Launch of the Medium-Term Gas Market Report 2013
SPIEF
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St. Petersburg, 20 June, 2013

Good afternoon, ladies and gentlemen.

It is a pleasure to be here today, at this premier Russian economic and business event. The SPIEF, and Russia itself, are fitting venues to launch the IEA’s Medium Term Gas Market Report. This country, which is so intertwined with European and increasingly Asian gas markets, knows too well the impacts of an international energy economy which is rebalancing evermore to the East.

But gas remains a fuel of contradictions, as it stubbornly resists globalization. Large discrepancies persist between the major regions in terms of pricing, market outlooks, and industry structure. And efficient markets and subsidized monopolies coexist in the world of gas today. Even in regions affected by energy poverty, large scale gas flaring persists. Reducing flaring is one of the key measures we recommended in our new World Energy Outlook climate report, released earlier this month.

This Medium Term Gas Market Report covers dynamically evolving gas markets. It is part of a key IEA series that conducts 5-year forecasts for each of the major fuel markets. Like the energy market itself, our medium-term market report series keeps changing – and it is a work in progress. We have now added a fifth report to the series. Starting this year, we cover not only each of the four main
fuels – oil, natural gas, coal, and renewable energy – but also energy efficiency, the so-called “hidden fuel.”

This edition of the gas report comes at a crucial moment, when the next 5 years will be so important for the world gas economy. Gas has already arrived as a major fuel in power generation, but the next five years will see it emerging as a significant transportation fuel as well, driven by abundant supplies, and infrastructure investment, as well as oil dependency and air pollution concerns. During this period natural gas vehicles will have a bigger impact in reducing oil demand than biofuels and electric cars combined.

Before I turn this over to Laszlo Varro, whose team put the Report together, let me outline a few of the major themes.

First, the outlook for American exports looks brighter than before. This is based on the continuing success of unconventional upstream production, which remained remarkably robust and displays impressive technological progress. The second major LNG export project, Freeport was approved, which together with Sabine Pass will already transform the US into a sizeable LNG exporter. A recent report of the Department of Energy argues robustly that LNG exports improve the welfare of the United States. We fully agree with this assessment, and we see open transparent markets as the best framework to provide energy security. Flexibly priced American gas can provide the liquidity for the development of an Asian gas hub and a more integrated market. And it can also provide an option to European buyers seeking to diversify from piped imports. American and
Canadian gas exports will therefore contribute a flexible, competitive alternative on the global LNG market. **That is my first point.**

**All this is important because the LNG market is looking to become particularly tight otherwise. And that is my second point.** Security issues in areas like North Africa, West Africa, and Yemen pose threats to export operations there. Domestic demand growth, often on the back of subsidized prices, is diverting gas from export in the Middle East, North Africa and Indonesia. And declining output from existing gas fields poses problems in Oman, Egypt, and Indonesia. The persistent tightness of LNG markets is a major concern as it limits the contribution of gas to sustainable energy security. In addition to the climate benefits that we emphasized in the recent WEO report, subsidy reform and improved energy efficiency would be beneficial to energy security as well, by enabling the utilization of currently idle liquefaction capacity.

A tight LNG market has important consequences more widely. It means an ongoing competitiveness of coal in Asia, where alternative gas import sources and domestic production are limited. That has an obvious impact on carbon emissions and local pollution. As LNG redirected from Europe is emerging as an important supply source for Asia, this leaves room for the recovery of Russian exports to Europe. Last but not least, the tightness of LNG greatly increases the investor interest in North American LNG projects.

**My third point is that, at least in the medium term, demand for imported gas will remain buoyed by constraints to domestic shale gas production in places**
like China and Europe. Chinese policy-makers have encouraged gas for its relatively clean burn, and the country is making enormous efforts to expand upstream production, with a focus on unconventional gas. China holds large shale gas reserves, perhaps comparable to the US. But they are proving very hard to access, despite lessons learned during the US bonanza. The obstacles China faces are largely due to complex geology, which does not favour the US experience and technology, but also result from population density, water scarcity, and regulatory impediments. We are confident that China will eventually overcome these challenges, but at least until 2020 Chinese production growth will be dominated by other sources such as tight gas, coal bed methane and even coal gasification – not shale. In addition, the growing role of gas in China is to be accompanied by growing import needs.

Europe suffers from many of the same problems – population density and regulatory impediments – which limit any prospects for competitive shale gas production there. But in Europe public acceptance is also a big issue. An IEA 2012 special report showed how important public confidence is to the future of the shale gas industry, it presented a set of “Golden Rules” for shale gas production to earn and maintain that confidence. The situation in Europe should be a sign to operators elsewhere of the importance of maintaining social acceptance.

So there you have it – the unconventional gas revolution in the US will impact gas markets over the medium term more by spilling North American exports onto the LNG market, than by the spread of that revolution itself. In a tight gas market, with rising demand and new uses for gas (like natural gas vehicles, also outlined in this report), extra flexibly-priced supplies will be welcome in Asian
and European gas markets – enhancing energy security, reducing carbon emissions, improving local pollution, and helping to encourage market integration and contractual flexibility.

With that, let me turn to Laszlo to go over the report in more depth. Thank you.