

Creating an East Asian Gas Hub

Workshop on Changing Global Gas Market and Unconventional Gas

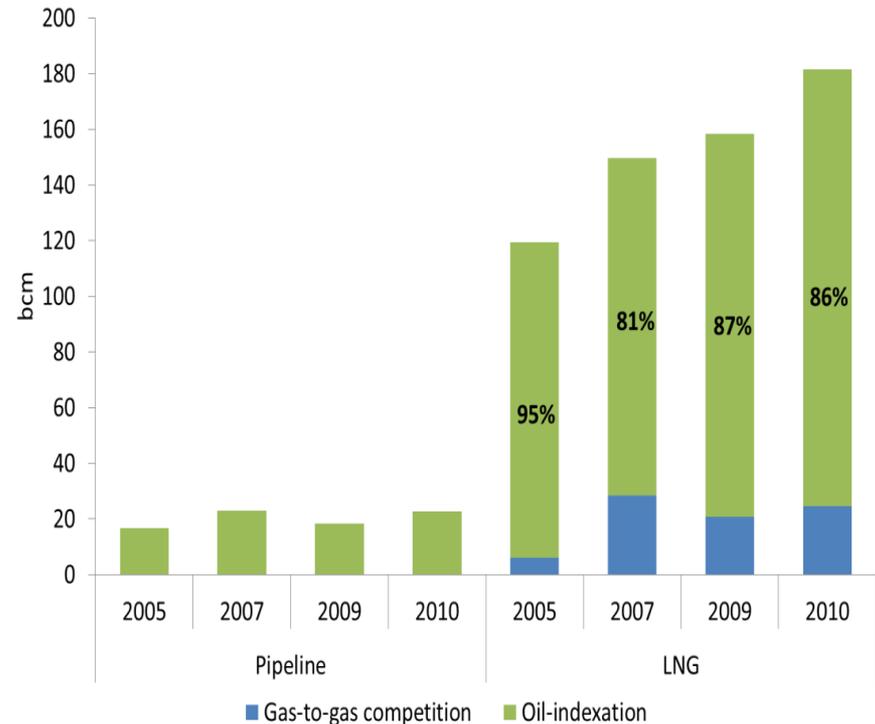


Energizing the future

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The Asia-Pacific Gas Market

- Gas demand is growing
- Increasing import of natural gas (mainly LNG)
- Asia-Pacific markets at various stages of development
- Oil-indexation dominant pricing mechanism
- The “what if” fuel: uncertainties in the role of gas

