



POTEN LNG OPINION

China Gas Market Liberalization – Opportunities & Threats For LNG Players

Asia's thirst for energy drove a "rush for gas" in producer countries, with LNG emerging as the fastest growing fuel source on the back of soaring Chinese imports. In the latest "Action Plan 2014-2020" published by the State Council, gas consumption is targeted to double from 2015 to 2020, achieving 400 bcm/y and gas in the primary energy consumption mix will also increase to around 12%. Fast gas demand growth is driven by:

Energy demand to support strong economic growth across the country

Government's heavy push toward gas, paving the way to overcome dramatic pollution levels in most of the country's highly populated areas

Chinese companies have been encouraged to secure long-term gas supply via pipeline and LNG imports, as well as through domestic gas production. Some recent additions to the nation's import portfolio include the long-term 68 bcm/y pipeline gas supply deals with Russia and LNG supply agreements from Russia, Canada, and aggregators' portfolios. However, China's three national oil companies (NOCs) still dominate gas supplies, with private companies holding back while domestic sales prices lag. National Development and Reform Commission (NDRC) has been working on gas price reform issues since 2005, with several price increases recently announced for both residential and industrial gas sectors. The ongoing gas price reform aims to liberalize the Chinese gas market and is expected to achieve market-driven price during the 13th "Five-Year Plan" period. It should significantly raise private companies' interest in securing gas supply via direct LNG imports, thereby increasing both domestic and regional competition. Moreover, an LNG infrastructure privatization trend is rising and is favoured by the central government. The private sector's role in LNG will be enhanced.

However, there are still lots of uncertainties for LNG in China. The current Chinese economic slowdown is expected to continue and will dampen energy demand growth in the near term. It is expected that China will miss its gas consumption target for the 12th "Five-Year Plan" announced in 2011. In reality, it is more likely that China will achieve only 80% of its previous set target. What are the potential impacts on LNG imports if China failed to achieve its target in 2020? In addition, Domestic gas production and pipeline imports will compete with LNG aggressively in the 13th "Five-Year" Plan due to increasing unconventional gas production from shale gas and CBM and pipeline gas imports from Central Asia and Russia. Could LNG really compete with the alternative gas supplies?