Good afternoon, it is a pleasure to be here with you here today.

Last November I had the pleasure of speaking at Singapore International Energy Week on the role of gas in Southeast Asia. The central message that I shared then remains true today. In a few words: in order for gas to play a long term, sustainable role in Asia, it must be able to compete. It is in Asia’s best interest to develop a flexible, efficient, competitive gas market.

But there is one other phrase that I used, and if you will forgive me I will quote myself – “The gas industry is operating on the assumption that what is true today will be true tomorrow, but this is a mistake.”

And of course things have changed. Oil prices, which had already fallen significantly by November, fell to a five-year low.

You all know what effect this has had on gas prices. The oil market has recovered somewhat, but there is no reason to believe that we will see oil prices climb to what they were last summer. This price volatility is not in itself a bad thing. Fundamentally-driven price fluctuations allow demand and supply to efficiently rebalance. The latest rebalancing represents fundamental developments in the market, in this case a relatively weak global economy, and the emergence of the United States as a swing producer.

But that was oil. There was not necessarily a fundamental market reason for gas prices to drop. Today’s prices in Asian gas markets simply do not reflect gas market fundamentals. The oil-linked model doesn’t shield gas producers and consumers from such price volatility. As compared to Europe, which has developed trading hubs, there is no real price signal attached to this volatility.

To be clear, there is no guarantee that a hub-based price mechanism would not generate similar volatility but at the very least would be reflective of gas market fundamental developments and in that sense a useful price signal for markets.

The development of trading hubs in Asian countries would require a fundamental departure from the traditional model of government intervention, regulated gas prices, and limited access to networks.

The first step toward realising trading hubs is enabling open, third-party access to gas infrastructure. Giving fair access to infrastructure encourages transparency and new entrants into the market. It encourages the natural development of competitive pricing; this is what will form the basis for gas trading hubs.
Although Asia is eager to follow the United States and Europe in establishing trading hubs, there is one limiting factor: the region is lacking in alternative gas via pipeline, and geography makes pipeline development a challenge. The region has a rich history of maritime trade, and this points to the importance of building up port facilities and infrastructure to ship and receive LNG.

Most of the region’s major importers – Japan, Korea and Southeast Asian countries – rely heavily on LNG and so have less bargaining power with LNG suppliers. Continued growth of the Trans ASEAN Gas Pipeline will grant some benefits in this regard as pipeline interconnections can foster flexibility and reduce the risk of supply disruption.

Trading hubs would offer the opportunity for transparent regional prices, efficiently balancing supply and demand while optimising trade flows. For now, hubs in Asia would predominantly serve spot-trading activities, rather than the whole natural gas trade.

Therefore the ambition to see a hub provide a reliable index for the entirety of natural gas and LNG trade remains remote, at least in the first years of the hub’s establishment.

It follows then that oil indexation is expected to continue in the medium term, and for now that means gas prices are relatively low.

This has created headwinds for producers and comes as welcome relief for consumers after a prolonged period of rising energy bills. But it is important not to lose focus on the bigger picture. Lower prices have not altered broader energy trends. Many of them are firmly in place. The epicenter of consumption growth will continue to shift east. Import requirements for many Asian countries will increase and the need for investments in energy infrastructure will continue to grow.

Almost 50 years ago, ASEAN was founded with very clear aims to accelerate economic growth and social progress among its members. Over the past 30 years Southeast Asia’s economy has been one of the fastest growing in the world, with GDP rising by over 5% per year on average. This progress is expected to continue, with GDP projected to average over 5% per year between 2014 and 2018. The results of regional efforts, and of course the efforts of individual members of ASEAN, are to be commended.

But with such progress comes challenges.

There is no sign of the end of growing demand in Asia. In fact, the IEA expects Asia to be responsible for about half of all new gas consumption this decade. In the central scenario of World Energy Outlook, the region burns an additional 750 billion cubic metres of gas by 2035 – slightly more than current US production. That’s not just shale gas production, that’s all US production today.

Access to electricity has been rising quickly, with Indonesia for example improving its national electrification rate from 65% in 2008 to 80% in 2013. But still, Asian electricity demand could more than double by 2035, as access to electricity remains a key development priority for the region. To meet this astronomical growth, significant investments will be needed – nearly USD 980 billion. The majority of this, USD 544 billion, is required for transmission and distribution. The balance is for new generating capacity.

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Power generation from renewable sources is growing strongly, and renewables are gradually gaining support from governments. The largest growth is seen in hydro power, which has seen strong growth in countries such as Laos, Cambodia and Vietnam. Growth is also anticipated or planned in Thailand and Myanmar. However not all needs can be covered by renewable energy, so fossil fuels will continue to play an important role in terms of energy security.

