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BALANCING THE GLOBAL GAS MARKET:
NORTHWEST EUROPE AS THE PIVOT POINT?

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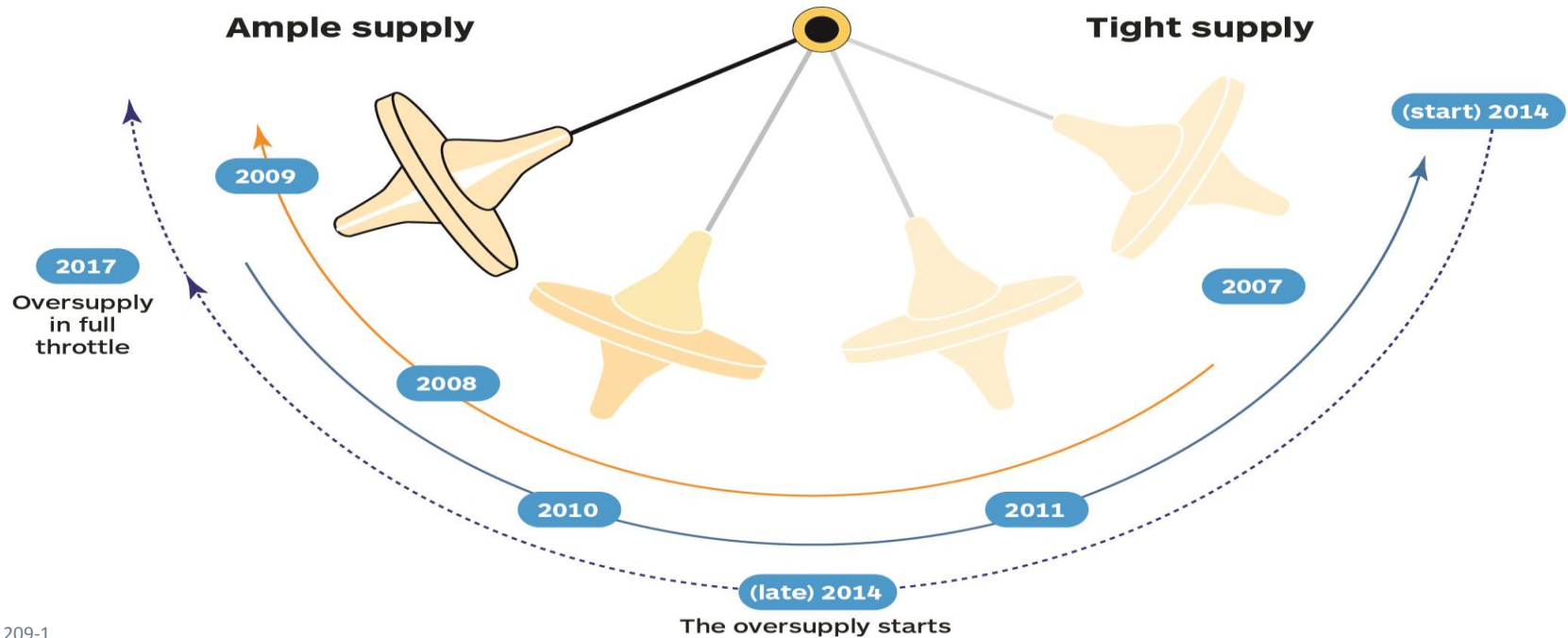
- The emerging global oversupply
- Europe: The balancing market
- Price vs. volume: A new answer to an old question?

The emerging global oversupply

- The global gas market will move from tight to loose in the next 2-3 years
- Production growth is expected to exceed demand in premium markets
- Deliveries to Europe set to grow as a result

