

Short-term LNG in 2012 – Asia remains the main destination for short-term LNG as activity declines

Short-term trading has become an increasingly important part of the LNG business over the last decade but tracking its progress and its share of the total volume of LNG traded is made difficult by the lack of a widely accepted definition of what constitutes a short-term trade and more importantly, the limited amount of reliable data on the level of activity. GIIGNL, the group of LNG importing companies, is one of the few organizations providing publicly available data on short-term trading. The 2013 edition of its annual report “The LNG Industry” was published at the end of March, containing tables showing the volume of LNG traded on a short-term basis in 2012. *LNG Business Review* reviews the information provided by GIIGNL data and the key trends that it reveals.

Short-term trade marginally down

GIIGNL’s estimate of the total volume of LNG traded in 2012 is 236.31 million tonnes (mt), which compares with *LNG Business Review*’s estimate of 237.96 mt (see *LNG Business Review*, March 2013, ‘LNG Supply and Demand in Q4 ‘12 – Another Quarter of Decline in Supply’). *LNG Business Review* compiles its estimates using a combination of sources including customs data and data from importers and from other publications. The differences in estimates of global LNG trade are common in a business where a number of different units based on volume, weight or energy content are used. The conversion factors to bring data onto a common basis (e.g. millions of tonnes, billions of cubic metres or billions of cubic feet per day) vary because of the significant variation in the quality of the LNG produced. This is often the main reason for the difference in estimates but errors in tracking and recording information from the around 4,000 cargoes unloaded during the year may be part of the reason. GIIGNL estimates that the total volume of LNG unloaded fell by 1.9% in 2012 compared with 2011. *LNG Business Review*’s estimate is a decline of 1.4%.

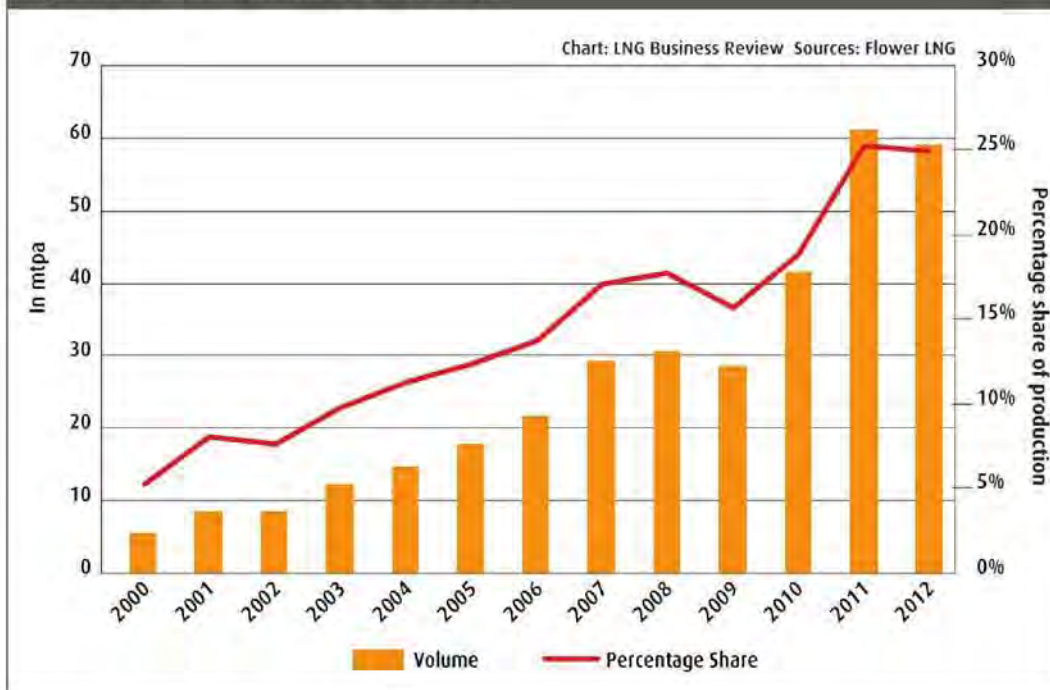
GIIGNL estimates that the volume of LNG traded on a short-term basis declined from 61.2 mt in 2011 to 59.2 mt in 2012. The share of short-term LNG in the total volume of LNG traded globally also declined from 25.3% in 2011 to 25% in 2012 (see Figure 1 on page 10). The decline follows two years of strong growth, as activity recovered from the impact of the global economic recession, which caused short-term volumes to decline in 2009, and

