



## Imports East Of Suez Hit Record High As Demand Surges

Shuttered nuclear plants in Japan and robust economic growth elsewhere in the region have sent LNG demand up to record highs in markets east of Suez. According to Poten & Partners LNGas 2.1, deliveries into regional markets reached 86.5 MMt during the first seven months of the year, registering a 14.4% rise over the comparable period of 2010. Increases were spread across all regional importers and included the first ever LNG imports into Thailand. Japan saw the largest volume hike of 3.7 MMt over last year as nuclear power plant utilization dropped to its lowest level ever. Elsewhere in the region, demand is more structural in nature, driven by strong economic performances in major importers and a shift away from expensive oil products.

Buyers in Asia's three traditional LNG markets – Japan, South Korea and Taiwan – imported 71.8 MMt through July, which represents a 10.4% increase over the same period last year. Japan alone purchased 44 MMt, up 9%. Nuclear capacity has been progressively shut down since the meltdown at Tepco's Fukushima plant after the March 11 earthquake and tsunami. Once plants close for scheduled maintenance, they have not been allowed to resume operations due to local opposition. Nuclear utilization reached a new low of just 26.4% in August, the lowest level since the Federation of Electric Power Companies started compiling data in April 1977.

East of Suez Jan-Jul '11 LNG Imports

| MMt                | Jan-Jul '11 | Jan-Jul '10 | Vol Chg     | % Chg        |
|--------------------|-------------|-------------|-------------|--------------|
| <b>Traditional</b> |             |             |             |              |
| Japan              | 44.0        | 40.3        | 3.7         | 9.2%         |
| S. Korea           | 21.0        | 18.6        | 2.4         | 12.9%        |
| Taiwan             | 6.8         | 6.1         | 0.7         | 11.5%        |
| <b>Subtotal</b>    | <b>71.8</b> | <b>65.0</b> | <b>6.8</b>  | <b>10.4%</b> |
| <b>Emerging</b>    |             |             |             |              |
| China              | 6.4         | 4.6         | 1.7         | 36.7%        |
| Dubai              | 0.7         | -           | 0.7         | -            |
| India              | 6.0         | 4.7         | 1.3         | 27.4%        |
| Kuwait             | 1.3         | 1.2         | 0.1         | 9.2%         |
| Thailand           | 0.3         | -           | 0.3         | -            |
| <b>Subtotal</b>    | <b>14.7</b> | <b>10.5</b> | <b>4.1</b>  | <b>39.1%</b> |
| <b>Total</b>       | <b>86.5</b> | <b>75.6</b> | <b>10.9</b> | <b>14.4%</b> |

Source: Poten & Partners LNGas 2.1

South Korea and Taiwan registered even larger percentage gains than Japan – 12.9% for Korea and 11.5% for Taiwan – as economic growth drove LNG demand higher. Gas consumption in the power sector reached such high levels in September that Korea experienced electricity blackouts. Unusually warm weather earlier this month led to a surge in power demand that the grid could not handle. More than two million households experienced outages and the country's energy minister was forced to resign.

Deliveries into China and India will soon eclipse those into Taiwan, Asia's long-standing number three importer. Chinese imports reached 6.4 MMt during the period, for an extraordinary increase of 37%. July also marked a monthly record at 1.18 MMt. After a drop in demand last year – the only importer in the Asia-Pacific region to see a downturn in deliveries in 2010 – India has experienced a sharp reversal of fortune so far in 2011. Imports totaled 6.0 MMt through July, a 27.4% year-on-year increase. Strong economic performance is only part of the picture. Gas buyers have been scrambling to compensate for falling production from the KG-D6 block in the Krishna Godavari basin operated by Reliance Industries. Reliance has acknowledged that it may take three to four years to restore output and has brought BP onboard to help in this task (see related above story).

After importing its first shipment in May, Thailand went on to import four more cargoes through July for a total of 0.3 MMt. Another three cargoes were delivered in August and September, according to PTT officials. With no term supply, the state-owned firm has been totally reliant on the spot cargoes at its new Map Ta Phut terminal. After lining up the equivalent of 1 MMt/y from July through mid-2012, PTT is currently looking for another 2.5 MMt/y from mid-2012 through 2014 rising to 3 MMt/y on a long-term basis from 2015. The Thai importer signed a Heads of Agreement in 2008 with Qatargas Opco for up to 2 MMt/y but this HoA expired in early 2010 after several extensions. While PTT is still talking to Doha, it has been unwilling to meet the producer's pricing expectations and discussions are now ongoing with other suppliers for both short and long term volumes (see brief below).

In the Middle East, imports into Kuwait's Mina Al Ahmadi GasPort are up around 9% on last year while the UAE emirate of Dubai imported 0.7 MMt through July at its floating storage and regasification project in Jebel Ali. Demand for LNG is driven by

strong electricity consumption in both countries. According to statistics from Kuwait's Ministry of Electricity and Water Power, power stations in the country have doubled their generation capacity since 1997. The same holds true in Dubai where rising urbanization and demand for power are pushing gas use higher.