The LNG market is swinging toward looseness

LNG cycles before and after Fukushima



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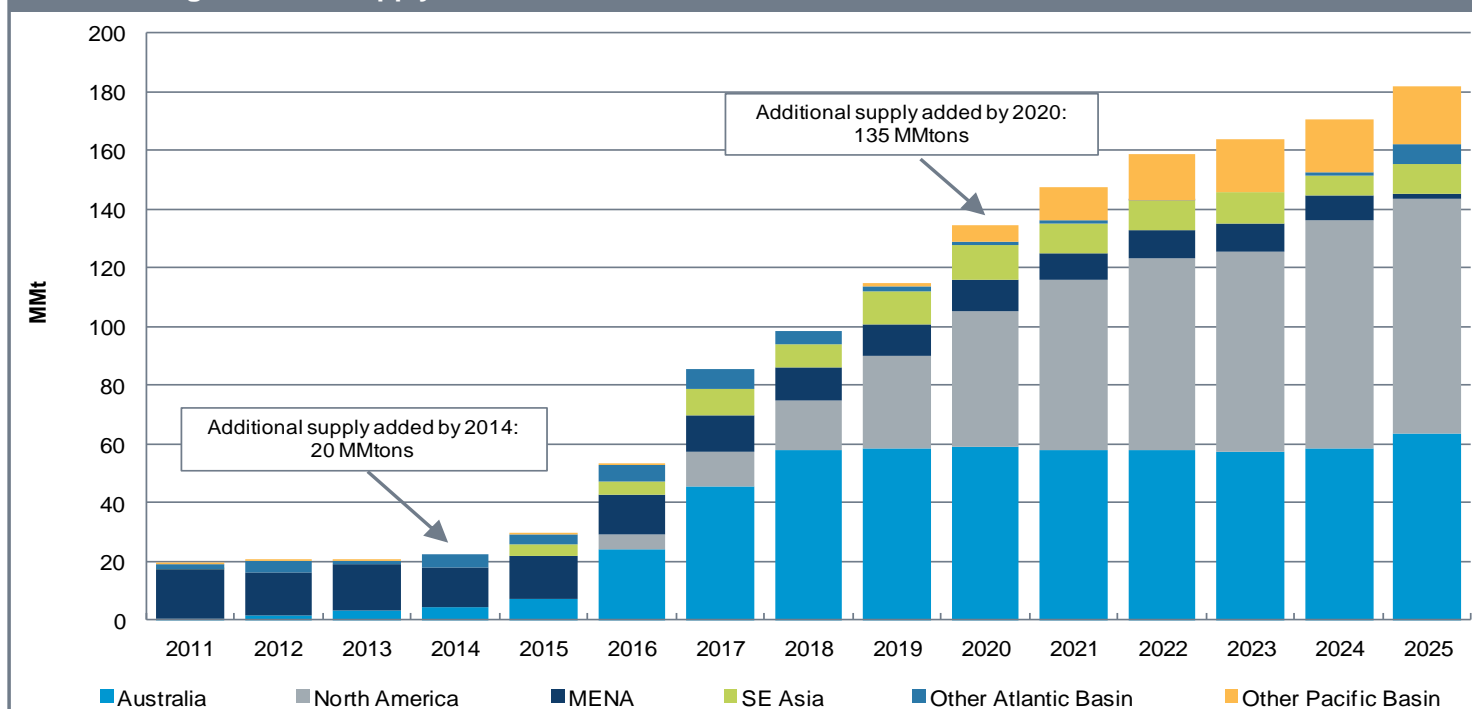
Note: LNG = liquefied natural gas.

Source: IHS

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Global LNG supply set to grow significantly from 2016

Incremental global LNG supply relative to 2010

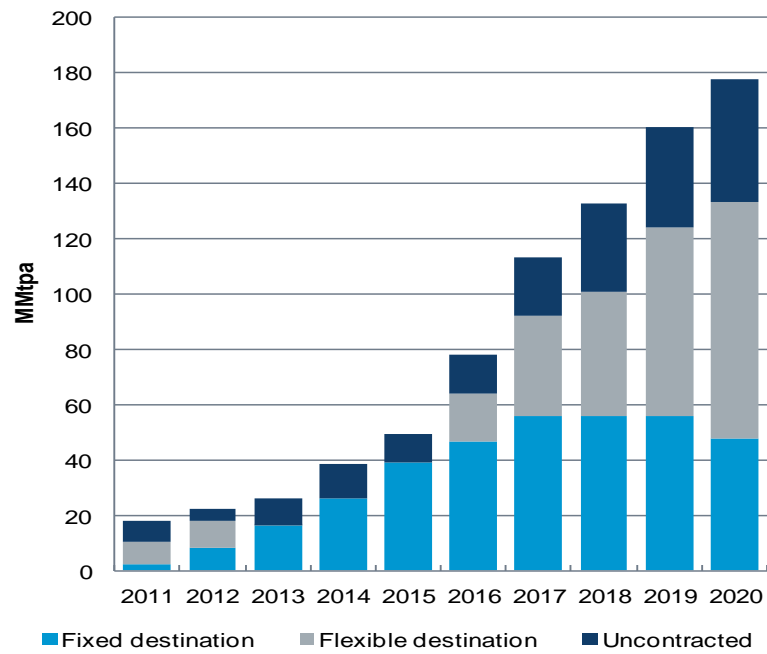


Note: Global LNG supply in 2014 is set to reach ~240 MMtons.
Source: IHS Energy

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Part of the growth in global supply is non-dedicated and looking for markets

