

**Rio Oil & Gas 2012**  
**Keynote address by Jérôme Ferrier**  
**President of IGU**

Mr. Carlos de Luca, President of IBP, Dear Joao,  
Distinguished Panellists,  
Ladies and gentlemen.

It is a great honour and privilege for me to have been invited to convey the messages of the International Gas Union on the occasion of the *Rio Oil & Gas 2012 Conference*, for this special edition that celebrates your 30<sup>th</sup> anniversary .

Actually, you had been kind enough to invite me to present at the 2010 edition of the Conference, when I was the Vice President of IGU and, looking back, it is a pleasure for me to observe, in the light of the outstanding increase in the proved and potential gas resources in the Southern Cone, that you have within two years already much contributed to meeting the “*Challenges of the Energy Supply in the 21<sup>st</sup> century*” that form the main theme of the 2012 conference.

I would like to thank IBP for this renewed invitation and remind how important is the presence of the Brazilian oil and gas industry within IGU for the continuous progress of our organization, where Brazil is represented not only by ABEGAS, as a Charter Member, but also by IBP, Petrobras and TBG, as Associate Members.

For IGU, it is obvious that the Southern Cone region has entered into a new era of economic development and prosperity and that natural gas is got to play a major role in fostering this development.

A few years ago, the prospect of energy integration of the region was based upon implementing a regional co-development by linking two main producing countries, Argentina and Bolivia, to the three most important consuming ones, Argentina, Brazil and Chile. In 2000, the natural gas reserves of the main producing countries of the Southern Cone (Argentina, Bolivia, Brazil and Chile) did represent altogether 68Tcf (*Slide 1*).

At the end of 2011, the picture has dramatically changed, since the proved reserves of these countries have dropped to 50Tcf regarding the conventional gas, although this figure itself fails short of evidencing the change of scale in future natural gas developments attributable to three main recent elements :

- the prospects of development of new pre-salt discoveries offshore Brazil ;
- the new sizeable discoveries made in Bolivia, in particular the Incahuasi field ;
- and above all, the potential of shale gas in Argentina and Brazil, amounting to nearly 1 000 Tcf altogether;

Actually, Brazil now seems to form the cornerstone of a new integration process, structured by an enhanced flow of resources across the region, combining domestic supplies, additional imports from Bolivia, LNG imports and cross-border exchanges with Argentina (*Slide 2*).

There is no better illustration of this new paradigm than the expected profile of natural gas production in Southern Cone, evidencing a jump from (*Slide 3*).

In this new context of abundance of resources, most of them being made available at an affordable price since they are produced within the region, and taking into account the ever increasing demand of gas for electricity generation in environmentally acceptable conditions, there is no doubt in my mind that the Southern Cone will benefit, as an active player, from the Golden Age of Gas anticipated by IEA.

In concrete terms, this means that cross-border gas trade in the Southern Cone should expand far beyond the levels observed in the last years (Slide 4) and that new capacities of inter regional exchanges of gas will have to be developed, in addition to the existing lines. The structure of gas consumption will also be modified, with an increased share allocated to power generation, in all countries.

IGU is aware of the opportunities tendered to the countries of South America by this new situation, but also of the institutional challenges that it implies. Therefore IGU feels committed to playing an active role in the regional process, through a series of actions:

- supporting the voice of its Members in favour of a long term gas strategy, in the regional and international institutions and towards policy makers and opinion leaders;
- evidencing, through returns of experience from its Members in other parts of the world, how much natural gas can contribute to a sustainable economic development while allowing access for the largest number of people, to an affordable source of energy and power;
- advocating the implementation of favorable geopolitical conditions for the development of further cross-border exchanges leading to the long awaited effective integration of the energy sector in the Southern Cone .

In this perspective, IGU contemplates to contribute to the organization of a Regional Gas Forum that could take place in 2013, in conjunction with IBP, IAPG and ARPEL, which would gather policy makers of the South American countries together with private investors and industry stakeholders. This Forum will aim at tabling and discussing the main issues for the pathfinding of the most effective ways and means to achieve the creation of a large integrated energy market in the Southern Cone.

In the meantime, IGU wishes to enlarge the scope of its members by persuading other South American countries to join the Union, I mean in particular, Bolivia, Chile and Uruguay, Columbia having recently decided to join us. The friendly support from our key Members from Argentina and Brazil would be of great and valuable help in this action.

Finally, I thought that it would be of interest for you to present, at the light of the ongoing implementation of the large single gas market in the European Union, what I consider as the key challenges for an effective Regulatory Integration. In Europe, it has taken more than ten years to meet the conditions allowing a liquid and transparent regional gas market and, although much still remains to achieve, it is possible to identify what are the best regulatory options and pitfalls.

Indeed, I have identified four key challenges :

1. *Foster infrastructure integration by ensuring the bankability of new transcontinental gas pipelines and cross-border interconnections (Slide 5)*

**The first challenge addresses the incentives that are commendable to sustain the efforts of investors in new infrastructures.**

Experience has proved it necessary to implement the following measures: granting TPA exemption for large infrastructure projects, so as to give a clear priority of use by their sponsors; protecting the investors against currency risks; and allowing enhanced regulated rates of returns for projects of common interest that would not be bankable at the normal rate applicable to the already partially depreciated asset base of transporters.

2. *Ensure compatibility of tariff systems between national and transit flows (Slide 6)*

**The second one concerns the compatibility of tariff systems both between countries having cross-border exchanges and between regular and transit flows in a national grid.**

It is obvious that an harmonization of the tariff structures in the region is necessary ; that shippers within a country should not bear the cost of transit flows in their own country, and that the “entry-exit” tariff system within balancing zones is a key factor of development of a trade market.

3. *Simplify access to pipelines for cross-border shippers (Slide 7)*

**The third one aims at simplifying access to pipelines for cross-border exchanges.**

Introducing convergence of access rules in the pipelines is essential for a friendly use of the transmission systems: the main deliverable should be a common framework for a Network Code addressing such issues as capacity allocations and secondary markets, congestion management, information systems for nominations and more generally, a standardization of technical specifications and procedures.

4. *Develop a regional level of integration, initiative and progress for the gas industry (Slide 8)*

**The fourth challenge addresses the interest of a single regional level of integration of the regulatory policies.**

A regional Regulatory Agency is a valid option. It should not supercede the national regulatory institutions. However, it should have a capacity of initiative, which is quite valuable at the regional level: implementation of “open seasons” for long and medium term pre-booking of capacities in new infrastructures; fostering the development of hubs and market places and of “hub to hub” exchanges.

As an overall rating, it seems to me that, among the three pillars sustaining a succesful regional integration, I mean infrastructure, commercial and regulatory, the last one, although invisible and soft by essence, is absolutely vital (Slide 9)

I wish once again to thank IBP and the organizers of the *Rio Oil & Gas 2012 Conference* for having invited me and I assure them of the dedication of IGU to the promotion of the gas industry both at a global and regional level.

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