

WORLD GAS INTELLIGENCE™



Vol. 28, No. 5

February 1, 2017

Special reprint from *World Gas Intelligence* for **Global LNG Exchange**. Copyright © 2017 Energy Intelligence. Unauthorized access or electronic forwarding, even for internal use, is prohibited.

Online Auctions: The Future of LNG Trading?

The world of LNG is about to meet the world of e-commerce. With liquidity set to explode over the next few years as global liquefaction capacity mounts and new players enter the fray, a new company based in Singapore plans to offer an online platform for members to trade in physical cargoes of LNG. The platform, developed by privately owned Global LNG Exchange (GLX), is intended to revolutionize the way spot cargoes are bought and sold — opening a new trading avenue to add to traditional routes such as phone calls, bilateral negotiations and tenders.

The platform has been established in response to huge changes in the market. “From where I started in the industry 15 years ago, the market today is unrecognizable both in terms of number of participants and number of flexible cargoes. It’s getting unwieldy,” GLX Chief Executive Damien Criddle told *World Gas Intelligence*. As the wave of new liquefaction capacity draws in new traders, fragmenting and diversifying the market, and boosting the volume of short-term trade, the former Royal Dutch Shell senior legal counsel believes there will be more need for efficiency, transparency and timely price discovery.

In 2015, about 68.4 million tons of LNG were traded on a spot or short-term basis of less than four years, representing about 28% of total trade, according to the International Group of Liquefied Natural Gas Importers (WGI Jan.4’17). The rest was sold on medium- and long-term contracts. GLX expects flexible spot and short-term cargoes to account for 40% of the total by 2020-21, by when consultancy FGE reckons global liquefaction capacity will have surged 33% to over 440 million tons per year (WGI Dec.14’16; WGI Oct.26’16; WGI Apr.13’16). Of this, about 60 million tons/yr will be US LNG, which, free of destination restrictions, can head anywhere in the world.

GLX plans to start live commercial trading by the first week of April. Buyers or sellers can initiate an auction in the daily trading timeframe in which anonymous bids and offers will be updated live. GLX will charge members an annual subscription fee of US\$10,000 and a transaction fee capped at \$20,000 per cargo traded. The trading timeframe spans 4pm-5pm Singapore time

— or 9am-10am London time. If bids and offers meet the reserve price set by the auction initiator, the trade is transacted.

GLX also wants to make it quicker to do deals by standardizing elements of LNG contracts (WGI Sep.28’16). The Master Sales Agreements (MSAs) used on the platform will seek to standardize the legal portion of contracts, incorporating a legal template with terms on obligations in areas including law and dispute resolution. Key commercial and operational options can be tailored on an auction-by-auction basis. “Iron ore trading is standardized, coal trading is standardized,” Criddle said. “People who don’t want to standardize say to us that it can’t happen. We say it can happen and the process is starting. We’re not saying that GLX will set the standard — the market will. ... The document might not look like it does now in two years — that’s fine if the market likes it. ... If people want to transact in a more efficient and quick manner you have to move to standardization, it’s just a fact.” Users could change MSA legal terms to suit their requirements, but GLX believes that might reduce interest from members that have accepted the terms. “The MSA is really not that special. It’s just a contract. There are personal preferences and we allow people to tailor that ... but probably 90% is standard,” he said.

Potential members reviewing the agreement are cautious. They cite uncertainty over the financial and legal risks of using the platform. GLX is currently working with nearly 40 companies, of which roughly half are in the early stages of becoming members, Criddle said.

Other auction rules state that deals must be binding on users that post valid bids or offers on the platform. Bilateral deals between counterparties can still be transacted off the platform based on a contract agreed on line — indeed, Criddle expects bilateral deals to continue as the market grows — but companies that don’t transact any deals on line, only using GLX data for off-platform trading, could see their account suspended. GLX plans to release anonymous information on daily trades to members. How it is shared beyond that will depend on user feedback. ■

Edwin Loh, Singapore