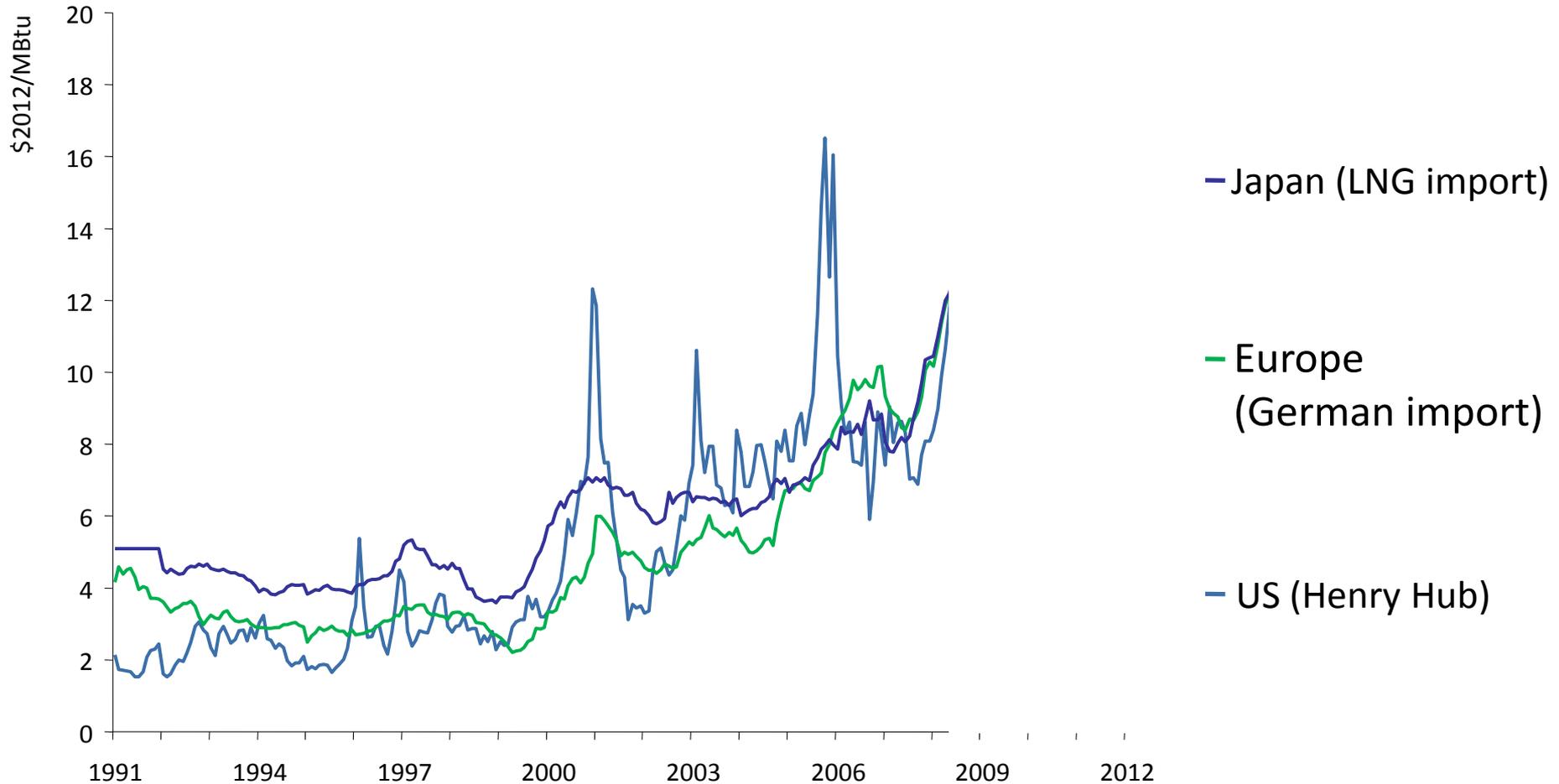


Source: IGU 2006, 2008, 2010, 2012

Pricing mechanisms and contract practices inconsistent with perceived role of natural gas



