

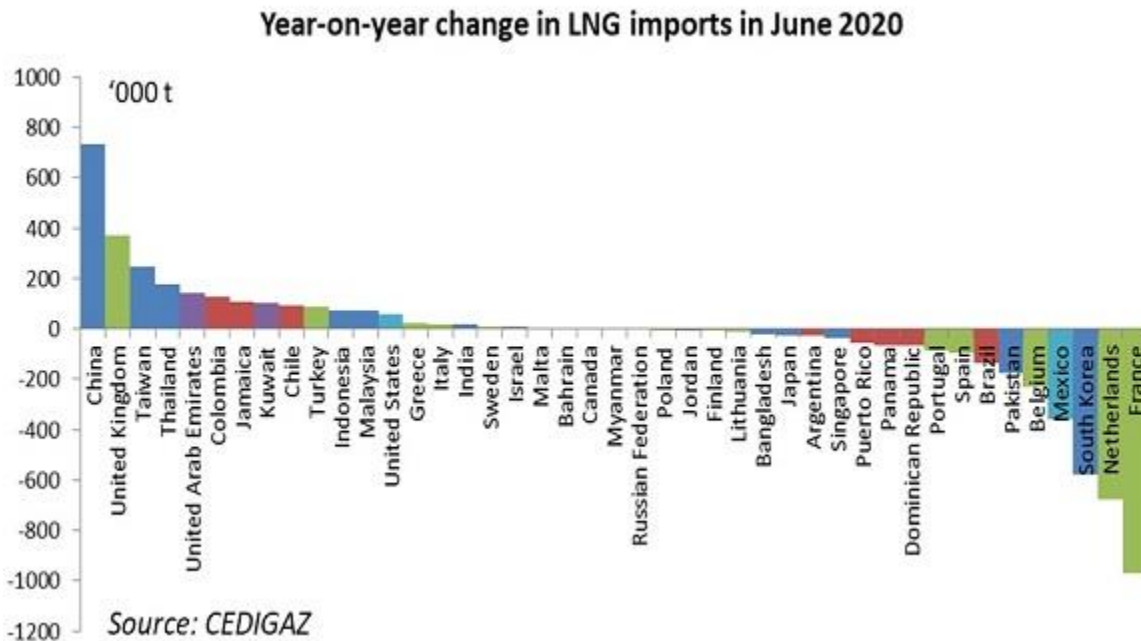
China's Growing LNG Dependence – Is Increasing Imports The Solution?

China is the [world's largest](#) LNG importer. This is a significant portion of global fuel consumption considering natural gas is [responsible for](#) 24% of the world's power generation. Global natural gas consumption increased by 4.6% in 2021, driven by the post-pandemic economic recovery.

As the least polluting fossil fuel, natural gas is [extracted as a gas](#) and converted into a liquid. In liquid form, natural gas is much easier to transport long distances without pipelines. LNG is a clear, colourless, non-toxic liquid 600 times smaller than natural gas. Qatar is the largest exporter of LNG and uses enormous tanker ships to move the product around the world.

LNG provides power across residential, commercial and industrial sectors for diverse purposes. These include heating, cooking, electricity generation and manufacturing. While it is not used typically for passenger cars, it is a fuel for heavy-duty trucks and other vehicles.

Along with other fast-growing Asian economies, China has been a significant driver for the growing world market for natural gas and LNG in the past few years. Collectively, these Asian economies are [responsible for](#) 75% of the world's global LNG imports. They have pushed the rise of LNG prices and caused major fluctuations in its value.

