Opening remarks, Medium Term Gas Market Report

Good afternoon. It's a pleasure to be with you to launch our Medium-Term Gas Market Report.

The IEA’s medium-term reports differ from our more policy-focused publications. They look out over a five-year horizon and they ask the question of where current investment activity, based on current policy settings, will take us. Sometime we like what we see, sometimes we don’t, but these reports show where we will arrive if we don’t change direction. A week from today we will release our oil report, and our renewables report will come in August, followed by coal towards the end of the year.

But today it is the turn of gas.

My colleague Laszlo will take you through the details of the report, but I would like to highlight three key trends.

Three years ago the IEA introduced the concept of natural gas entering a golden age. The first point I want to highlight today is that the Golden Age of Gas has arrived in China. The recently signed supply deal with Russia is actually only a relatively small part of the story, and one that will take some time to come on stream. No, the main story here is domestic demand that will nearly double over the next five years to top 300 bcm, driven by pollution concerns and more generally by economic growth.

Gas is expected to see major growth right across the Chinese economy, not just as a substitute for coal in the power sector, but also in the residential, industry and transport sectors. But where are they going to get this gas from?
The single biggest new supply source in China is domestic production which is set to grow from 117 bcm in 2013 to 193 bcm in 2019, a rise of 65%. That’s enough to meet half of China’s demand growth over the period. There is also a massive expansion of coal gasification which highlights the trade-offs for energy policy as this domestic resource has a very high carbon footprint.

This is a major shift, yet China will clearly remain a growing importer. We also expect that strong domestic supply, expanding infrastructure links, domestically and with Central Asia, and, further out, Russian piped gas, will again change the dynamics of the globally traded market for LNG.

The second point I want to make is that this report sees little opportunity for Europe to diversify its gas supply by the end of the decade. Demand also remains flat with a recovery to its 2010 peak of 567 bcm not expected at anytime to 2019.

Recent talk of plentiful LNG being available from the US shale boom is simplistic. The necessary export facilities are not yet in place, and we must remember that gas is an expensive fuel to transport and is sold into a global market dominated by current high prices in Asia. In fact, with currently weak European demand and Russian gas, there is the guarantee of gas supply to Asia as major utilities redirect their LNG from Europe to the East, but this may well change.

Big Australian projects will expand supply to Asia, but the race is on to keep up with demand growth there. Other LNG projects will predominantly require more than five years to come on stream due to the combination of policy barriers and investment lead times. I’m afraid this is true for most Canadian projects as well.
My final headline for you is that **North America and Australia will account for 40% of additional supply and a large majority of the expansion of international trade.**

Given the abundance of gas in the US domestic market, the recovery of gas production in Canada will be conditional on finding new markets for that gas, either in Asia in the form of LNG, or domestically in the transportation sector.

One of the key drivers for the massive and rapid expansion of the sector within these economies has been the private sector’s ability to raise capital. In dollar terms, more upstream investment is flowing to North America than to the Middle East and Russia combined.

We are entering the age of much more efficient natural gas markets, with additional benefits for energy security. While demand growth is driven by the Asia-Pacific – and especially China – supply growth for the international gas trade is dominated by private investments in LNG in Australia and North America.

Yet this projection comes with a caveat. Pricing will be key.

High LNG prices are threatening to crimp demand as many countries are increasingly unwilling, or unable, to afford these supplies – and that could open the door to coal. Looking ahead, unless we see timely investment in new production and LNG facilities and the reversal of the recent cost inflation of LNG, only a very strong climate policy commitment could redirect Asia’s coal investment wave to gas.

With that, I would now like to hand over to our head of gas coal and power markets, Laszlo Varro.