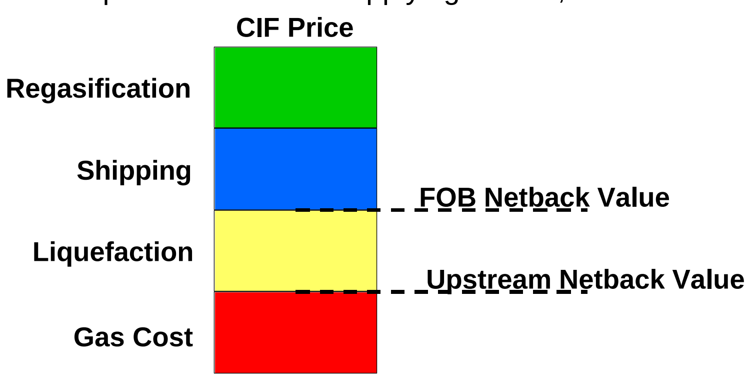
The Maturing of LNG

Introduction
In 2002 LNG accounted for less than 6% of marketed gas production worldwide. However, LNG supply is making use of opportunities provided by industry liberalisation to break away from its historic restrictive sales agreements, and is now growing faster than pipeline supply in several markets. In the Atlantic Basin, in particular, we have seen an increase in flexibility resulting in novel trading deals in both European and US markets. Geographic and market factors of course impact on the economics facing the suppliers, and we can expect to see different buyer terminals yielding a range of fortunes in terms of profit.

This paper constructs indicative netbacks for LNG trade in the two Atlantic Basin markets, by estimating what the actual cost chain would have looked like in October 2003 for LNG supplies to the various markets. With liberalised gas markets offering increasing openings, we expect that the LNG business will be encouraged to develop to a more mature form, and that spot trading will increase in spite of contractual and physical constraints. LNG will therefore continue to contribute to improving gas market performance through arbitrage.

Atlantic Basin Assumptions
A netback calculation is a relatively simple method (borrowed from the oil markets) of tracking and comparing the profitability of return to the supplier of a particular sale. It is effected by ***net***ting-off costs from the price ***back*** to the supplying source, i.e. in LNG terms as follows:



Deducting regasification costs and shipping costs from the price received from the buyer gives an FOB netback value. Further deducting liquefaction costs gives an upstream netback value back to the gas cost (often a JV into-plant gas price).

The sources of LNG and buyer terminals used in this analysis are:

LNG sources		Buyer terminals
Abu Dhabi		**Europe:**
Oman		Spain (Southern Europe)
Qatar		Zeebrugge (Northern Europe)
Indonesia		UK (New Europe, a sumes Isle of Grain)
Malaysia		