LNG terminal may turn S'pore into hub

EYE ON THE ECONOMY

By ALVIN FOO

SINGAPORE is poised for a new chapter in energy security, when the liquefied natural gas (LNG) terminal on Jurong Island opens in the second quarter of next year.

To begin with, the $1.7 billion terminal will allow Singapore to import LNG from all over the world for domestic use. This is expected to bring down electricity prices.

Right now, 80 per cent of Singapore's electricity is generated with piped gas imported from Malaysia and Indonesia. Piped gas is transported in gaseous state, requiring specially built pipelines.

In contrast, LNG is gas cooled at -160 deg C into liquid form. It is thus much easier to store and transport. But importers need to build a special terminal to handle LNG.

Opening its own LNG terminal means Singapore has access to plentiful gas supplies from around the world, and can generate power from another energy source.

As Second Minister for Trade and Industry S. Iswaran said in February: "Our aim is to make sure that every Singapore home and all our businesses have access to reliable and competitively priced energy... our key strategy is diversification."

The terminal's first phase, already more than 90 per cent built, will feature one jetty and two storage tanks, and can process 3.5 million tonnes yearly.

A third tank and up to two more jetties will be ready by the end of next year.

Singapore's terminal is the first of its kind in the world to be specifically designed for the import and export of LNG. Terminals now handle either imports or exports.

With a terminal that can handle imports, and re-exports, Singapore thus stands a good chance of becoming an LNG trans-shipment and trading hub, in the same way it is already an oil hub.

Ships carrying LNG from supplier countries can dock at the new Jurong terminal. The LNG can then be reprocessed and re-exported to Asian countries where demand is raging.

One game-changing factor is the availability of LNG imports from the United States, where record production from newly developed shale deposits has pushed prices to 10-year lows. Industry players have tipped that the US LNG imports that land here could cost at least one-third less than current Asian prices.

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Reuters reported last month that the Government of Singapore Investment Corp and China Investment Corp pumped in a combined US$1 billion (S$1.24 billion) into a huge new LNG export plant in the US. This was into Cheniere Energy's US$5.6 billion plant in Sabine Pass, Louisiana, which is due to be completed by 2015. That is a significant milestone, as it will be America's first LNG export plant since 1969.

In May, Singapore's Temasek Holdings also invested $300 million in Cheniere, which has already lined up customers in India and South Korea.

In fact, industry players have been positioning themselves here in the last three years in anticipation of the growth of LNG activities.

But the path ahead is not easy. Singapore has relatively less experience in the industry and faces competition from other more established Asian markets such as South Korea and Japan.

"These markets would have established the necessary infrastructure and ecosystem for LNG trading," said Mr Sanjeev Gupta, Ernst & Young's Asia-Pacific oil and gas leader.

For example, they would have infrastructure such as storage tanks and related facilities needed to trade the fuel, and the skilled manpower and support services such as spot trading and bunkering.

Closer to home, Malaysia and Indonesia – two of the world's top LNG exporters – also have similar aspirations to become an LNG trading hub and could pose keen competition.

CIMB regional economist Song Seng Wun said: "They have the raw materials situated there, infrastructure and space. They'll probably want to explore similar opportunities."

Still, there are strong factors backing Singapore's bid.

Asian demand is set to boom, as Japan seeks to fill its energy gap following last year's Fukushima nuclear disaster and China looks at reducing its dependence on coal by tapping cleaner energy sources.

The region consumed nearly two-thirds of total global LNG output last year. Demand is tipped to double in the next 15 years, given Asia's rapid economic growth and the opening of new import terminals. "Asia is currently paying the highest prices for LNG in the world," said Singapore LNG Corporation chief executive Neil McGregor.

The Republic is strategically positioned between key LNG importers like China, India, Japan and South Korea, and LNG supply sources such as Qatar, Malaysia, Indonesia and Australia.

Moreover, Singapore's background and heritage as an oil trading hub makes it an ideal place to market LNG, as many of the major energy trading houses are already based here, and infrastructure exists in banking and legal facilities.

Then there is the 5 per cent concessionary corporate tax rate for LNG trading income, which was introduced here in 2007 to spur this sector's growth.

Already, the industry has been abuzz with activity in recent years.

Five years ago, there were no significant LNG players here. Now, there are 14 companies with significant LNG trading or marketing desks here, said trade promotion agency IE Singapore's chief executive Teo Eng Cheong.

Many have expanded their LNG desks, as well as the breadth of activities done out of Singapore, which now range from trading and marketing to operations and risk management.