GIIGNL’s data

The data in “The LNG Industry” is compiled from submissions by GIIGNL’s 70 member companies, who comprise the majority of the world’s LNG importers. Members submit data annually on the volume of LNG that they import divided into short term, which is defined as LNG received under the terms of contract of up to 4 years duration and long-term, which consists of all cargoes received under the terms of contracts of longer than four years duration. Four years would not be considered as short term by most industries. Its use as a cut-off by GIIGNL probably reflects the history

of the LNG business, where before 2000, 95% or more of activity was under contracts of 20 years or longer duration. GIIGNL has produced the data on a consistent and reliable basis for many years, which means it provides a good indication of the trends in short-term activity, even if a different definition of short-term would be preferred by many users of the data. Furthermore, it is not possible from the published data to separate spot LNG (i.e. single cargo deals or deals covering a few cargoes over a time span of up to, say, 6 months) from the short-term data.

Figure 1: Short-term LNG 2000 to 2012



the additional demand for LNG in Japan in 2011 as a result of the Fukushima crisis, which resulted in a surge of short-term cargoes being diverted to Asia from the Atlantic Basin and the Middle East.

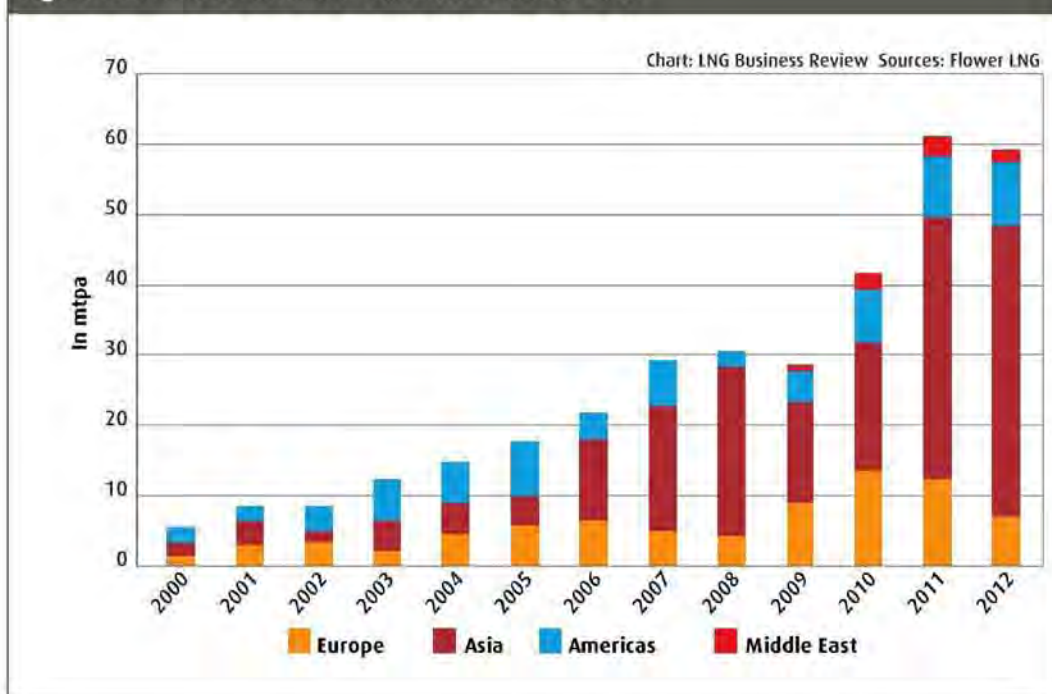
The GIIGNL data shows that re-exports of LNG from terminals in Belgium, Spain, France, Portugal, the USA and Brazil, all of which were on a short-term basis, totaled 3.37 mt in 2012, an increase of 77.5% over 2011. The main increase in re-exports was in Europe where they were up nearly three-fold over 2011, while they declined in the USA by 54%. Re-exports represented 5.7% of the short-term LNG unloaded in 2012. GIIGNL deals with re-exports by netting them off the total short-term deliveries into a country or a region.