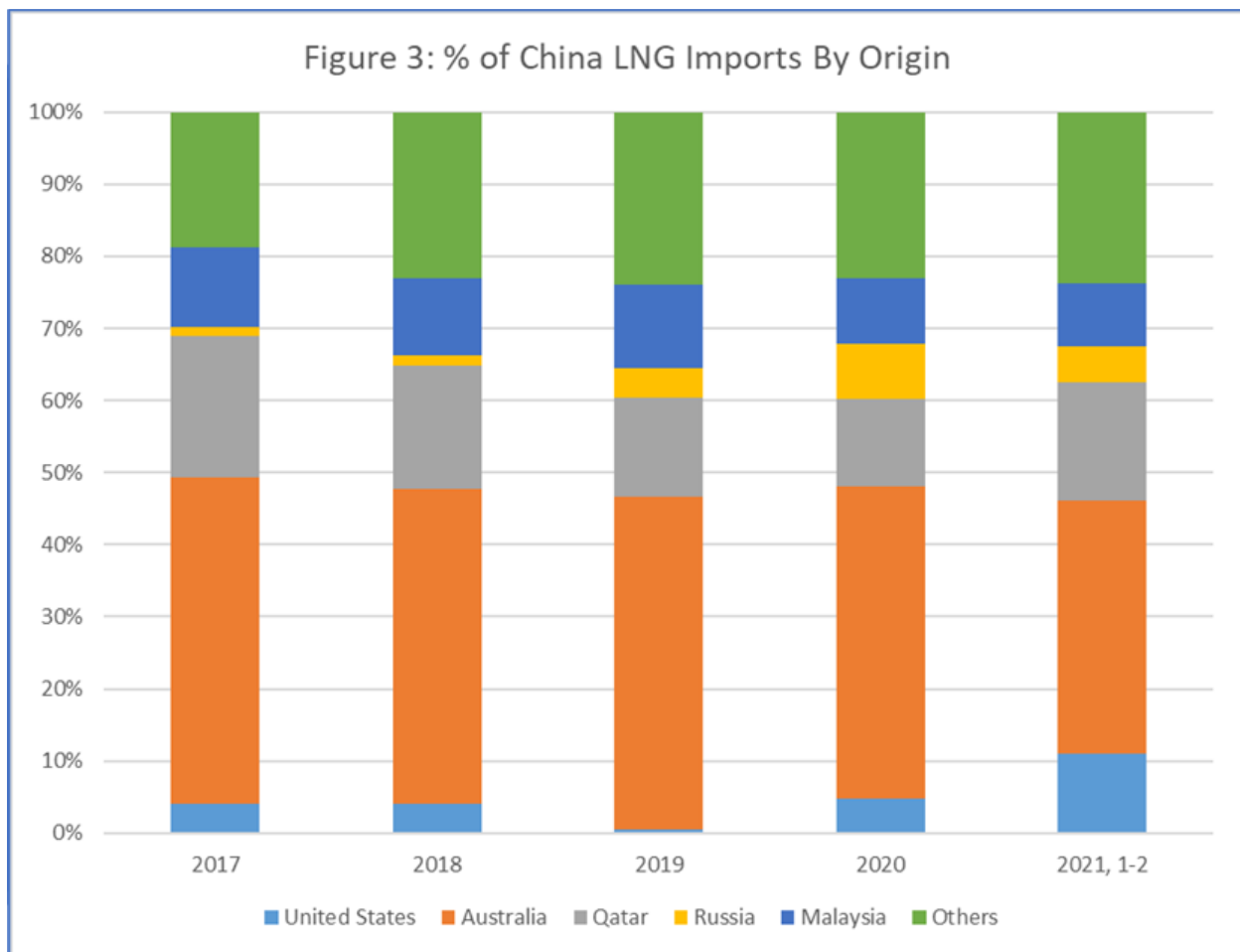


Source: [Global LNG Hub](#)

Where Does China Get its LNG?

In 2021, China focused on the post-pandemic recovery of its industries. According to [S&P Global](#), China's total natural gas imports increased by 19.9%, with pipeline gas imports rising more than 22% year on year and LNG imports growing more than 18% between January and December of 2021.

