Results of FY2022 Survey on Destination Clauses and Price Indices in Fixed-term LNG Sales and Purchase Agreements concluded by Japanese companies

Japan Oil, Gas and Metals National Corporation
18th Oct 2022
10th Nov 2023 corrections
LNG Information Team,
Research and Analysis Department
Oil & Gas Upstream Unit

Outline of the survey

JOGMEC

- **Objectives**：This survey is the second year of a follow-up on the contract terms and conditions related to destination restrictions in fixed-term LNG sales and purchase agreements (SPAs) since the Japan Fair Trade Commission's "Survey on LNG Trades" published in June 2017 in view of abolishment or relaxation of destination clauses, which cause a concern for LNG security, based on the "New International Resources Strategy" formulated in March 2020 by the Ministry of Economy, Trade and Industry.
- **Survey Period**：June to August 2022 (two-month response period), briefing sessions were held prior to the survey.
- **Survey Targets**：A total of 22 Japanese LNG buyers (all companies cooperated with our survey.)

<Survey contents>

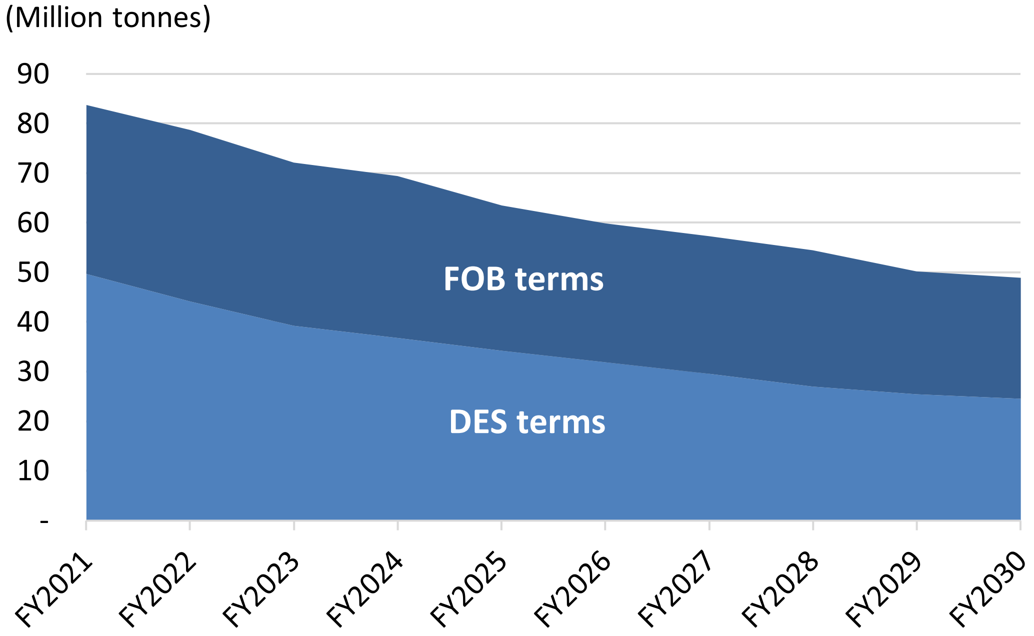
Survey of the following items for the 10-year period from FY2021 to FY2030 (Annual Contract Quantity (ACQ), not actual figures)

1. Total ACQ by fixed-term SPAs excluding spot transactions
   - All term contract volumes, whether DES/FOB, with or without destination clauses
2. Take or Pay clauses
   - Existence or non-existence of Take or Pay clauses and, if Take or Pay clauses exist, whether or not Make up clause exist.
3. Price Index
   - ACQ by price index employed (JCC, Brent, etc. crude oil price, HH, TTF, JLC, Hybrid, JKM, etc.)
4. Free description of recent trends, etc.

