

China's delicate balancing act on gas market reform

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The dichotomy between Beijing's targets to boost gas use and the dynamics of a volatile world market was discussed at an *Interfax* breakfast seminar in London on Tuesday.

CHINA'S GAS DEMAND is expected to grow by 8-9% per year over the next five years, increasing its dependence on imports and forcing it to compete for LNG against Japan and South Korea, the region's traditional heavyweight buyers of the fuel, as well as emerging buyers.

China's gas demand growth is outpacing production, widening its supply-demand gap. The country is likely to use around 222 billion cubic metres of gas in 2017, an increase of around 8% from 2016. China's imports of gas and LNG hit 54 mt last year, up by 22% on an annual basis, and could rise by 14% this year.

This rapid increase in demand and imports will require a correspondingly massive investment in LNG receiving capacity, despite the fact that piped supplies are cheaper. China imported more LNG than usual during the first four months of 2017 to cover a drop in piped supplies from Uzbekistan following a now-resolved commercial dispute, but its imports are typically skewed in favour of cheaper pipeline gas. Piped supplies accounted for around 52% of China's gas imports in 2016, when the price of pipeline gas averaged \$5.2/MMBtu compared with \$6.6/MMBtu for LNG.

Global Gas Analytics forecasts China's regasification capacity could reach more than 100 mtpa by 2025, roughly double its capacity in 2016. With LNG imports expected to roughly double within the next 10 years, the rise in capacity will be needed.

The growth in China's LNG demand will be particularly strong between now and 2020, with offtake expected to be supported by low prices for spot and contract cargoes.

Meanwhile, despite all the talk of a slowdown in the Chinese economy, the government will continue to prioritise policies to reduce atmospheric pollution, which will cause rapid growth in demand for gas. This will continue to be the case after 2020, when the price outlook is expected to gradually become more challenging.

The outlook for Chinese LNG imports will also be squeezed by increasing volumes of piped supplies – including via the 38 billion cubic metre per year Power of Siberia pipeline from Russia, which is expected to be commissioned by 2020 – as well as by increased volumes of cheaper domestic supplies from conventional and shale gas projects that are set to come onstream during the period.

Security of supply

The need for supply security will be a significant driver of Chinese LNG demand. A delegate at the *Interfax* seminar on Tuesday said the country's state-run oil and gas firms have already prioritised security of supply over price – and that their stance will not change even if gas and LNG prices rise after 2022, when many expect the glutted global gas market to rebalance.

As gas becomes a bigger part of the energy mix, Beijing has also made the development of sufficient underground gas storage a high priority, with fixed targets in its gas development plans.

These efforts face a number of challenges – gas demand growth is not uniform across the country, and implementation plans at the provincial level vary. But despite the complexity of China's multi-layered implementation plans, huge growth is expected in the Chinese gas market. "It's a clash of two systems," said a delegate at the seminar. "But we shouldn't lose sight of the huge growth [in gas demand] due to the switch from coal, and growth in the power and transport sectors." ■

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