



Ministerie van Buitenlandse Zaken

## OPPORTUNITY REPORT LIQUEFIED NATURAL GAS IN SOUTH CHINA

### China's Gas Market

Currently, LNG is the fastest growing gas supply source. As growing economies, China in particular, need more and cleaner energy, gas will play a crucial role to meet these energy challenges. Moreover, China will need gas supply security and LNG solves market uncertainties like declining domestic production and pipeline and weather disruptions. Because even though China holds the world's largest reserves of shale natural gas and is among the top ten holders of proven natural gas reserves, most of the regions are beset with geological or technological difficulties, making it too costly to produce.

In the past decade, China's natural gas consumption has almost quadrupled to about a third of what the U.S. uses. In 2017 China became the second largest importer of LNG, overtaking South Korea for the first time. At this moment China is the largest incremental gas demand market and will account for 30-35% of all new gas demand in the years ahead. China wants gas to account for 10% of its energy portfolio by 2020, up from 6.5% last year. In 2018, China's gas demand should grow 16-18%, which is about the level needed to meet government goals.

### Growth Drivers

China's soaring LNG import demand is a result of a huge government gasification program that saw millions of households switch from using coal for household heating last year to natural gas, proving the policy drivers for cleaner energy are now supported by action, with more than 3 million new residential gas connections in 2017. However, China's sudden shift from coal to gas for power generation and heating late last year created a domestic shortage in supplies, surprising LNG market players and causing a spike in the price of spot cargoes in the winter. Limited gas storage capacity means China cannot buy and store LNG when it is cheap in warmer months like other buyers.

Three major factors are driving LNG market growth in China. The most obvious being a growing gas demand, especially in the power sector. This has been published in the power plan for the 13<sup>th</sup> Five-Year Period (2016-2020) by the National Energy Administration ("NEA"). The second being third-party access to gas and LNG infrastructure. The Chinese government has pushed for market liberalization in the gas industry and issued several announcements since 2014 to encourage third-

party access to existing LNG terminals and participation in gas infrastructure by private companies and local state-owned companies. Following the NEA's recent requirement to all state-owned oil and gas companies, announced in September 2016, three NOCs (CNPC, Sinopec and CNOOC) have established official websites for gas assets including gas pipeline, LNG terminals, etc. It is anticipated that the Chinese government will continue to push for market liberalization and encourage non-NOC participation, through measures that are likely to include access to LNG terminals and localized and simplified terminal approval process. The third factor is the current international market environment, which is favorable to LNG buyers. LNG buyers have more bargaining power in the market and current low spot LNG prices provide a good opportunity for new players to develop capabilities before committing to a long-term deal.

## Infrastructure

There were 18 LNG terminals in operation by the end of 2017, of which only two have foreign company involvement: Shenzhen Dapeng LNG Terminal (BP) and Jiangsu Rudong LNG Terminal (PO&G). China's regasification terminals are built on three coasts near major seaports:

South coast imports go to Guangdong, Shandong, Hainan and Guangxi provinces. East coast imports go to Shanghai, Fujian, Jiangsu and Liaoning provinces. North coast imports go to Hebei province and Tianjin city.

Although China's south coast started its first LNG import only in 2006, the regasification capacity in

the area accounts for more than 42 per cent of China's total existing regasification capacity, compared with 39 per cent in the east coast and 18 per cent in the north coast. This trend is expected to continue with the majority of new regasification capacity, 46 per cent, being constructed and planned in the south coast. This reflects that the south coast is closer to the LNG-exporting countries such as Australia. In the north, LNG imports have stronger competition from pipeline gas.

China's gas market is being liberalized with more and various companies actively planning to enter into the LNG business. This requires not only large investment capital but also significant industrial experience to ensure operational success as well as business capability to mitigate market risks. Companies new to the LNG industry, however, lack sufficient knowledge and operational experience and are therefore looking for cooperation.

**China liquefied natural gas import regions and terminals**



## Opportunities for Dutch Businesses

For Dutch companies, these developments bring enormous opportunities which need to be recognized and actively pursued. Coastal cities, specifically Rudong and Shenzhen will develop more infrastructure to secure a stable gas supply and shift its energy consumption from coal to unconventional energy sources. Moreover, opportunities are present regarding logistics, storage relevant equipment and facilities. The Netherlands, being a forerunner with technological knowledge and expertise in the energy market, is the ideal partner for China to realize their natural gas and LNG ambitions.

## For the Netherlands, worldwide

Do you have the solution to China's needs? Get in touch! The Netherlands Consulate General in Guangzhou can connect you to decision makers in key enterprises, industry organizations and local governments in South China.

Dutch companies who are considering to open up the Chinese market can take advantage of the expertise of the China Network or get in contact with a business coach at RVO.



### **The resort of CG Guangzhou**

For more information about services of the Netherlands economic network in China:

<http://zakendoeninchina.org/over-ons/onze-diensten/>

Please send your inquiries to the Consulate General of the Netherlands in Guangzhou:

GNZ-EA@minbuza.nl