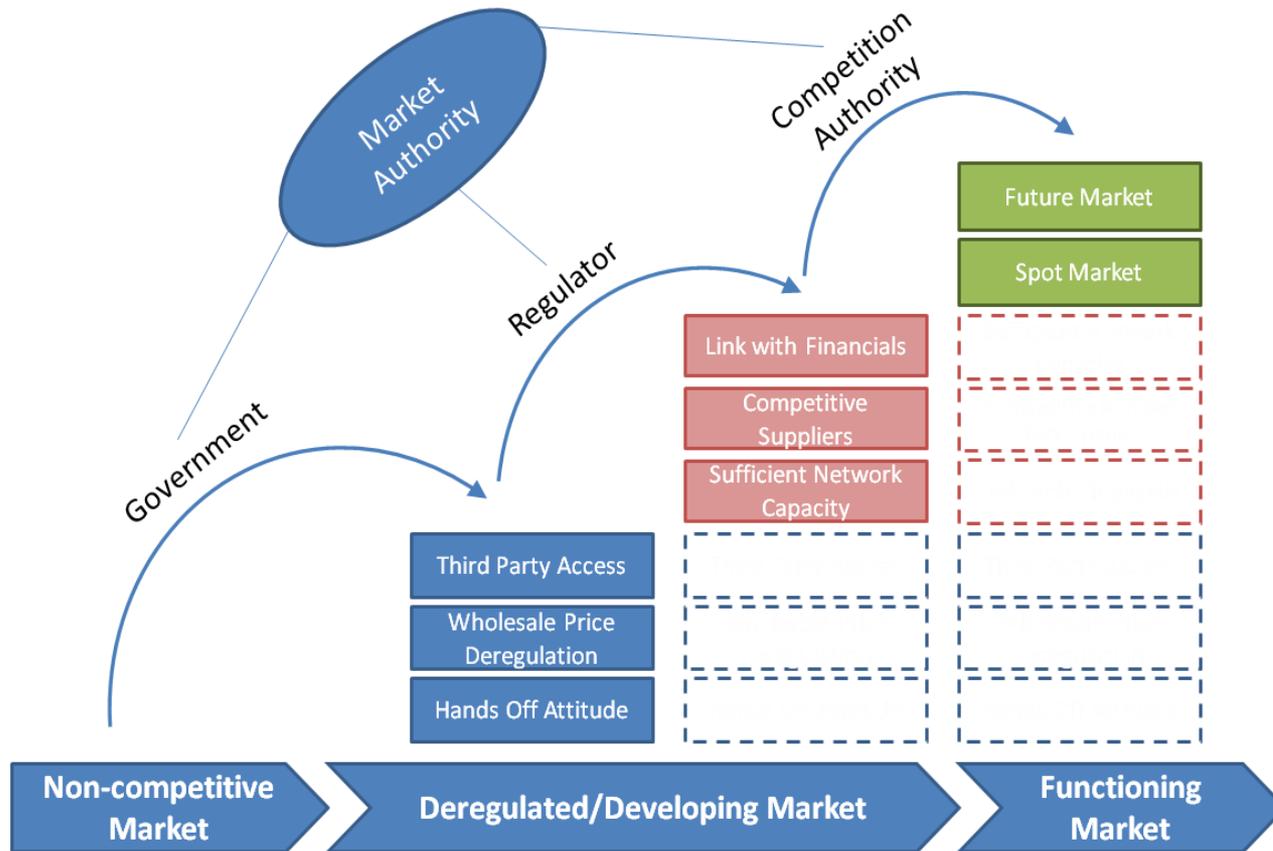
A Burden for Economies



However, in the long-run price "level" is of lesser importance than the way a price is set