Australia supplied a majority of this natural gas (39.3%), and imports from the United States reached a record level of 11.6%. LNG imports from the United States had the largest increase of any country in 2021, with a year-on-year increase of 187.4%.



Source: [Global LNG Hub](#)

Why is China Buying LNG?

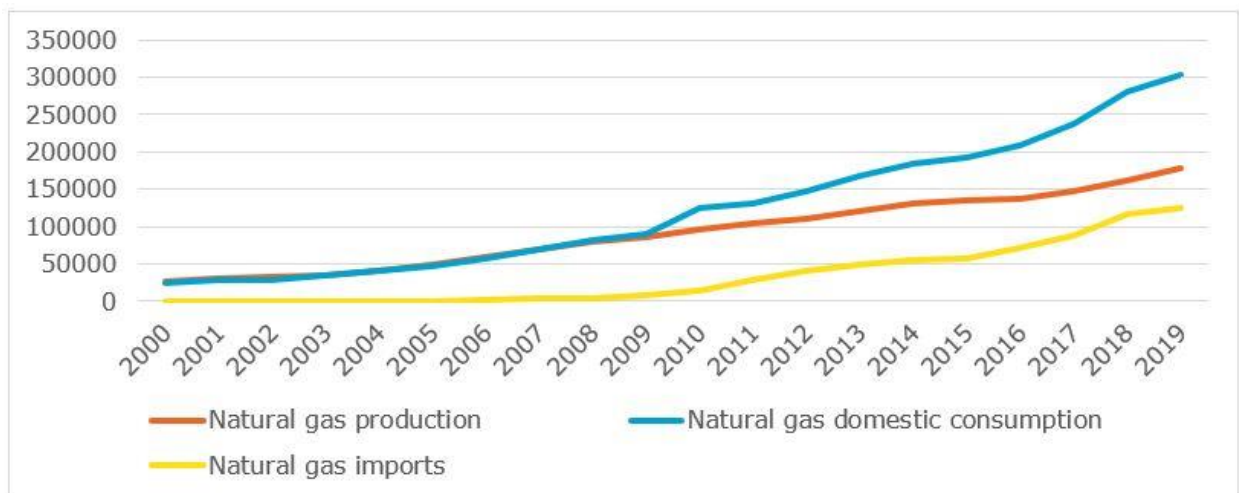
China is heavily dependent on its export-led industries for economic growth. With its push for economic recovery in 2021, the country also experienced peak domestic demand for energy.

Space heating and industrial gas demand are the key reasons for rising LNG demand in China. Rising electricity consumption has been a key source since the beginning of 2021, driven by the country's economic recovery. Just the first [4 months of 2021](#) witnessed a 14% rise in year-on-year gas-fired power generation. Specifically, strong electricity demand in southern China has led to a dramatic increase in LNG import as the gas provides peak supply to the market.

Unfortunately, renewables such as hydro and solar have produced less electricity than expected in southwest China due to lower rainfall. Further, the fluctuating price of coal has also shifted the focus towards LNG and gas-fired combustion.

Does China Have its Own LNG?

With China's significant dependence on natural gas for its energy transition and to fuel its growing economy, it is highly motivated to develop its production and has invested in it. [Fluctuating gas prices](#) and volatile global markets have also added to this mix.



Source: [Enerdata](#)

To increase domestic production of natural gas, the Chinese government has [introduced incentives](#) for several forms of natural gas production, such as tight gas, shale gas and, to a lesser extent, coalbed methane. In June 2019, the government introduced a subsidy program that established new incentives for producing natural gas from tight formations and extended existing subsidies for production from shale and coalbed methane sources. Although this subsidy will be in effect through 2023, the government has already allowed foreign countries to operate independently in China's oil and natural gas upstream sector.

LNG's Role in China

With its post-pandemic economic recovery, China has the highest energy demand in Asia and is using LNG to push through this demand and meet its needs. However, fluctuating gas markets and rising political tensions have left China energy-insecure and farther from its energy transition towards renewables.