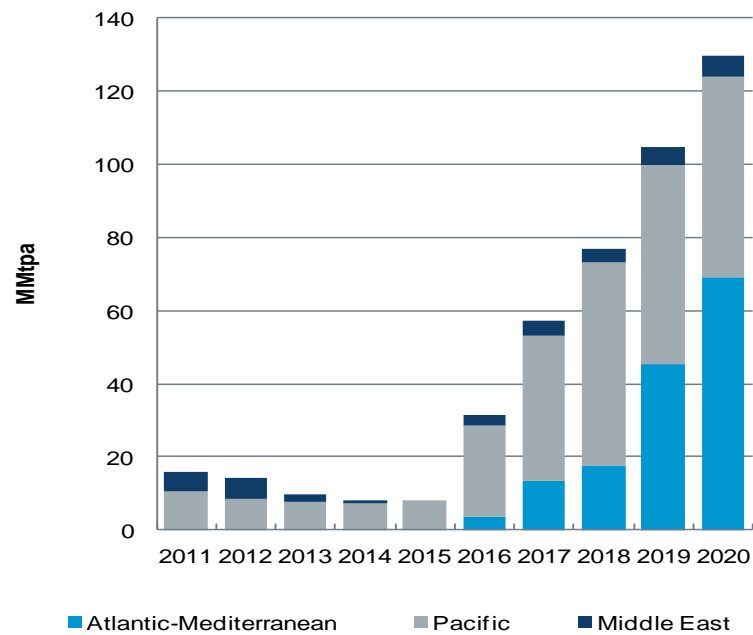
Incremental supply over 2010 by contract status



Source: IHS

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Incremental flexible and uncontracted supply by region relative to 2010

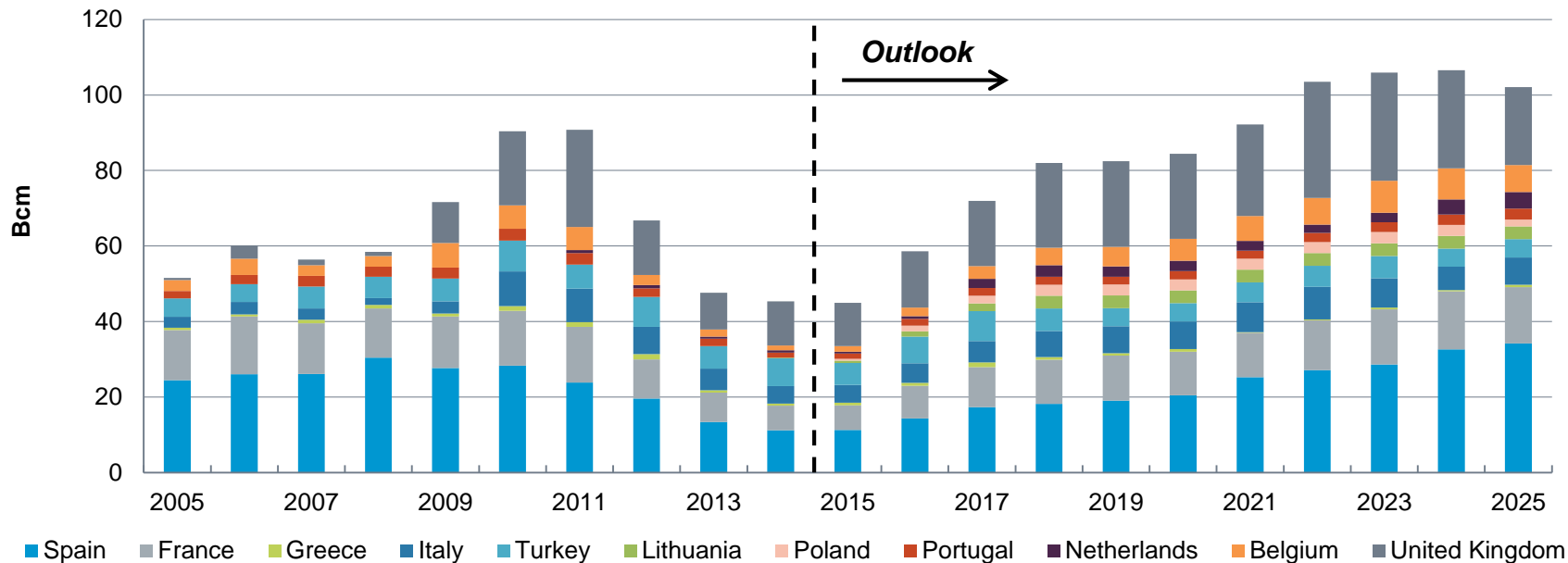


Source: IHS

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LNG imports into Europe likely to start to pick up substantially from 2017 as global LNG supply increases

