

NORTH EAST ASIA GAS MARKET

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The markets of Japan, South Korea and Taiwan are relatively mature, and almost completely reliant on imported natural gas. With gas prices effectively determined by the cost of imported LNG, the priority for these buyers is to ensure supply security, to manage seasonal demand changes and/or demand/supply shocks and to have a diverse range of suppliers.

The Chinese gas industry stands in contrast by virtue of its domestic supply, potential in the unconventional gas sector, its imports of pipeline natural gas, and the high potential growth in natural gas demand. Since the natural gas pipeline network of China is still young, one of the biggest challenges is the necessity of rapid and sufficient infrastructure development as well as the implementation of pricing policies to transition gas prices to reflect higher cost of imports, in lieu of largely regulated domestic gas prices.

Before that gas demand in China is – and will likely for some time – remain constrained by the availability of gas supply. With natural gas accounting for a small percentage of overall energy demand the potential to realise future growth will, however, be dependent on the ability to grow supply. This will mean reliance not just on increasing volumes of domestic supply, but also on importing more gas – both pipeline and LNG.

In order to adequately develop the market infrastructure further liberalization of the industry is needed. A key challenge for China is the regulation of gas prices. Although a series of price reforms have been undertaken – and more are anticipated, the cost of imported natural gas is raising the overall cost of supply. This is creating a challenge in the near term for policy makers who remain concerned about the social and inflationary impact of future price increases.

Japan's gas market can be considered mature from a demand perspective although there is uncertainty around natural gas use in power given the potential longer term policy impacts from the earthquake and tsunami of March 2011. The country does not have a nationwide gas grid; and remains almost totally reliant on imported LNG. Thus, energy security can be considered an important issue for Japan.

South Korea's gas demand growth is likely to be modest with power generation the potential main demand source. The country has well developed infrastructure but remains almost totally reliant on imported natural gas in the form of LNG. In addition, the country has a strong seasonal demand pattern. Energy security and diversity of supply are thus key issues.

Taiwan is almost totally reliant on imported natural gas in the form of LNG. The main consumption is for power generation. Ensuring security of supply is important. Gas prices effectively reflect the imported cost of natural gas.