Diversions

Asian markets were again the main destination for short-term LNG with their share increasing from 60.9% in 2011 to 70.1% in 2012 (see Figure 2 on page 11), this is closely in line with the changes in the region's share of overall imports. According to GIIGNL, Japan took delivery of 19.4 mt of short-term LNG in 2012, an increase of 3.4 mt over 2011, to meet the increased need for thermal power generation as the remainder of its nuclear power plants were taken off-line. The restart of two nuclear units in July had only a marginal impact on the country's need for short-term LNG, which represented 22.2% of the country's total imports in 2012.

The diversion to Asia and South America of LNG cargoes that would otherwise have been delivered to Europe was the main reason for a decline of 5.5 mt (43.3%) in Europe's short term imports in 2012. Europe's net short-term imports (after deducting re-exports to markets outside Europe) accounted for 11.8% of global short-term trade in 2012 and they represented 14.7% of Europe's total LNG imports. Over 50% of Europe's short-term LNG supplies came from Qatar. The continent's two largest LNG importing countries, Spain and the UK, were also the two main destinations for short-term cargoes.

Figure 2: Markets for short-term LNG 2000 to 2012



Short-term imports into the Americas rose by 0.33 mt to 8.94 mt as the number of cargoes imported into Latin America increased by 47%. However, this was largely offset by a decline of over 50% in short-term imports into the USA and Canada as the demand for LNG imports fell because of the shale gas revolution.