European LNG imports by market



Source: IHS Energy

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The European gas market: The intersection of global LNG and pipeline supply

Europe's unique balancing role

Large gas market
~500 Bcm



Liquid traded
markets



Third party access
to gas infrastructure



Underutilised
regas capacity



Purchase contracts
with significant
volume flexibility

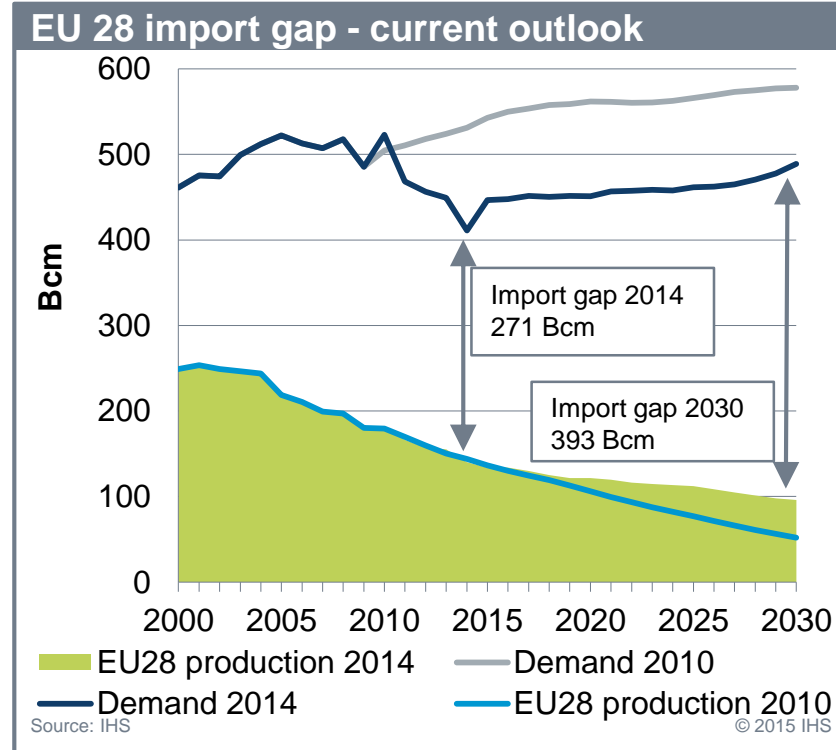
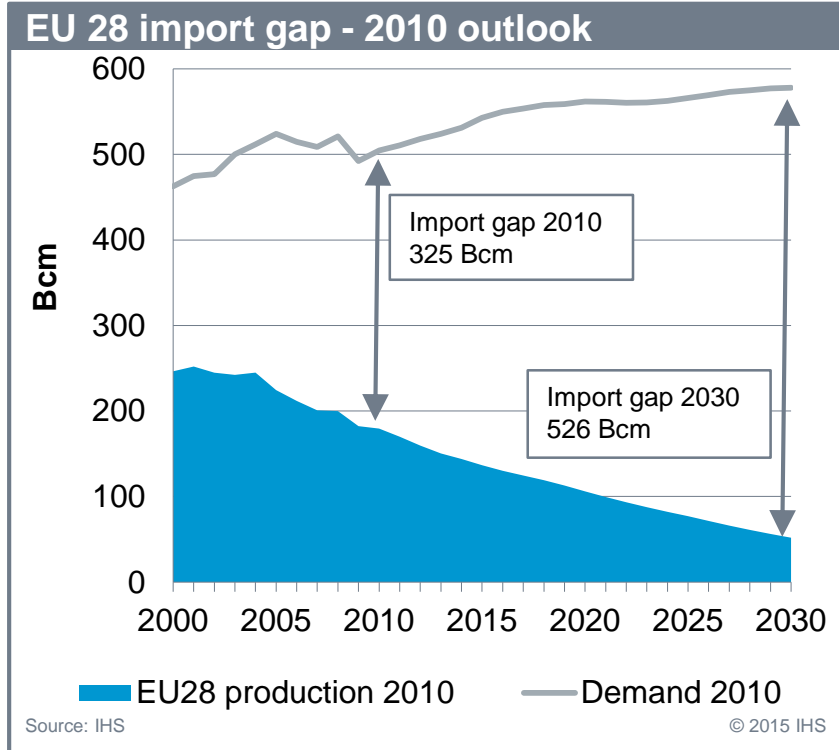


Price responsive
demand



LNG unable to find a market elsewhere is expected to arrive in Europe,
but how will the European market , and Europe's incumbent suppliers, respond?