Recent entrants include PetroChina, while Trafigura will be establishing an LNG desk here in the near term.

International legal firms with LNG expertise, such as King & Spalding, are beefing up their LNG teams here. Such expertise includes project structuring, risk analysis, sale and purchase arrangements and transport arrangements.

Key price reporting agencies – Platts, ICIS and Argus – now have LNG representatives here covering the regional market.

Having the LNG terminal could turn Singapore into a trans-shipment hub for the product, similar to the roles that PSA and Changi Airport now play for container shipments and aviation, respectively, Mr McGregor noted.

The Government envisages that the terminal will be a key component of the LNG ecosystem which will create economic spin-offs such as LNG trading, bunkering, storage and reloading for re-export.

It could provide the spark which ignites a multibillion-dollar industry.

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U.S. PRESIDENTIAL RACE 2012

Why Republican win is good for America

By RAZEEN SALLY
FOR THE STRAITS TIMES

NON-AMERICANS generally have a patronising, derisive view of American politics. Trivia, mud-slinging, bitter partisanship, extremism (particularly among Republicans) and Washington gridlock crowd out sensible debate, reasonable compromise and hard policy choices.

But this conventional view is wrong in one major respect. In this election year, the United States is having a serious debate about its anaemic economy. Low growth, high unemployment, a squeezed middle class and escalating public debt are the key issues. President Barack Obama and the Democrats are offering one set of policies for American economic recovery; Mr Mitt Romney and the Republicans are offering a starkly different set of policies. Behind these policies are competing philosophical and moral visions of America. These are out in the open and debated vigorously. It is testament to the continuing vitality of American democracy.

Europe, in contrast, is having no such debate. The European economy is in a worse state than the US economy, especially with a never-ending euro crisis. But Europe's mediocre politicians and bureaucrats blunder on with crisis firefighting and half-baked policies – without a fundamental debate on policy choices and with little sense of competing philosophical and moral visions that underpin them. Such debates on policies and ideas are also lacking in Asia and other parts of the non-Western world.

What are the choices on offer in the US? There are of course differences between centrists and hardliners in both camps. But the red lines are clear.

Mr Obama and the Democrats agree that public debt approaching 100 per cent of gross domestic product and projected to increase exponentially is unsustainable. They agree it should be cut in the medium term. But, in the short term, they favour a Keynesian stimulus via increased spending and cuts to payroll taxes. Beyond that, deficit cutting should include tax increases on high-income earners and steep cuts in defence spending. They have nothing to say about cuts to entitlement programmes that account for the bulk of federal spending, notably health care and pensions. They also favour more government investment in infrastructure and renewable energy. The underlying philosophy is a combination of Keynesian macro-economics and faith in government intervention.

Republicans reject Keynesian stimulus outright and aim to tackle public debt straight away and head on. The Romney-Ryan budget plan relies on steep cuts to public spending through deep market-oriented reforms of entitlements, notably Medicare, Medicaid and Social Security. They favour tax reform to simplify the Byzantine tax code and close loopholes. They pledge tax cuts and forswear tax hikes. And they have high ambitions for deregulation, not least on energy policy to spur a boom in shale oil and gas.

The underlying Republican philosophy is individualist rather than collectivist. It offers supply-side, not demand-side, solutions. Republicans believe that removing government obstacles will provide the right incentives for private-sector saving, investment, entrepreneurship and innovation. "Limited government and free markets" is the mantra. This is a "Hayekian", not a "Keynesian", programme for the American economy.

I favour Hayek to Keynes. I think the classical-liberal message of limited government, free markets and individual liberty is superior – on economic and moral grounds – to Keynesian social engineering. That is why I hope Mr Romney will win the White House and that the Republicans will keep control of the House of Representatives and strengthen their representation in the Senate.

America needs the right supply-side signals – especially to entrepreneurs – to bring about an economic recovery and renaissance. That is what Mr Ronald Reagan did in the 1980s. He tapped into the can-do spirit, the rugged individualism, of America. It is this American vitality, which a European-style social democrat like Mr Obama has never understood, that makes me much more confident about the American prospect than Europe's.

Two further implications of the US elections come to mind, one domestic and the other external.

On the domestic front, while the presidential election grabs the headlines, the congressional elections are at least as important. Even if Mr Obama is re-elected, it is likely he will face even stronger Republican representation in Congress, and possibly their control of both the House and the Senate. That will clip his wings enormously. And if Mr Romney is elected, he and Republicans will have to compromise to get things done – just as the founding fathers, who designed a constitutional system of checks and balances, intended.