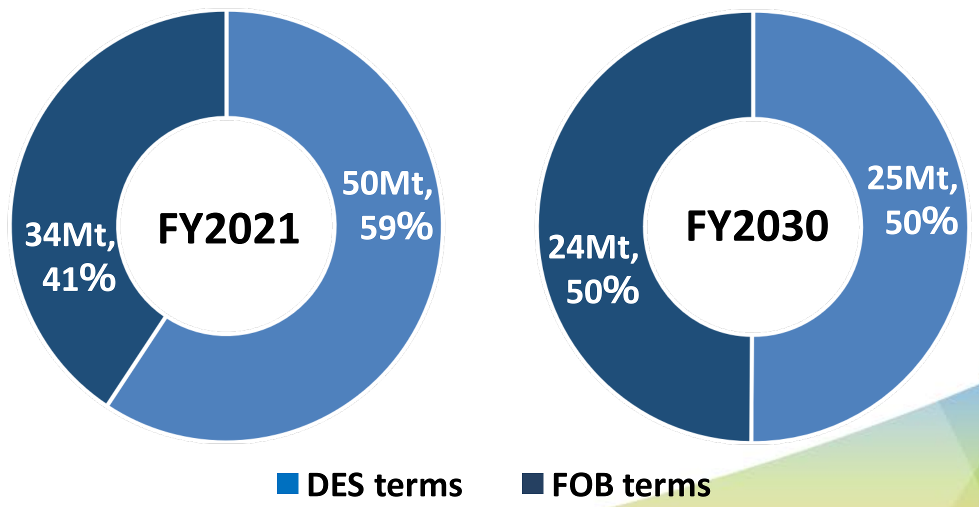
1. Total annual contract quantity (ACQ)

- **The annual contract quantity (ACQ) of the fixed-term SPAs concluded by Japanese companies as of this survey was approximately 84 Mt in FY2021 and to be 49 Mt in FY2030.**
- As of FY2021, the ACQ for DES and FOB terms and their respective shares were approximately 50 Mt or 59% for DES terms and 34 Mt or 41% for FOB terms.
- As of FY2030, as the ACQ declines, the ACQ for DES and FOB terms is also to decrease to approximately 25 Mt and 24 Mt, respectively.

