

SPEAKING NOTES COBY VAN DER LINDE FOR THE IGU STRATEGIC PANEL ON TUESDAY 6 OCTOBER 2009, ON 'THE OUTLOOK TO 2030: REVIEWING THE STRATEGIES FOR NATURAL GAS'

Ladies and gentlemen, first of all I want to compliment the IGU Argentinean Presidency and the organisers of this conference with this wonderful event.

The gas market is in a process of developing from a mainly regional market into a global market where both pipeline and LNG supplies connect producers and consumers. This creates more integration between the economies along the value chain, but also more import and export dependency. The expansion of LNG has for instance offered new diversification possibilities to both consuming and producing countries and helps countries to address security of supply and demand issues.

At the same time, energy policies of some consuming countries are more and more integrating their energy (security) and climate change policies, which in some countries leads to an important role for gas in a more sustainable energy system, while in other countries, the focus is more on clean fossil fuels in general and replacing fossil fuels, including gas, with more sustainable alternatives. In some economies, gas, until recently, featured as a transition fuel. The concern over future gas relations with important suppliers, for instance in Europe, has led to a situation where, in the political debate, gas is increasingly only one of the fossil fuels, and where seemingly coal with CCS is winning terrain as a transition fuel option. Yet, new additions to power capacity are still mainly gas powered stations.

Although many studies make clear that climate change requires every energy option to be pursued and that gas has its role to play in the transition to a low carbon economy, the recent geopolitical apprehension about intensifying gas relations, gas transit routes and regulatory and other governance issues, have undermined the positive contribution gas can make in the fuel mix. It is quite possible that the growth potential of the international gas industry is hampered by these political developments.

At the level of the countries, the international gas business does depend on good relations and cooperation among countries but also on the respect for each other's vital interest in this important industry. The international gas business has a harder time to thrive in an international environment of geopolitical adversity. In such an environment it is easier for economic or commercial issues in the value chain to become confused with larger geopolitical issues. The assessment of import or export

dependency as a wanted or unwanted outcome of deepening natural gas market integration has been a major driver of political choices about the place of natural gas in the fuel mix.

The various policy options and choices all have their impact on the investment climate, demand and supply of gas, and more particularly, in the way the gas relations between producing, consuming and transit countries develop in the years to come.

The internationalization of the gas value chain creates greater dependency among nations and deepens the interests countries have in sufficient investment levels along that value chain. In addition to the growing need for diversity of sources, routes and markets as a result of larger gas trade flows, countries also are more aware of the balance of payments implications of their structural energy imports. The swings in the transfer of wealth through energy trade have been an increasingly important issue on the international political and economic agenda, linking energy trade to monetary and macroeconomic policy-making and to power politics.

The price increases of the period 2004-2008 have also revealed the impact of the increasing pressure on the trade balances of both consuming and producing countries. The resultant growing deficits and surpluses and the impact on exchange rates are another indication of the importance of the energy sector in the international economy and the need to manage its fluctuations. The importance of export income for government income or the income from energy taxes shows the importance of energy, including natural gas, to government public finance and government policies.

Given the severity of the financial and economic crisis and the crisis management measures that governments are compelled to take, the assumption that after this downturn the world can and will return to business-as-usual is becoming more and more unlikely. The impact of the downturn is bound to have implications for economic policy, including energy policy.

Many governments have increased public spending to compensate for the collapse of the financial and other sectors in their country. These fiscal deficits will lead to more fiscal austerity when the economy recovers. The impact on for instance the ability to maintain energy subsidies, is yet unknown. Also unclear is the impact of the crisis on the sustainable energy plans of various countries, including the OECD countries. How far the plans to stimulate sustainable energy will survive the competition gap with the currently low-priced fossil fuels is yet unknown. The current thinking does however indicate that a resumption of demand growth of pre-crisis levels,

particularly demand for imported energy, is not all together a given. The impact of the crisis could therefore be more than just a delay in predicted demand and supply.

For natural gas, it could take some time to work away the current glut. If the development of (imported) demand is structurally adjusted over time, producers will have to adjust their plans accordingly. It is clear, however, that the gas sector will experience more insecurity along the value chain as long as it remains unclear what the impact of the crisis has on energy demand and the energy mix choices.

At the same time, it is clear that how countries emerge from the downturn will be important for their relative (political and economic) power in the years to come and also how within that system natural gas relation can develop. For natural gas to play its role in the energy mix, also in a mix that needs to be more sustainable than before, trust in good international relations is an important precondition to realise the development of international value chains. The international gas industry should help further this confidence in natural gas as a fuel that fits in a more sustainable energy mix.