Price discrimination and limits to arbitrage in global LNG markets

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Robert A. Ritz

Abstract Gas prices around the world vary widely despite being connected by international trade of LNG. Some industry observers argue that major exporters (e.g., Qatar) have acted irrationally by failing to engage in price arbitrage. This is also difficult to reconcile with a perfectly competitive model in which price differences exist solely because of transport costs. We show that a model with market power can rationalize observed price differentials and trade flows. We highlight how different features of the LNG market limit the ability and/or incentive of other players to arbitrage, and discuss the potential impact of US LNG exports.

Keywords International trade, limits to arbitrage, LNG pricing, market power, natural gas, price discrimination

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Contact rar36@cam.ac.uk
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