<Trend in ACQ>



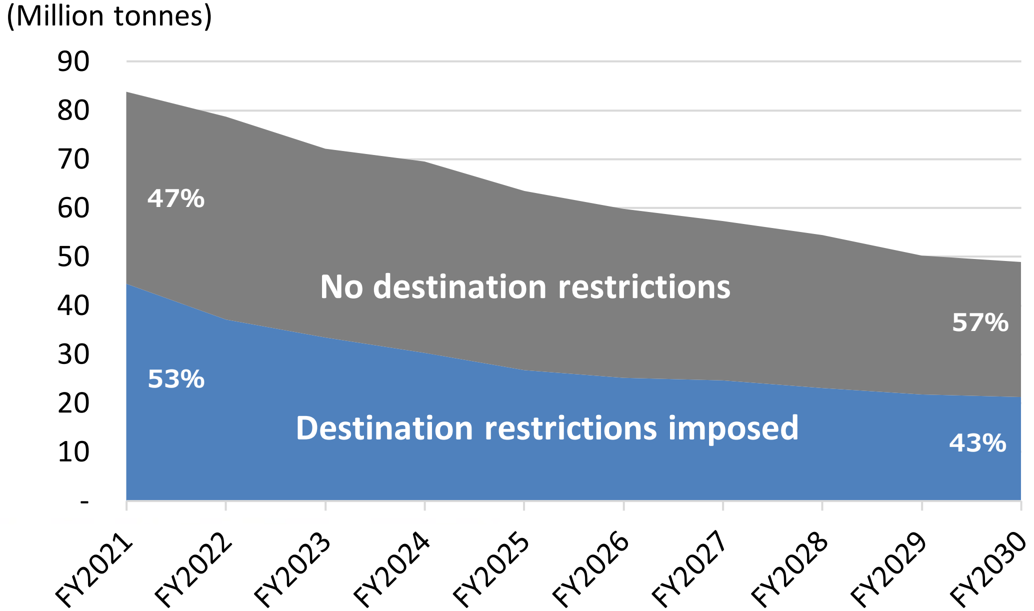
<Comparison of DES/FOB terms>



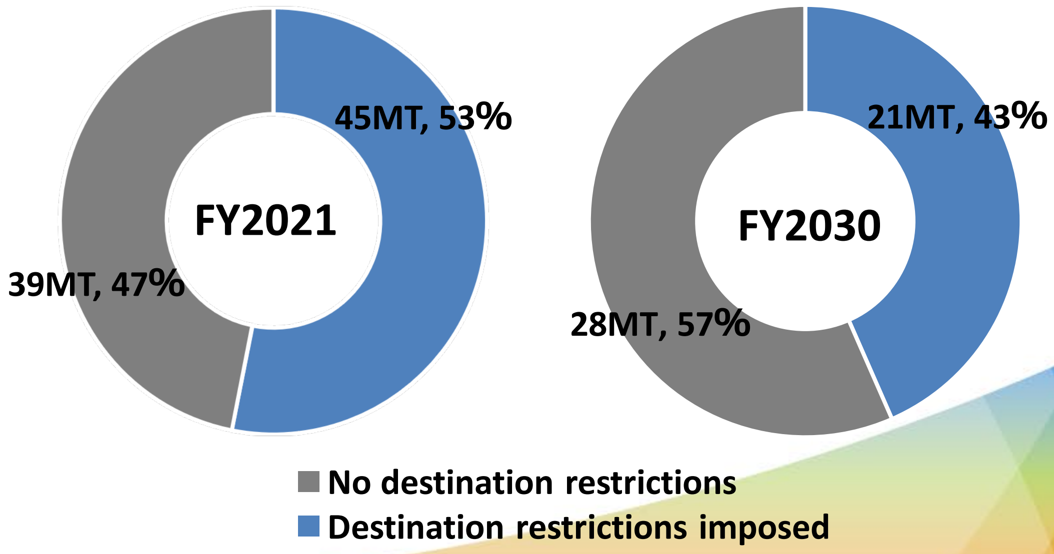
2. Trend of the destination restrictions in the term contracts

- **The ACQ for which destination restrictions are imposed is to decrease from 45 Mt or 53% (total ACQ of 84 Mt) in FY2021 to 21 Mt or 43% (total ACQ of 49 Mt) in FY2030.** According to the last survey, the ACQ for which destination restrictions are imposed in FY2016 was 46 Mt, 75%, and in FY2020, 49 MT, 57%, respectively.
- For the purposes of this study, the following terms are defined as below;
  - "No destination restrictions" is defined as the contract quantity that is the sum of "no destination clauses" and "cases in which diversion of destination to domestic or overseas are allowed and no profit-sharing clauses are imposed".
  - "Destination restrictions imposed" is defined as the total contract quantity minus the "no destination restrictions" quantity above, which means "cases where a destination is specified" and "cases where profit-sharing clauses exist even if the diversion of destination to domestic or overseas is allowed".

