Arab Emirates, which shipped 12.16 million tons, 12.02 million tons, 7.48 million tons, 6.50 million tons, and 5.31 million tons.

But Japan is increasingly alarmed by the global rush, as well as soaring prices, for natural gas - an environmentally friendlier fuel than oil. Global imports of LNG jumped 10.8 percent to 158.8 million tons in 2006.

The rush for natural gas is led by China and India. China, the world's fastest-growing major economy, started LNG imports in 2006, purchasing the fuel from Australia. The level of imports, which will begin or increase from Indonesia, Iran and other countries as well as Australia, are expected to total between 45 million tons and 60 million tons in 2020, making it one of the world's largest LNG importers. India is also sharply boosting LNG imports to feed its high-flying economy, importing 6.2 million tons of LNG in 2006, up 37.2 percent from 2005.

The Japanese government is exploring every avenue to ensure the nation's energy security in the medium- and long-terms. In line with the "New National Energy Strategy" adopted by the Ministry of Economy, Trade and Industry in May 2006, Tokyo is intent on strengthening relations with oil- and gas-rich countries through such means as increased official development assistance and conclusion of free-trade agreements with energy clauses incorporating trading partners' commitments to stable supplies.

The New National Energy Strategy also calls for "drastically strengthening the supply of risk money" related to the exploration and development of overseas oil and natural-gas reserves by domestic development companies. Until only a few years ago, the Japanese government had shied away from getting deeply involved in risky exploration projects abroad in the wake of a much-criticized blunder over now-defunct Japan National Oil Corp (JNOC). The government's recent strong backing for domestic energy companies engaged in foreign exploration and production of oil and gas marks a clear policy reversal.

In the current fiscal year, which ends in April, the government began to pump public funds into private-sector efforts to secure oil, gas and other interests abroad. The funds are being channeled primarily through three government-affiliated organizations - JNOC's successor Japan Oil, Gas and Metals National Corp, Nippon Export and Investment Insurance and Japan Bank for International Cooperation (JBIC).

JBIC has also been strengthening relations in recent months with the governments and organizations of resource-rich countries, including the Joint-Stock Bank of the Gas Industry, or Gazprombank as the subsidiary of state-owned Russian gas monopoly OAO Gazprom is commonly known. Last July, JBIC signed a loan agreement worth 10 billion yen (US\$93 million) with Gazprombank as part of efforts to strengthen ties with Russia.

To secure stable supplies in the long-term, Japanese energy companies have also been stepping up investments in promising LNG projects abroad.

In 2006, Indonesia supplied nearly 14 million tons of LNG to Japan, or about 22.5 percent of Japan's total imports. Most of Indonesia's long-term LNG supply contracts with East Asian countries, including Japan, start expiring from 2010. Indonesia has threatened to make a draconian cut in its Japan-bound LNG exports to boost the availability of fuel for domestic industries amid decreasing natural gas, as well as oil, production at home.

Indonesia has said that although it will extend its LNG export contract with Japan after the current one expires in 2010-2011, the export volume will be drastically cut. "Indonesia will surely extend the contract on its LNG exports to Japan for 10 years," Iin Arifin, vice president of state-owned oil and gas company PT Pertamina, was quoted as saying last October by Asia Pulse. He said Indonesia will export a total of 25 million tons of LNG for 10 years under the extended contract.

He said the LNG exports would be carried out in two stages, with three million tons annually in the first five years and two million tons per annum in the second five-year period. "We are still negotiating the price of the LNG exports," he was quoted as saying.

Japanese energy companies and Indonesia are now said to be nearing the final stage of negotiations on new contracts. However, the planned cut in Indonesian LNG exports is expected to have only a limited impact on Japan, at least in terms of securing volume, as Japanese electric power and gas companies have been increasing imports from other suppliers, especially Australia and Qatar, in recent years in anticipation of the Indonesian move.

Japan's reliance on Indonesia for LNG imports declined to about 22.5 percent in 2006 from nearly 40 percent a decade ago and will certainly drop further. But if a country that is geographically proximal to Japan like Indonesia drops out of the ranks of major suppliers, Japan's energy security could suffer in the long term.