**Gas in particular will have an important role to play.**

Gas is crucial to offering increased flexibility and enhancing energy security, while – as a transitional fuel – offering certain environmental benefits by potentially reducing carbon emissions and air pollution. Today’s low prices create a unique window of opportunity to ensure that gas can fulfill that role. But without action, the share of gas in electricity will fall and the region risks locking itself in with less environmentally sustainable choices, namely coal and oil.

Gas also has a potential role in the transportation sector. Southeast Asia is home to a number of large and growing cities that face serious pollution problems from the use of poor diesel engines powered by very low quality fuel. Yet the size of investment needed to lower this environment impact of oil as a transportation fuel is high. In Europe this has been in many ways accomplished, but it was neither easy nor cheap. So instead gas could play a very attractive role in transportation.

**But none of this will be possible without taking action, and the window for action is right now.**

There is a massive amount of LNG on the way. Prices are low. This will not last forever.

Both physical and regulatory infrastructure need to be built. In particular, this is the perfect time to push strong structural reforms. These include regulations, licensing, royalties and taxation, but also subsidies, particularly for use of domestic output, that not only encourage waste but also keep producers from bringing new supply to markets. On subsidies there have been steps taken in a number of ASEAN countries, but more remains to be done.

Such reforms usually come in steps and require fine-tuning, so if countries implement strong reforms in loose markets there is room for maneuvering and correction. You all know that when markets tighten again, the need for a solid underlying physical, regulatory and institutional infrastructure will suddenly become that much more severe. Why wait until then?

**This call for action is not limited to consumers, as producers can also take this opportunity to act.**

In many countries in the region, new discoveries are unable to keep up with production while production is not keeping up with demand. Between 2007 and 2013 total regional gas production growth covered 70% of the region’s additional demand. This share will decline towards 50% over the next five years. The region as a whole remains a significant gas exporter but net exports are declining and for specific countries import needs are set to rise substantially.

The region is stepping up its role as LNG importer alongside its traditional role of major LNG supplier. As of 2010, no ASEAN countries were importing LNG. Today four countries have LNG import capacity –

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namely Thailand, Singapore, Malaysia, and Indonesia – and two others – Philippines and Vietnam – are planning to have LNG terminals on line before 2020. Countries such as Indonesia and Malaysia are now both importers and exporters.

To ensure gas supply security to all ASEAN members, regional cooperation will be key.

While some obstacles to growth are country-specific, the majority are shared challenges which could be addressed by increased regulatory certainty, lower price controls, streamlined administrative processes and greater competition. The recent fall in oil prices increases the urgency of such measures, as oil and gas companies cut capital expenditures, making attracting new investments more difficult.

And meanwhile there is a tendency among policy makers in producing countries to regard the decline in production as unavoidable. Meanwhile regional champions are looking at investment opportunities in other part of the world. But why look elsewhere? With the right incentives, there are investors who would happily consider investment opportunities in the region.

Finally, but importantly, we must never forget that underlying this entire issue is the question of climate change.

And with that in mind, it must be acknowledged that coal has a role to play in the region’s energy mix for the foreseeable future. But ultimately the region will need to do its part.

This starts by avoiding the mistakes of the west. Today, Europe struggles to replace an old and inefficient building stock. You have the opportunity to build efficiently and sustainably today.

And as household income reaches a certain threshold every family will have air conditioning – a key end use for gas in the building sector. Ensuring efficiency is key.

And while I did say that we must acknowledge the role of coal, it should be coal that utilises modern, cutting edge, efficient new coal technology. This could go a long way to reducing carbon emissions and limiting the environmental impact of coal. Already there are countries in your region making great progress in this regard, and I commend these efforts.

Choosing not to undertake such efforts simply delays the inevitable.

If this doesn’t happen today, it will happen five years from now. Asia must look to success in other regions – for example the unbundling and deregulation of gas markets in the United States some 30 years ago put them on a path to innovation, and ultimately greater success.

Producers must look to the future. Embrace reforms coming from governments. The alternative could be losing market share to cheap coal, and in the case of decarbonisation, renewables and nuclear.

Gas must be able to compete, as it’s no longer a simple regional issue – LNG has made it a global issue.
Simply speaking there is only one way forward for gas, and that is efficient and transparent markets, combined with sustained investment. This is a lesson that is beginning to be heard here in Asia, but this is no time for complacency.

I’ve said it before, but I will say it again. For the sake of energy security, for the sake of economic competitiveness, and indeed for the sake of the gas industry itself, Asia must look to reforms.