Compromise on cutting public debt will matter most of all. Republicans are right to put overwhelming emphasis on spending cuts, entitlement reform and tax reform, but they should concede something on revenue-raising measures.

Finally, America's economic choices at home matter hugely for the rest of the world. Economic weakness at home translates into weak leadership abroad. But diagnoses and prognoses of American decline are off the mark today, just as they were in the late 1980s and early 1990s.

The US is still the "indispensable" nation. China and other powers are nowhere near the constructive global leadership that the US has provided since 1945, nor are they likely to be in this position in the foreseeable future. That is true of "hard power". It is even truer of "soft power": The American way of life, particularly its model of liberty in a law-governed society, remains globally compelling in a way no other country can match – least of all China. Hence the world continues to rely on American leadership on security and economic issues. That applies to Asia, too, where the US is the vital "balancing power".

The conventional wisdom is that American leadership will get weaker and weaker. I disagree. As Mr Alexander Hamilton foresaw in the early days of the republic, American leadership abroad depends above all on economic strength at home. An American economic renaissance will translate into reinvigorated leadership abroad. The chances of that happening will be better with a Republican victory this year.

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Mr Romney giving out hotdogs on Saturday to motoring fans. His pro-market policy involves using supply-side solutions to boost the economy. PHOTO: REUTERS

Romney's over-promise

By ROBERT J. SAMUELSON

ONE of the self-destructive tendencies of American politics is the eagerness of both parties to over-promise. Candidates make pledges that are difficult, sometimes impossible, to keep. When they aren't redeemed, disillusioned Americans turn to the other party, which trots out its own pleasing and overblown promises. This is a cycle that never stops corroding public trust.

Take, for example, Mr Mitt Romney's promise to create 12 million jobs in his first term.

This is a big number. It sounds good. It attracts people's attention. But is it realistic? Maybe – and maybe not.

Perhaps the 12 million jobs will materialise no matter who wins, as Mr Glenn Kessler, The Washington Post's able fact-checker, suggests. Some mainstream economic forecasters are in this camp. For example, Moody's Analytics has payroll employment growing from an average of 133.2 million in 2012 to 145 million in 2016. The forecast assumes no recession and a stronger recovery. By 2014 and 2015, annual economic growth improves to about 4 per cent, up from 2 per cent now.

Presidents, Mr Kessler notes, are often "the beneficiary... of broad economic trends... Romney's pledge appears to be an effort to take advantage of that".

But the 12 million jobs could also be a stretch.

Other forecasters are less optimistic. IHS Global Insight predicts 9.7 million new jobs by 2016. Although not foreseeing an imminent recession, it expects that economic growth will average only 3.25 per cent in 2014 and 2015.

Let's do some arithmetic.

To fulfil the 12 million job target, the economy would need to generate three million jobs a year, or 250,000 a month. Mr Romney's economic advisers argue that this is an achievable, even modest, goal. "If we had a recovery that was just the average of past recoveries from deep recessions, like those of 1974-1975 or 1981-1982, the economy would be creating about 200,000 to 300,000 jobs per month," wrote four Romney advisers in a recent paper.

That's true – and possibly irrelevant. Many recoveries from deep recessions have featured rapid economic growth; the economy snapped back quickly from the downturns of the 1970s and early 1980s.

The trouble is that we are not in the 1970s and 1980s. Companies now seem more reluctant to hire than in earlier decades.

Cautious hiring practices suggest that reaching three million jobs a year isn't a cinch. Since 1990, annual job growth has equalled or exceeded the three million target in only five years – all during the 1990s' boom (1994, 1995 and 1997 through 1999).

Mr Romney is arguing that his economic policies, by restoring confidence, will prompt consumers and companies to spend more. A stronger economy would then require more hiring.

Though this makes for good campaign rhetoric, the reality may be messier. Mr Romney's proposed policies include: reducing personal income tax rates by 20 per cent; cutting the top corporate rate to 25 per cent; replacing lost revenues by broadening the tax base (eliminating or reducing tax breaks); and decreasing federal spending from 23 per cent of the economy (gross domestic product) in 2012 to 20 per cent.

But details on all these proposals are sketchy – which tax breaks and spending programmes will be curbed? – and Democratic critics dispute Mr Romney's claim that they will automatically raise economic growth. Legislating changes could be time-consuming as well as controversial.

At best, the 12 million jobs promise seems a shaky proposition. Wouldn't it be refreshing if, for once, America's political leaders understated their case. Perhaps Mr Romney should have promised eight million jobs or 10 million – or maybe he shouldn't have promised at all. Now, there's a fantasy!

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