LNG Supply, Trade and Contracting Patterns:
Is Transformation Happening?

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At the time this paper was finalized and released by AIPN, the LNG industry was facing a new round of challenges. Demand for LNG following the 2010 earthquake and tsunami in Japan, and the subsequent events at the Fukushima Daiichi nuclear facility, provided relief for a global business that was in surplus. The 2000s buildup of LNG industry capacity on all fronts – export liquefaction, shipping, and import receiving/regasification – had collided with 2009 recession effects to create considerable drag on utilization rates and profitability. But the "black swan" effects post-Fukushima unfolded in the face of another reality that already was permeating through the industry – the desire by many customers for different contract terms. In particular, the traditional oil-based pricing mechanism for LNG increasingly has been questioned. Production gains in the U.S. and consequent erosion of the U.S. Henry Hub natural gas price signal has only exacerbated the extent to which oil-indexed LNG represents a substantial premium. Many views, including ours, are that fundamental shifts in LNG contract pricing formulas, indeed many long-term natural gas supply and purchase agreements, could lie ahead. Much rests on forward expectations about oil prices and the oil-to-natural gas price "spread". However, given the pervasive and persistent recession effects in Europe and erosion of economic performance in large LNG-buying countries like India it is clear that many customers in price sensitive locations could benefit substantially from natural gas-linked price formulas. The rapid progression of changing conditions over the past 10-15 years, and indications of additional challenges to come, will ensure that the LNG industry remains interesting!

Table of Contents

List of Tables

List of Figures