Strong incremental demand throughout the region has propelled Asian spot prices higher, with cargoes now commanding prices over \$17/MMBtu. Gas at the UK's National Balancing Point is currently trading under \$7/MMBtu, incentivizing Asian buyers to bring in more volumes from the Atlantic Basin. Producers in this region shipped 6.8 MMt to importers east of Suez through July, with more cargoes arriving in August and September. Deliveries from the Atlantic Basin could expand further from mid-September through early November as Qatargas performs maintenance on three of its mega trains while RasGas has said it plans to take its seventh unit down in January at the height of the Northern Hemisphere's winter buying season.

Taking advantage of the price spread between basins, GDF Suez has already re-routed 12 cargoes east this year and could potentially divert as many as 20-25 cargoes by the end of 2011. It hopes to expand on this next year. Statoil has also touted the advantages of sending cargoes to Asia, noting that it still made sense in spite of high transportation costs from its Snohvit plant in Norway. The company sold two cargoes into Japan this month, one that arrived on September 15 and another that is due on September 29. Qatar is selling more LNG to Asia as well. Deliveries from Ras Laffan climbed 27% year-on-year to 19.4 MMt during the first seven months of this year. Malaysia was the region's next largest supplier at 14.4 MMt through July. Indonesia was third with 12.3 MMt followed by Australia at 11.4 MMt.

East of Suez LNG Trade Matrix: Jan-Jul '11  
Million Metric Tons Delivered

| Exporters                 | A-Dhabi     | Algeria     | Australia   | Brunei     | Egypt      | EQ-Guinea  | Indonesia   | Malaysia    | Nigeria     | Norway     | Oman       | Peru       | Qatar       | Russia     | Trinidad   | USA        | Yemen       | Total      | Δ from Jan-Jul '10 |
|---------------------------|-------------|-------------|-------------|------------|------------|------------|-------------|-------------|-------------|------------|------------|------------|-------------|------------|------------|------------|-------------|------------|--------------------|
| China                     | -           | -           | 1.95        | -          | 0.12       | 0.06       | 1.02        | 1.0         | 0.2         | -          | -          | 0.1        | 0.8         | 0.1        | 0.2        | 0.02       | 0.6         | 6.4        | 37%                |
| Dubai                     | -           | -           | 0.06        | -          | -          | -          | -           | -           | -           | -          | -          | -          | 0.6         | -          | 0.1        | -          | -           | 0.7        | 579%               |
| India                     | 0.01        | -           | 0.06        | -          | -          | 0.25       | -           | 0.1         | 0.2         | 0.1        | 0.2        | -          | 4.9         | -          | 0.1        | 0.1        | -           | 6.0        | 27%                |
| Japan                     | 3.1         | 0.1         | 8.3         | 3.7        | 0.4        | 0.4        | 6.3         | 9.0         | 0.8         | -          | 1.9        | 0.2        | 5.7         | 3.8        | 0.2        | 0.2        | 0.1         | 44.0       | 9%                 |
| Kuwait                    | -           | -           | 0.13        | -          | -          | -          | -           | 0.3         | 0.4         | -          | -          | -          | 0.5         | -          | -          | -          | -           | 1.3        | 9%                 |
| S.Korea                   | -           | -           | 0.6         | 0.4        | 0.3        | 0.8        | 3.8         | 2.3         | 0.4         | 0.1        | 2.6        | 0.8        | 4.6         | 1.8        | 0.8        | 0.1        | 1.7         | 21.0       | 13%                |
| Taiwan                    | 0.1         | -           | 0.3         | -          | 0.4        | 0.3        | 1.2         | 1.7         | 0.4         | -          | 0.1        | 0.1        | 2.1         | 0.2        | -          | -          | 0.07        | 6.8        | 12%                |
| Thailand                  | -           | -           | -           | -          | -          | -          | -           | -           | -           | -          | -          | 0.1        | 0.1         | 0.1        | -          | -          | -           | 0.3        | -                  |
| <b>Total</b>              | <b>3.1</b>  | <b>0.1</b>  | <b>11.4</b> | <b>4.1</b> | <b>1.1</b> | <b>1.8</b> | <b>12.3</b> | <b>14.4</b> | <b>2.4</b>  | <b>0.1</b> | <b>4.8</b> | <b>1.3</b> | <b>19.4</b> | <b>6.0</b> | <b>1.4</b> | <b>0.4</b> | <b>2.4</b>  | <b>86</b>  | <b>14%</b>         |
| <b>Δ from Jan-Jul '10</b> | <b>-10%</b> | <b>-65%</b> | <b>8%</b>   | <b>6%</b>  | <b>16%</b> | <b>21%</b> | <b>-1%</b>  | <b>8%</b>   | <b>225%</b> | <b>-</b>   | <b>-6%</b> | <b>-</b>   | <b>27%</b>  | <b>5%</b>  | <b>45%</b> | <b>-9%</b> | <b>132%</b> | <b>14%</b> | <b>-</b>           |

Source: Poten & Partners LNGas 2.1