

Patterns and
Drivers in the
Development of the
Global LNG Market

Martin Stewart-Smith

**Partner, Energy &
Infrastructure**

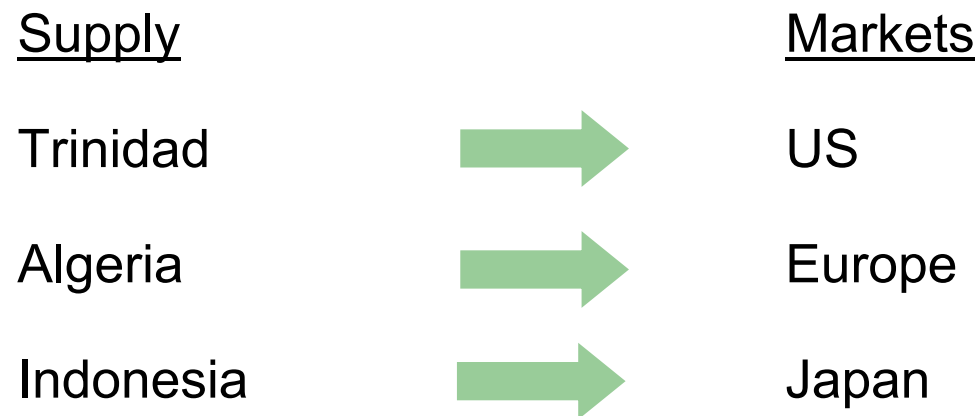
Simmons & Simmons



Picture provided by Grain LNG

The LNG World as it was

LNG was a regional source of primary energy sold 'point to point'



Global Sources of LNG and Markets



A changing world...

- Economic forces
 - Growth in gas demand
 - Reduced costs of long distance transportation
 - Declining oil recoveries leading to increased interest in developing gas assets.
- Security of supply concerns
- FERC relaxation of regulatory regime for US regasification terminals
- Capacity increase
 - Between 1988 and 2004, liquefaction capacity increased 5.6% a year

Rapid growth in new LNG production

- Middle East
 - 8.8bcf/d increasing to estimated 15.6bcf/d by 2010
 - Of which Qatar's 3.4bcf/d will increase to 10.2bcf/d
- Africa
 - 5.2bcf/d increasing to estimated 6.1 bcf/d by 2010
 - Algeria, Egypt, Nigeria
- Asia
 - 8.9bcf/d increasing to estimated 10.5bcf/d by 2010
 - Indonesia, Australia
- Others
 - 2bcf/d rising to 3.9bcf/d by 2010
 - Russia, Norway, Trinidad

Patterns and drivers in 2007

- 85% of LNG is sold on long term (20 year +) contracts
- Trend is towards medium term contracts (5-10 years) and spot contracts (AIPN Model Form), but constrained by PF requirements
- Contracts based on index prices with netback to producer, but depends on the destination having a transparent commodity price for gas (eg. Henry Hub, NBP)
- In the current seller's market, producers (NOCs) want to participate in the downstream and the LNG trading – following the molecules
- Death of the PSM? Or just a flip from FOB to DES basis?
- Gas OPEC and 'national energy champions'

Global Gas Trades by 2010: A Global LNG Market

