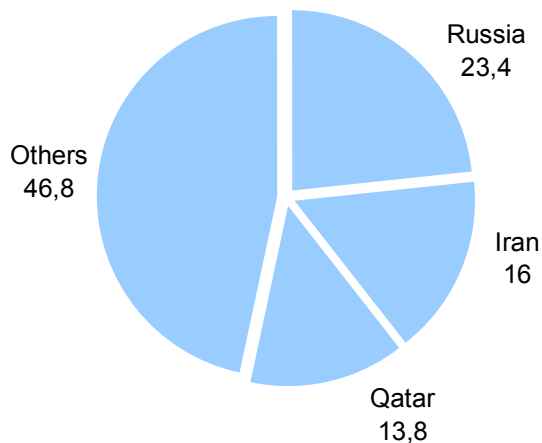


IEA WORLD ENERGY OUTLOOK RISES DEBATE

BY KIRILL LEBEDEV, IFS SENIOR ANALYST, NOVEMBER 12, 2009

According to the International Energy Agency (IEA) projection, the under-utilization of pipeline capacity between the main regions and global LNG liquefaction capacity combined is expected to rise from around 60 billion cubic meters in 2007 to close to 200 billion cubic meters by 2015. The agency believes that this will primarily affect Russia, Qatar and Iran that hold more than 53% of the world's natural gas reserves (see Figure 1).

Figure 1. Countries possessing largest gas reserves, %



Source: BP

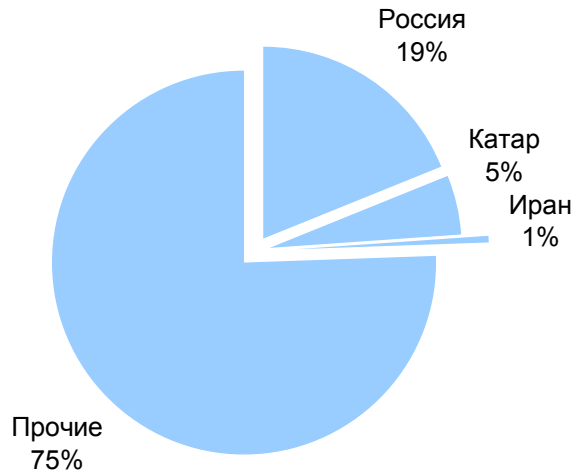
Other IEA estimates are arguable. IEA predicts under-utilization of pipeline capacity amid projected rise in gas demand at an average increase rate of 1.5% per annum up to 2030. Why should under-utilization of gas production facilities rise? Rising gas supply could affect the prices, but not the utilization of methane liquefying facilities or pipelines that carry gas to external markets. All else being equal, a 1.5% rise in demand will cause a 1.5% increase of facility utilization.

Although Russia, Iran and Qatar possess the largest gas reserves, their shares in the global gas trade are different (see Figure 2).

A main producer of conventional gas, Russia ships it to Europe mainly. Qatar is the biggest LNG manufacturer and exports 77% of the produced gas to Asia-Pacific. Pricing terms for conventional gas and LNG are not similar, so even if IEA projections prove correct, prices will differ greatly. Although Iran possesses huge gas reserves, its share in

the global gas trade is negligible because of numerous long-lasting sanctions. Iran's nuclear program prevents these sanctions from being lifted even in the mid-term.

Figure 2. Share in global gas trade



Sources: BP, the author's estimates

The world's largest economies continue to diversify energy resources with natural gas to be playing a key role. Producers and consumers intend to diversify exports and suppliers respectively. It means that if a country demands less conventional gas, it will require more LNG, and vice versa. If gas demand grows in absolute terms as the IEA projects, new gas liquefying facilities and pipelines will be fully utilized, especially when consumption peaks (except facilities that must be always kept free for unexpected critical moves in demand).

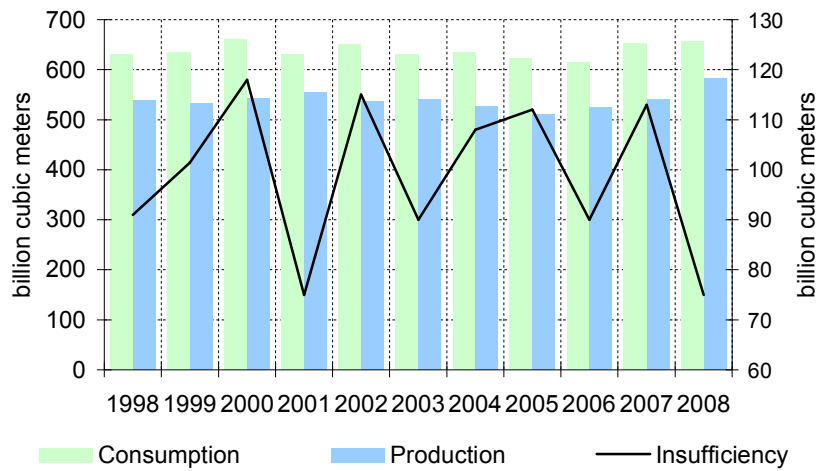
It is not clear why the agency only stresses possible difficulties for gas exporters. Rising under-utilization would affect importers, too.

It is obvious that utilization of gas liquefying facilities should be always balanced with utilization of re-gasification capacity. Underuse of LNG plants heightens the risk of downtime for importers' gas terminals, whether in operation, being built or planned.

Reliability of gas price projections does not differ greatly from oil price predictions. High volatility of the energy market prompts us to treat the long-term forecasts skeptically, especially in the conditions of economic uncertainty.

The IEA position is backed by the fact that the US has been using a new technology for gas and shale gas extraction. The US' shale gas reserves are estimated at 30 trillion cubic meters, and production might be stepped up to 150 billion cubic meters. This, along with coalbed methane production (around 50 billion cubic meters), can cover the US' needs for gas (see Figure 3).

Figure 3. US demand for imported gas



Sources: BP, the author's estimates

Even if the under-utilization of gas liquefying facilities and pipeline capacity rises, this rise will not be big. A possible reduction in US gas imports will be compensated by diversification of power balances and gas purchase by large consumers in Europe and Asia-Pacific.