



Coping with Security Challenges of Natural Gas Markets
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Options for Mitigating Short-Term Gas Supply Disruptions

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Options for Mitigating Short-Term Gas Supply Disruptions

- The IEA was established in 1974 with a mandate to enable our member countries to collectively mitigate the negative impacts of oil supply disruptions
- We were able to use this capability last year in the wake of the very damaging hurricanes Katrina and Rita
- Geopolitics and the rapidly increasing regionalisation as well as globalisation of gas markets
- And we hope that we can learn from the IEA oil security experience ...



Options for Mitigating Short-Term Gas Supply Disruptions

Security of Gas Supply

- As gas use increases, the external dimension of security of supply requires increased attention with growing import dependency in most IEA member countries.
- As natural gas is a public good, governments have the responsibility to define the objectives for security of supply, to create a framework and procedures for security of supply and to define the responsibilities of each stakeholder.



Options for Mitigating Short-Term Gas Supply Disruptions

Security of Gas Supply

- Market players are best placed as to the choice of measures which will provide the required level of security of gas supply.
- For some countries, gas storage will be the choice for ensuring security, for others, supply flexibility, and demand restraint measures and diversity may be adequate to ensure security.
- The IEA is convinced that emergency tools should be reserved for emergency use. Issues of volatility and other market imperfections should be addressed, *inter alia*, through dialogue and data transparency.



Options for Mitigating Short-Term Gas Supply Disruptions

Gas Security Challenges:

- Import dependency
- Transit dependency
- Operation/Facility dependency



Options for Mitigating Short-Term Gas Supply Disruptions

Drivers:

- Natural disasters as seen last year in the Gulf of Mexico
- Political weapons as seen this winter in Russia, and recently in Bolivia.
- Terrorism, war, civil unrest as we have seen in Indonesia and Nigeria

These drivers are not going to go away...



Options for Mitigating Short-Term Gas Supply Disruptions

IEA Oil Security – Embedded in the IEA founding Treaty -

- The maintenance of oil reserves equivalent to at least 90 days of net oil imports;
- A programme of demand restraint measures to reduce national oil consumption; and
- Other measures such as surge production and fuel switching.

As well as emergency data systems, and oil market analysis to support the work.



Options for Mitigating Short-Term Gas Supply Disruptions

- We recently updated our 2001 fuel-switching survey
- Survey indicates that the ability to switch out of gas into oil decreased over the five-year period, 1999-2004
- From 3.5 mb/d to 3.25 mb/d for the IEA
- The power and electricity sectors are areas for future work on fuel-switching.



Options for Mitigating Short-Term Gas Supply Disruptions

The Emergency Structure

- The IEA Governing Board
- The IEA Standing Groups on Emergency Questions and on Oil Markets
- The IEA Industry Advisory Board

These bodies are directly supported by the Emergency Planning and Preparations Division as well as the Energy Statistics and the Oil Markets Divisions.



Options for Mitigating Short-Term Gas Supply Disruptions

Lessons learned from the IEA collective response to Hurricanes Katrina and Rita:

- The right tools - IEA Member countries held emergency reserves - crude and products
- Rapid decision-making framework in place
- Continuous market information and assessments
- Quick decision making in Member countries
- Timely and credible IEA messages
- IEA-wide personnel trained in collective emergency response
- Real-time dialogue and information sharing amongst all major global stakeholders



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Conclusion

- The IEA has considerable experience and success in emergency response procedures and measures which we can build upon.
- Let's not reinvent the wheel, but rather, build a new one adapted to needs of gas security.