

## Japan Official Predicts LNG Projects Will Start Moving Again

By Mari Iwata.

**TOKYO**--Sidelined for months by low crude oil prices, liquefied natural gas projects worldwide are set to stage a comeback, a senior Japanese government official predicts.

Ryo Minami, oil and gas director at Japan's Ministry of Economy, Trade and Industry, is in a unique position to make such a forecast. As the person responsible for all low-interest rate loans made by the government to Japanese companies for energy projects, he has a bird's eye view of the economics behind major projects that Japanese buyers are exploring.

He said that the catalyst that will cause dormant LNG projects to spring to life is a fall in export plant construction costs.

"Whether an LNG project makes economic sense doesn't just depend on crude oil prices. Construction costs follow oil price falls by a few months," Mr. Minami said.

Most conventional LNG projects link LNG prices to crude oil. A roughly 50% drop in crude oil prices has squeezed the profits of projects in countries such as Australia, Russia, Qatar and Malaysia.

On Friday, for example, Alexei Miller, chief executive of Russian gas giant OAO Gazprom (GAZP.RS), said his company is postponing the Vladivostok LNG project, which was proposed in the aftermath of the Fukushima accident in 2011 targeting Japanese demand, because the company wants to focus on building pipelines for gas delivery to China.

But Mr. Minami said he sees little impact by the decision to scrap the plan, adding the current doldrums in LNG projects won't continue for long. He declined to discuss the cost of any specific project, but said the cost from workers' wages to steel prices and leasing construction equipment fees have already fallen as several on-going LNG projects are nearing completion.

According to estimates by London-based business consultancy visiongain, new conventional LNG projects such as OAO Novatek-led Yamal in Russia and Anadarko Petroleum Corp.-led Mozambique are estimated to cost about \$1.5 billion per 1 million

tons a year. These figures are much lower than the costs of projects that given the green light during the last LNG investment boom around 2010.

For example, the Chevron Corp.-led Gorgon project and the Inpex Corp.-led Ichthys project, both in Australia, cost about \$3.5 billion and \$4 billion for the same capacity, respectively.

Demand from China is not rising as quickly as previously expected. Wood Mackenzie revised down its forecast earlier this month for China's 2020 natural gas demand to 360 billion cubic meters from 420 billion cubic meters, citing factors such as low oil prices and high domestic gas prices.

But Mr. Minami said he thinks that economic growth in China and India would likely boost LNG demand sooner or later. The Organization for Economic Cooperation and Development projects that the Chinese economic growth to slow to 7.10% this year compared with 7.35% in 2014 and 7.69% in 2013. But "it is still a big growth compared with Japan, where LNG demand has matured," he said.

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