＜Trends in destination restrictions＞



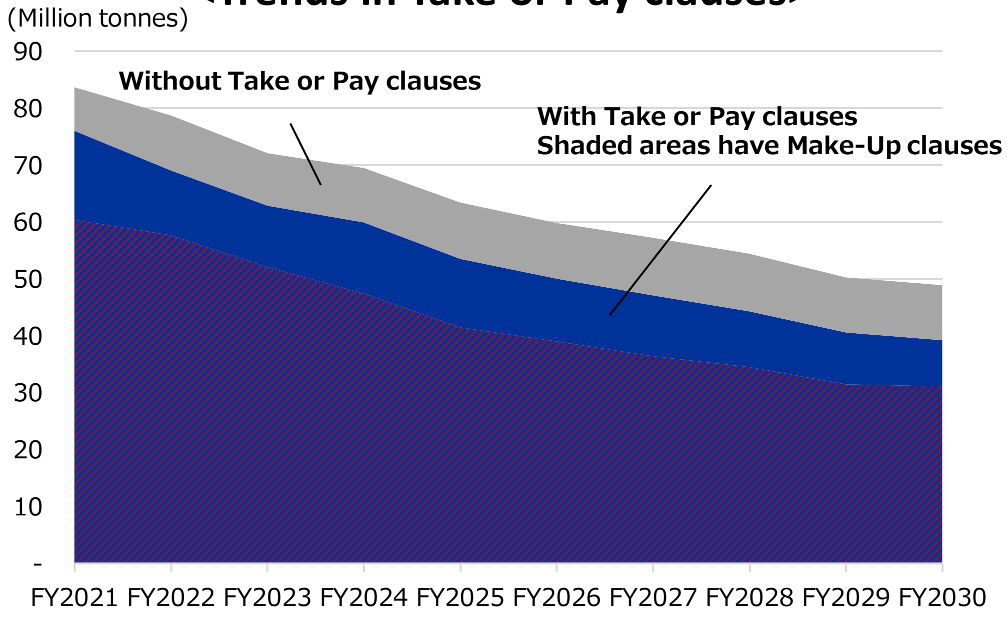
<Comparison of destination restrictions>



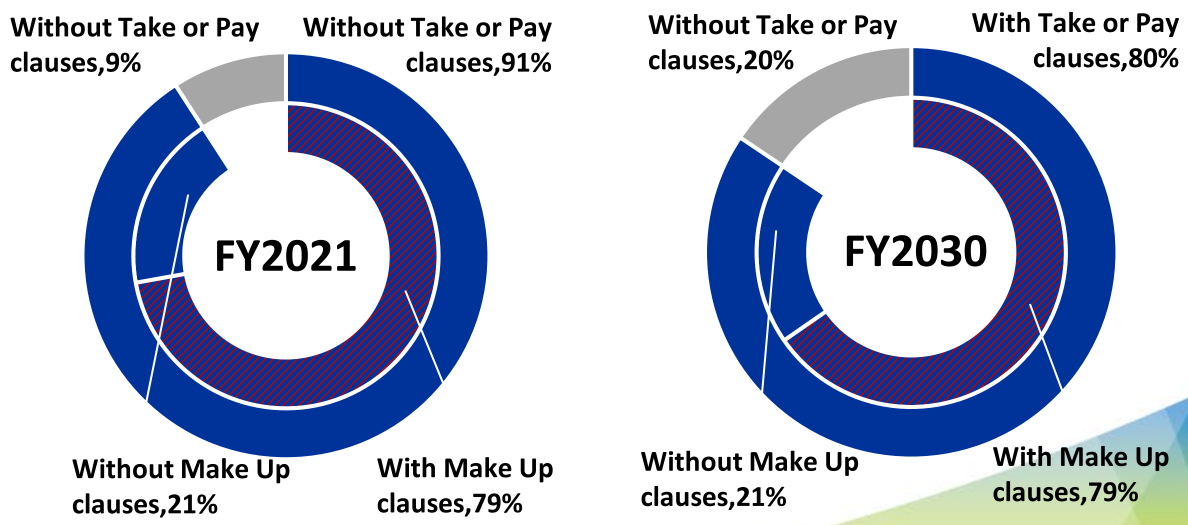
3. Take or Pay clauses and Make Up clauses

- **The ACQ to which the Take or Pay clauses apply was 76 Mt in FY2021, accounting for 91%, but is to decrease to 39 Mt in FY2030, with the share decreasing to 80%.** Of the contract quantity with Take or Pay clauses, those with Make Up clauses accounted for 79% in both FY2021 and FY2030.
- Take or Pay clauses impose an obligation for buyers to pay sellers for all the ACQ except for Downward Quantity Tolerance (DQT), including the quantity that buyers do not actually receive, and it is a contractual commitment by buyers, reflecting the seller's strong position. Make Up clauses provide that the paid-up quantity can be delivered during a certain number of years after the next fiscal year.

