

# **24<sup>th</sup> World Gas Conference, October 8, 2009**

## **Contribution by Gertjan Lankhorst, CEO GasTerra BV to the Gas Market Integration Panel Discussion**

### **[Introduction]**

Ladies and gentlemen,

The former Chinese leader and reformer, Deng Xiao Ping, always used to say it didn't matter what colour a cat was, as long as it caught mice. That maxim was the bane of the Maoist school of thought, but history has proved it right. Just compare the China of today with the country in which everyone went around in a shapeless blue suit, brandishing a little red book.

China's growth over the last few decades would have been unthinkable if private enterprise had not been allowed to develop the way it has. The Chinese have learnt that the state cannot grow the economy on its own. The IGU's Gas Market Integration Task Force, chaired by our moderator Jorge Dumanian, has done a great number of case studies. When you look at some of the results, it is all the more remarkable that, in our own industry, we are still squabbling a great deal about who should control the production and distribution of oil and gas.

What is the determining factor, here?

Ownership of resources like oil and gas is perhaps *too* closely bound up with national interests. This situation makes for what is supposedly a conflict of interests. On the one side, we have the advocates of the free market – I will call them the ‘internationalists’ – and, on the other side, we have the ‘nationalists’, who don’t believe profits from ‘their’ mineral resources should also go to people from other countries.

It is not for nothing that I am calling this a *supposed* conflict of interests. It is certain that both internationalists and nationalists have a common interest at heart. In our sector, it would be an interest in adding value to mineral resources. However, in order for this objective to be achieved with as much success as possible, both these ‘opponents’, as I now take the liberty of calling them, are compelled to rely on each other. And that can’t be a bad thing.

### **[Production: public-private partnership]**

In Europe, we have acquired a great deal of experience with public-private partnership over the years. In gas production in the Netherlands, we have been reaping the fruits of a well balanced division between private enterprise and national interests for over fifty years, now. A significant factor in our success has been the fact that the state does not seek to

dominate the joint ventures that produce and market gas. Ownership is shared on a 50/50 basis. This means there has to be cooperation and consensus. But other models are also possible. The European countries that have large supplies of recoverable gas have always cooperated with private companies in some form or other. After all, the latter have the expertise, experience and technology, that enable the gas to be produced. Produced in an economical and environmentally-friendly manner, including in locations that are hard to access, and even when it is only the last cubic metres that are available. States that believe they can manage on their own, are deceiving themselves. This has been proven in practice. The oil and gas industry in countries like Venezuela, Cuba and Mexico is not as efficient as it would be, if such countries were more pragmatic in dealing with their mineral resources.

In our industry, mutual interdependence is not limited to the situation obtaining with the private and public sectors. In any market, the producer is nothing without a buyer, and the buyer is empty handed without the producer. This simple fact enhances security of supply. At all events, suppliers have a vested interest in keeping to their contractual commitments because they would otherwise miss out on earnings. Therefore, the excitement this subject has generated in the political arena and which increased markedly not so long ago in consequence of the Russia-Ukraine gas conflict, seems to me excessive. Russia and its largest export customer, the EU, form a unified

energy community. The pipelines run westward. Furthermore, the European objective of being less dependent on Russian gas has met with practical and financial setbacks, demonstrating that producers and buyers actually help themselves when they help each other.

### **[Gas Market Integration]**

Now, about the links for gas market integration.

The European energy market has always been monopolistic. The various countries in question have protected their national energy companies, which have had exclusive rights in their domestic markets. Since the nineteen nineties this has changed. The European economy has been gradually liberalised; an internal market has grown up. It all began with the removal of the barriers that had been hampering mutual trade. Then, distortion of competition was tackled, inter alia through the prohibition of inordinate state support and by opening up specific industries for companies from all EU Member States. This European project has proven to be exceedingly successful. In this regard a great deal has also been achieved in the energy sector. The citizens of Europe should be grateful to the European Union for these achievements. However, I should also like to add one caveat: Brussels must continue to make sure the playing field is level, but the time for new 'Grand Designs' is over. The arsenal of resources we need is in place: rules for the internal market,

regulation of transportation tariffs and competition policy. Now, it is primarily the market sector that must face up to its responsibilities and, I firmly believe, it is indeed doing so.