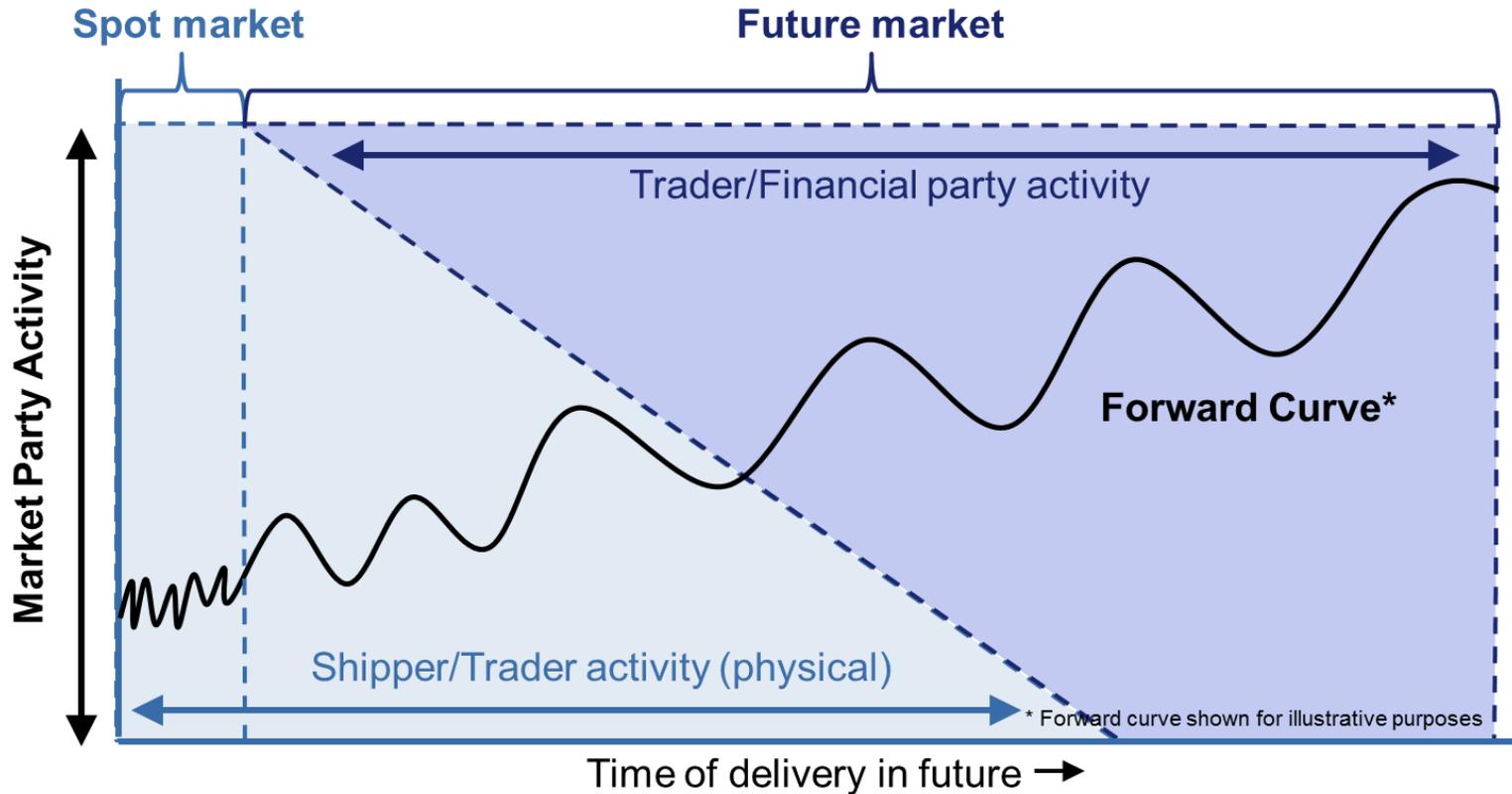
Gas Market Requirements



Building blocks need to support a well functioning price mechanism



Spot to Futures Market



Building on liquidity in the (physical) spot market, a (financial) futures market can evolve, setting a price on the "Curve"



Confidence is Crucial

- Without confidence liquidity will not develop and resulting wholesale prices will not be trusted
- Considerable number of parameters to define a functioning market
- Transparent information provision is essential for both market functioning and confidence
- A independent energy regulator with “teeth” can guarantee market functioning and confidence

A trusted price will not emerge without confidence in the underlying market



Our Candidates...

China

- ✓ Large diversified supply structure
- Government involvement along value chain

Japan

- ✓ Largest LNG importing gas market
- Limited Third Party Access to LNG terminals

Korea

- ✓ Well developed LNG and pipeline infrastructure
- Monopolized domestic gas market

Singapore

- ✓ Third Party Access and bidirectional storage
- Limited market size (?)

Singapore currently the most likely candidate to develop a functioning gas trading hub



Winds of Change?

- A more flexible LNG supply chain to support a LNG trading hub
 - Diversification of LNG supply
 - Increase in short-term LNG trading
 - Relaxation of destination clauses in the Atlantic basin
 - Increasing flexibility in LNG shipping capacity
- Flexible contracts from the US are making an impact felt without one cargo leaving port

Much like LNG, liquidity also needs a harbour!



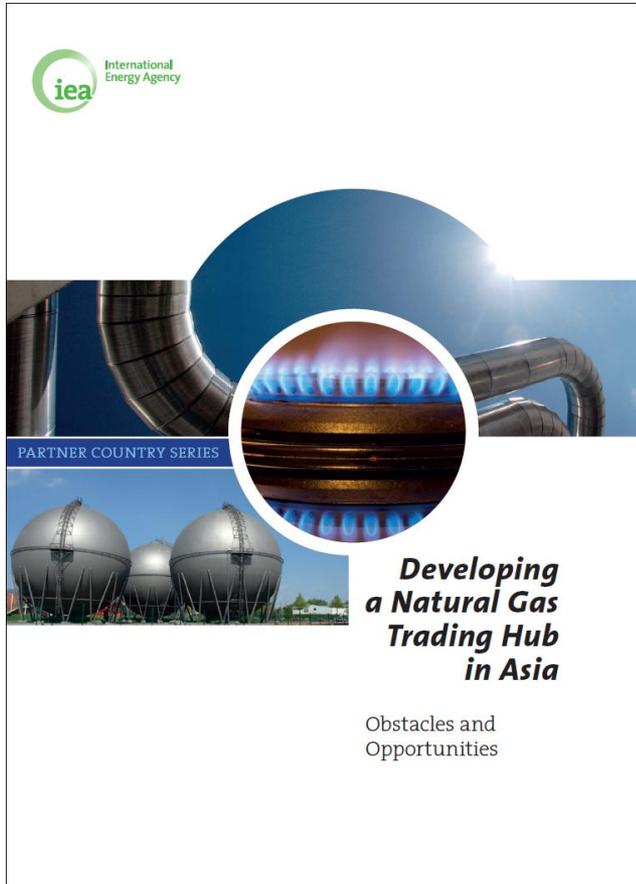
Chicken or Egg?

- Oil-indexation can deliver a considerable competitive disadvantage
- Confidence in a market is crucial to develop a gas price reflecting local supply and demand
- In Asia Singapore is currently best positioned to create a trading hub for natural gas
- Flexibility in LNG supply chain is increasing

This is not an easy and quick process!



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