<Trends in Take or Pay clauses>



<With or without Take or Pay clauses>

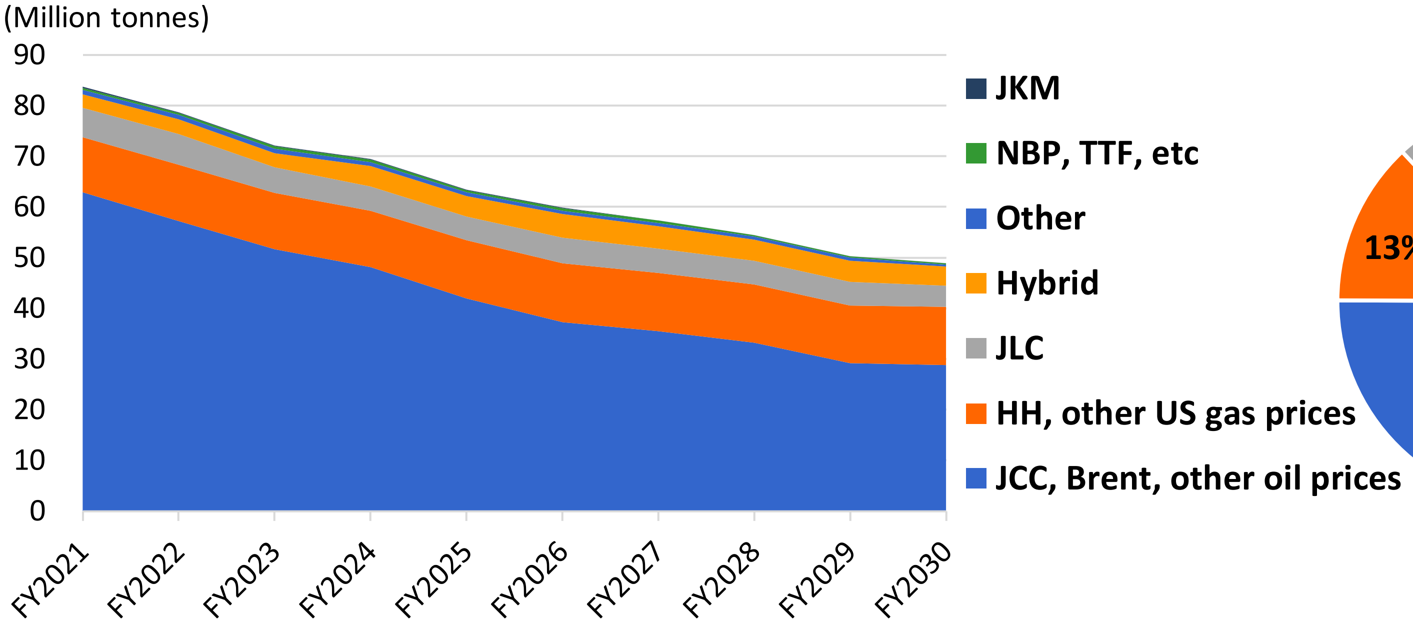


Values for FY2021 have been revised as corrections were reported during the FY2023 survey.

4. Diversity of Price Indices adopted

- With regard to the price index adopted for term contracts, the price of "JCC, Brent, and other crude oil prices" accounted for 75% (63 Mt) in FY2021, but this share is to drop to 59% in FY2030, decreasing to 29 Mt in line with the decline in overall contract quantity.
- Contract quantity with the Henry Hub and other U.S. spot gas price indices accounted for 13% (11 Mt) in FY2021, and the same number in FY2030 at about 11 Mt, but the share is to increase to 23% as the crude oil price-linked contract quantity declines. The hybrid method, which combines two or more price indices, shows a slight increase. The quantity of JKM and TTF contracts is still very small, at several hundred thousand tonnes, even for FY2030.

<Trends in ACQ for price indices>



<Percentage by price index>