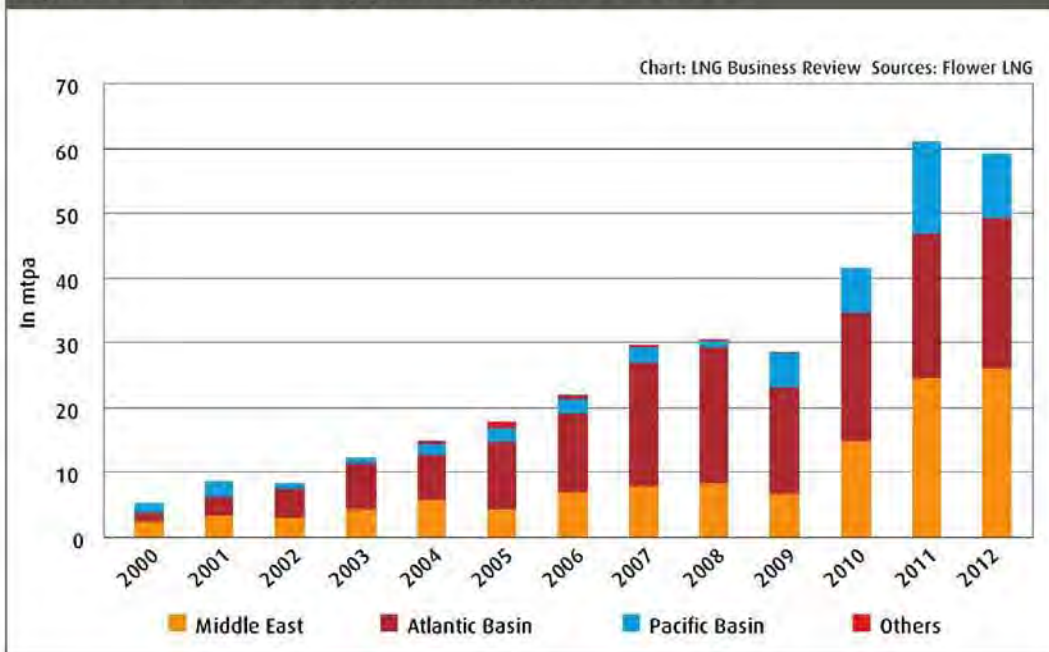
Supply sources

The main sources of short-term LNG cargoes were, as in 2011, the Atlantic Basin and Middle East (see Figure 3 on page 12). Short-term supply from the Pacific Basin was down by nearly one-third as the volume delivered under long-term contract from Russia and Peru increased, reducing the amount available from these producers for sale on a short-term basis. Indonesia's short-term sales also decreased as cargoes were delivered under long-term contract to the Regas Nusantara Floating Storage and Regasification Unit (FSRU) offshore Jakarta.

The largest producer of short-term LNG was once again Qatar, which delivered 21 mt to buyers across the world, most of it LNG originally contracted on a long-term basis to the UK, Belgium and the USA. The flexibility of these markets allowed cargoes to be diverted to higher priced markets. 56% of Qatar's short-term deliveries were to buyers in Asia with over half going to Japan. However, it also delivered 4.5 mt of short-term LNG to Europe and 3.6 mt to markets in the Americas. Despite Yemen's total production in 2012 falling by 20% because the pipeline supplying gas from fields in the Marib basin to the liquefaction plant at Balhaf was closed six times by sabotage, the volume of LNG sold on a short-term basis increased by 14.4%. Total and GDF SUEZ, who originally contracted output from Yemen LNG on a long-term basis for delivery to Europe and the Americas, diverted cargoes to higher priced markets in Asia.

The GIIGNL data shows that short-term supply from the Atlantic Basin grew by 1.2 mt (5.5%) with increases in Nigeria, Equatorial Guinea and Norway partially offset by declines in Egypt, Algeria and Trinidad and Tobago. 44.7% of Nigeria's production was sold on a short-term basis in 2012 mainly to buyers in Asia, where Japan was the main destination.

Figure 3: Short-term LNG by producing region 2000 to 2011



Role of aggregators

The published GIIGNL data on short-term LNG does not have the detail that would allow an analysis of the companies that are responsible for the short-term trading. However, such an analysis would undoubtedly show some developing trends and some growing differences in how the short-term trading is implemented. In the Atlantic Basin, the companies that have contracted to purchase the LNG on a long-term basis from producers are mainly responsible for the diversions to higher priced markets.

The buyers in many cases are oil and gas companies including BG, Shell, Total, BP and GDF SUEZ, who have developed aggregator businesses where LNG is purchased from a number of suppliers and marketed as portfolio LNG to buyers. In this model, the direct linkage between the producer and the buyer is broken in favour of the aggregator committing to supply LNG to the buyer without specifying the source. The producer typically has a right to approve the diversion of such cargoes and to share in any additional revenues generated but is not directly involved in arranging the diversion. This model also applies in the case of the Yemen LNG project.

For the other Middle Eastern producers, Qatar, Oman and Abu Dhabi and in Australia, Indonesia and Malaysia, the project company or the project shareholders arrange most of the short-term sales and any diversions directly with the buyers. There has been an increase in the use of tenders for the sale by producers of cargoes in excess of their commitments to long-term buyers. This has become an important source of supply for LNG traders such as Vitol, Gunvor and Morgan Stanley, who have not invested in liquefaction capacity and do not have long-term purchase contracts with sellers but who have been able to secure cargoes to trade on a short-term basis. **LBR**