My fundamental message to the governments is as follows: by all means get involved with regulating the natural monopoly of the infrastructure, but leave the commercial market as free as possible. Even though Europe has made very considerable progress in this area over the last few decades, it is set to encounter a number of significant challenges. Together with climate change, security of supply, which I already mentioned, is the greatest of these challenges. With its four to five hundred million consumers, Europe's requirement for gas is increasing all the time. What's more, a large proportion of that gas will have to come from Russia. The industry is aware of this, and is turning this need to good account. It is concluding contracts independently, the conditions of which comply with international standards. Thus it is bringing about a classic win-win situation enabling Russia to derive healthy revenues from its operations which will benefit that country's economy, but also delivering the capital for investment in production facilities and infrastructure. Reciprocal dependence of this nature looks likely to have very positive consequences for each of the participants.

The market is constantly becoming more open, with liquid trade hubs and market prices that are created by supply and

demand. The local markets that used to exist have evolved into a single regional market that is rapidly combining with other regional markets to form a genuinely 'global' market for natural gas. Europe is the trailblazer in this respect. It is building a network of pipelines and LNG receiving terminals in France, Italy, the UK, Belgium and the Netherlands. We now have a mature infrastructure at our disposal, well served with connections, which will enable us to draw off all the new gas we need. At this moment some of us may say: much more than we need. But from a security of supply perspective this is a big success.

In other words, we are about to embark on a new and exciting era.

The European market will soon be undergoing yet further liberalisation, whether its governments shift to the left or to the right. But this development will not negate the fact that the road to a truly and entirely free market could be a very rough one. Politicians may find it hard to buck the trend of getting actively involved in project development. Perhaps it is a blessing in disguise that there have been no concrete results hitherto; it is clear for all to see that intervention by the authorities often is counter-productive. The examples are legion: Nabucco, which would have a greater chance of success if it didn't have to put up with so much political interference; and the Caspian Development Corporation, whereby the

European Commission is, itself, attempting to set up a consortium that arranges contracts for gas, with whose income infrastructure can be put in place. Wouldn't it be wiser to leave this venture to the private sector?

Moreover, the market integration case studies presented by our Gas Market Integration Task Force this morning prove that public-private partnership and the liberalisation of the energy market constitute the only solution to the energy issue. Two examples are particularly notable, in my view. The first is the collaboration between Gazprom and the German companies, E.On and Wintershall, which creates certainty for the Russians, downstream, and which gives the Germans a share in the upstream activities concerned. The second is the opportunity that Qatar now has, thanks to the contribution made by ExxonMobil, to export its gigantic reserves of natural gas to the rest of the world. Other cases however show that practice can be fairly unruly. Iran, Pakistan and India, for instance, are wrestling with geopolitical and legislative obstacles to their plan to build a pipeline. At the expense of its own interests, Mexico holds aloof from fully integrating into the American and Canadian gas markets.

All in all, the liberalisation of the gas markets appears to be taking place bit by bit. But, in my opinion, the conclusion we should draw is a very definite one: ultimately, the markets

must become utterly free and fully integrated if we are to meet the growing demand for energy that we are set to experience.

## **[Conclusion]**

Ladies and gentlemen,

As you know, the history of oil and gas production is a short one. The first oil rigs appeared in the nineteenth century in the United States. Now, around 150 years later, we are already talking about our use of fossil fuels coming to an end. When we consider that nature took millions of years to form oil and gas, we are only now becoming aware of how short a time span it is in which humanity was, is and will be dependent on fossil fuels to supply its energy. This applies even more to gas production and marketing. It is not many decades ago that natural gas was regarded as an unwanted by-product of oil production. But it has now attained the status of fuel of choice in our period of transition to a sustainable energy supply. Opinion is divided as to how long that period will last precisely, but one thing is certain: if we want to ensure that the world is supplied with energy throughout this century, we must invest enormously in gas production. To enable the processes of production, transportation, sale and delivery to operate efficiently, market players must be given as much latitude as possible to trade in a fair competitive environment. In this regard the authorities



should adopt a regulatory role, but should not try and step into the shoes of private enterprise, themselves.

We *must* carry on with our exploratory activities, we *must* keep on producing, we *must* continue to build new infrastructure and we *must* align supply and demand as cost-effectively as possible. I assure you we will only succeed in this quest if the market is given room for manoeuvre, and the authorities and private enterprise make sure they collaborate in the full realisation that the other has a role and is, indeed, indispensable.

Gas market integration starts with cooperation. Cooperation is often difficult. We all have witnessed the example of the tango dancers here in Argentina. Their movements are extremely complicated and sometimes hard to follow with the human eye. But the result is more than fantastic. The same, ladies and gentlemen, goes for the cooperation that we need for real market integration.

Thank you very much for listening.