The outlook for EU28 import requirement in 2030 has dropped 133 Bcm (25%) since 2010



Many producers—with very different profiles—are looking to supply the European market

- Dutch production capped from the Groningen field
- Limited growth prospects in rest of Europe
- ...except for shale, but many above ground constraints

Indigenous
Production

Russia
pipeline

- Substantial transport capacity to Europe
- Reserve potential very high
- Much infrastructure that is depreciated – ability to supply at low cost

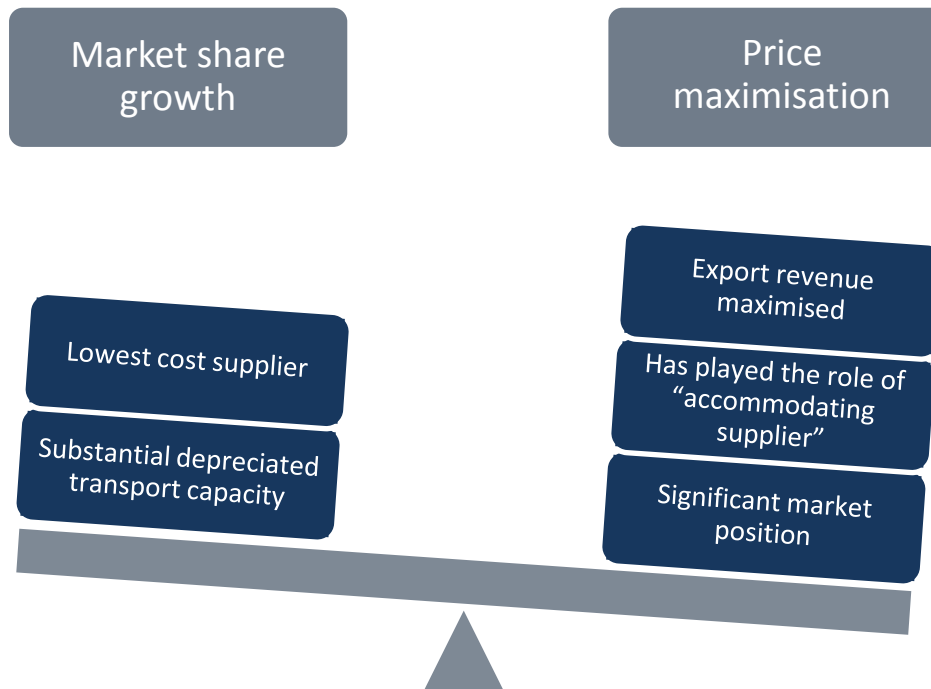
Other
Pipeline

LNG

- Norwegian supplies unlikely to increase above current level roughly 100 bcm
- Algeria has potential to increase volumes
- Southern corridor volumes to core Europe likely to be limited

- Significant regas capacity in Europe—currently only 1/3 of existing capacity is utilized

The *traditional* Russian supply choice: Price maximisation over market share growth



Strategy most clearly seen following the 2008 recession and the flood of LNG to Europe, but also seen earlier—e.g. when major Norwegian infrastructure brought on

The *new* Russian supply choice?: Defend market share

Defend market share

Price maximisation

Lessons from the oil
market/
New contract structure

US energy revolution
real—LNG contracts
continue to be signed

Stagnant demand in
Europe/

Lowest cost supplier

Security of supply
concerns limit market
share growth

Significant market position

Previous periods of oversupply in the gas market were felt to be short-lived—if this time it is sustained (or Russia believe it to be so) the supply choice could change

Balancing the global gas market: Northwest Europe as the pivot point?

- The global gas market is moving from a period of tightness to oversupply
 - Premium markets in Asia, and elsewhere, are unable to absorb the full volume
 - Deliveries to Europe expected to climb very sharply particularly in 2017-2018
- The response of Europe's traditional pipeline suppliers (especially Russia) will drive global gas prices in the medium term
 - Will Russia continue to act as the “accommodating” supplier supporting prices around today's levels?
 - Will Russia seek to defend market share, potentially pushing prices down to levels at which LNG supply would reduce?
- Weak demand in the Russian domestic market and in Europe, and rapidly growing contracts for US LNG, may trigger a change in strategy

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