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CROSS BORDER GAS TRADE
some lessons from events in the past

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Three Recent CBGT Cases: some remarks

- Argentina –Chile supply disruption (2004/5)

- Russia – Ukraïne – Europe gas price conflict (winter 2005/6)

- Indonesia's declining Arun gas field leading to export shortages (2004 to 2007)

ARGENTINA - CHILE

- LT-supply contract for gas from Argentina to (on purpose build) gas-fired power station in Chile;
- Gas price in Argentina more or less in line with oil price: structural balance in gas demand-supply;
- ‘Pesofication’: gas prices (peso-related) were decoupled from oil prices ($-related) and fell therefore relative to oil prices;
- Government gave no permission to increase gas prices (to make good for devaluation of peso)

ARGENTINA - CHILE (2)

- Result: fall of gas exploration and -production (prices to low) BUT sharp increase of gas demand (TAXI's turning to CNG etc.):
- Shortage of gas in Argentina:
- Argentinean government "closed" the valve for export to CHILE

- LESSON: If gas is fundamentally priced out of step with its relevant competitors you're in for problems:
- The Argentinean gas industry, thanks to this government policy, has got a serious set-back and loss of credibility, from which it is a painful process to recover.

RUSSIA - UKRAINE - EUROPE

- Ukraine had an existing gas purchase contract with Russia with a price of about 1/3 to 1/4 of the market price
- This "price for friends" ended 1 January 2006;
- Ukraine had chosen to seek closer relations with Europe, to the detriment of Russia
- Russia did not want to extend the price for friends, it wanted the market price
- Ukraine could not, did not wish to comply
- Russia closed the valve
- Not only Ukrane did not get gas, also the deliveries to Europe were disturbed

RUSSIA - UKRAINE - EUROPE (2)

- Furthermore Ukraine did not pay for all the gas they took from the transit-pipelines, according to Russia;
- And the transit fee was paid in kind (barter deal) substantially below market value;
- Some cheap gas was sold to third parties.

- LESSON 1: A 'price for friends' holds as long as the political situation permits and that creates always an important uncertainty,
- LESSON 2: Reliability of a transit country is of utmost importance for CBGT.
- LESSON 3: Two gas price regimes: recipe for cheating

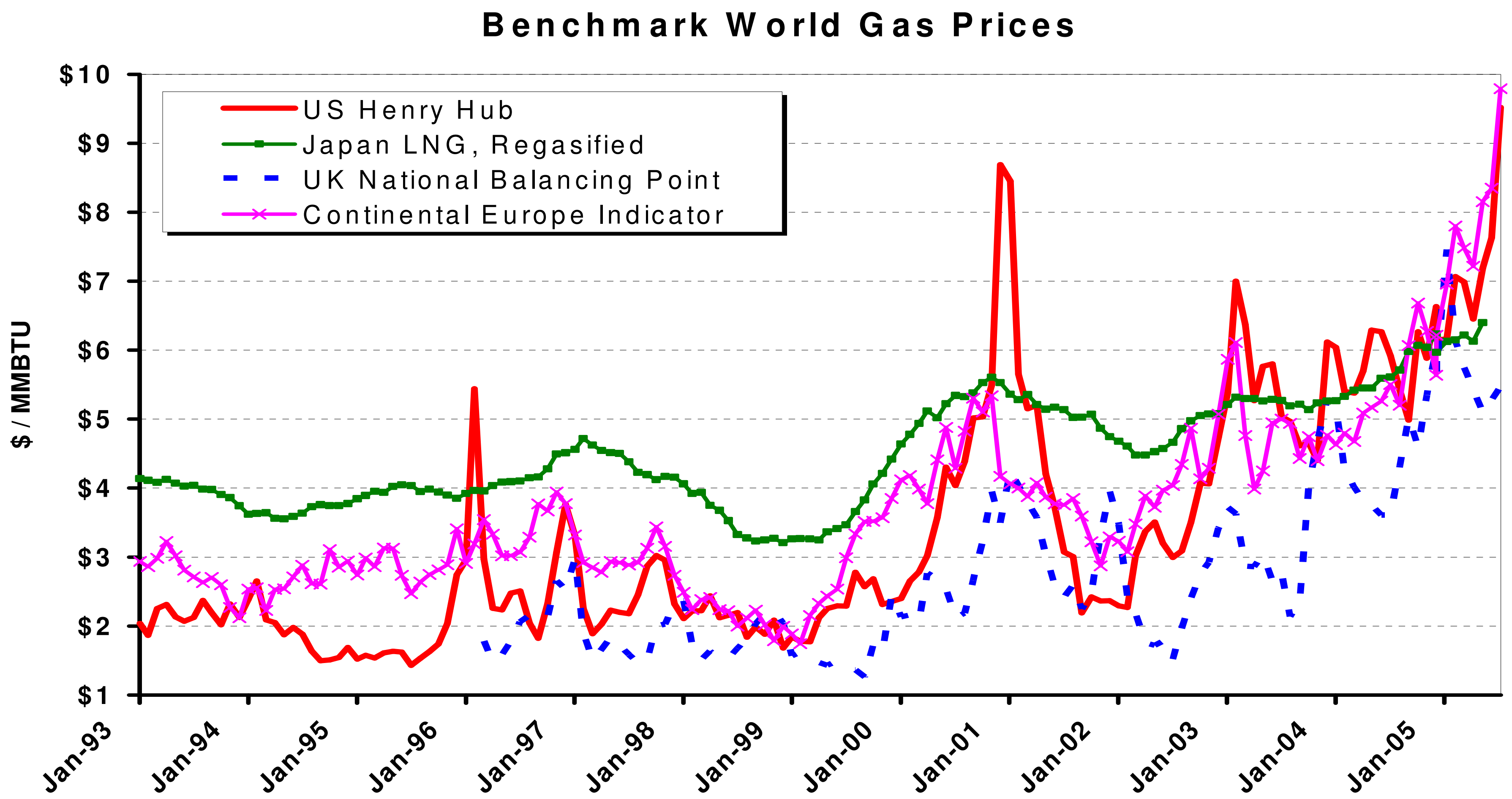
INDONESIA - PACIFIC RIM

- The ARUN field, Indonesia, showed a steeper decline than anticipated
- Shortage of LNG resulted in danger of not complying to long term export obligations
- Indonesia is trying to purchase LNG cargo’s from other LNG-exporters:
- LESSON: Long Term Contract with a serious partner is enhancing security of supply.

Main lessons to take away

- A Transit country is as important as the exporter and the importer;
- Deviations from normal market prices will sooner or later be abandoned and the necessary adjustments will cause severe strains in the economy;
- Two price regimes for gas in an economy is an incentive for cheating.

World gas prices have become more aligned: LNG can find its way everywhere.



Source: M. Speltz, Chevron, sept 2005

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Thank you for your attention and:

See you in Amsterdam!

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