

Remarks to the LNG Producer-Consumer Conference 2015

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Four years ago, the IEA asked, “Are we entering a golden age of gas?” We put the question mark in on purpose. Today, cheap coal and increasingly competitive renewables are squeezing out gas in some markets. At the same time, reforms to inefficient LNG markets have lagged. For many, this means the golden age of gas remains more of a dream than reality.

The energy industry has often assumed that because it is at the centre of global demand growth, Asian consumers would take any amount of LNG at any price. This was a mistake, a grave mistake. In key regions of the world, including India and ASEAN, gas has been losing market share to coal. In India over the past three years, gas-fired power generation has declined by half. That is in **absolute** terms: the share of gas in total power generation has declined **by even more**. Meanwhile, coal-fired generation in India has increased by 25% as several new plants came online. Even major gas producers like Malaysia have decided that using coal and exporting gas is more economical.

This is mainly basic economics. For example, today in East Asia, one kilowatt-hour of power generated from coal is half the cost of the same kilowatt-hour generated from gas.

The question for a new LNG project used to be: can it compete with Russian gas? However, today the question is: can it compete with domestic coal, or Indian solar power?

If it can compete, then there is a great chance for gas to become a major and relatively clean contributor to energy security. But the current low prices provide only a temporary window of opportunity – an opportunity that policy makers and the industry must seize.

Unfortunately there is a risk of complacency and short-termism. Issues of market structure and supply security are neglected when oil-indexed prices are low. **The attention paid to energy security appears indexed to oil prices. This can prove to be very costly in the long term.**

Too often we think about gas supply security in terms of European concerns about Russian pipeline gas. While that is relevant, we also must think about the critical role of LNG in gas supply security.

Japan is the perfect example. When Japan suddenly needed more LNG after the 2011 earthquake, the industry could not produce more LNG for Japan. Thankfully Europe bought less. LNG markets were the critical link that enabled the flexibility of the European system to be mobilised for the supply security of Japan. However, LNG can fulfil this flexibility role only if it is flexible itself. And we must all realise that the LNG value chain itself is exposed to risks. The loss of Yemen LNG and the terrorist attack on El Amenas gas field in Algeria are reminders of persistent geopolitical challenges.

These challenges can be addressed. As the new IEA Executive Director, I am planning to strengthen our work on co-ordinating gas security – inspired by what we already do for oil.

Japan is the upcoming Group of Seven president, and the IEA will be pleased to assist the G7 and, of course, all other governments in enhancing the resilience of the global gas markets and improving the capability to respond to disruptions. I hope that we work with the Japanese G7 presidency and also discuss gas supply security in the upcoming IEA Ministerial in November as well.

Gas can also play a role in helping meet our global climate targets. But for that to happen, consumers must come to perceive LNG as a secure, fairly priced and cleaner energy source. This is not just for today, but for tomorrow, and for years to come.

For LNG to achieve its potential, we need well-functioning markets. But these do not emerge spontaneously. **Progress will require modernising the traditional model of government intervention, regulated gas prices, and limited access to networks.**

Ladies and gentlemen, there is no doubt that a golden age of gas remains possible – very possible. In fact, for some regions like North America, it is already a reality. But in this part of the world, we have to move faster and with more determination to improve regulations, and to develop infrastructure and markets.

LNG can make a major contribution to improving energy security, facilitating economic growth and providing a cleaner and more efficient energy system. With investment, with a proper policy focus, with enhanced co-operation between producers and consumers, LNG can help gas fulfil its potential. If it does, we may finally delete the question mark from the golden age of gas.

Thank you.

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