

4th IEF-IGU Ministerial Gas Forum
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Remarks by Aldo Flores-Quiroga
Secretary General
International Energy Forum

[CHECK AGAINST DELIVERY]

His Excellency, Pedro Joaquín Coldwell, Secretary of Energy of Mexico

Mr. Jerome Ferrier, President of the International Gas Union

Mr. Luis Vázquez, President of the Mexican Natural Gas Association

Excellencies

Ladies and Gentlemen,

Good morning and welcome to the 4th IEF-IGU Ministerial Gas Forum! It is great to have you here in Mexico --my home country.

Let me thank the government of Mexico for its great hospitality – and especially Minister Pedro Joaquín Coldwell, for his leadership and support to the global energy dialogue; and for taking the initiative of hosting this conversation among Ministers and CEOs.

I think you will agree with me that we are at an ideal place to talk about “The Role of Gas in Energy Security and Sustainable Economic Development”, the theme of this Ministerial meeting. As you are aware, this summer the president of Mexico –Enrique Peña Nieto- signed into law an energy reform that opens the Mexican energy sector to private participation for the first time in seventy years. Mexico’s gas industry will be stronger as a consequence. We will be hearing this afternoon about this reform – and I encourage you to take it as a case study and exchange points of view on its implications for national and international energy policies and strategies.

Gas markets around the world are in transition. By most accounts, natural gas is on the rise.

Its supply is more abundant and it comes from more regions -- from North America's shale resources to the deep waters of Australia, East Africa, and the East Mediterranean.

Gas demand is also more widespread than ever, thanks to its greater use in power generation. And its consumption for petrochemicals and transportation may expand this demand further.

Meanwhile, the center of gas markets is shifting from the Atlantic to the Pacific. Or, to put it differently, from mature to emerging gas markets, where LNG trade is more significant than pipeline trade – at least so far.

The share of natural gas in the global energy mix is thus projected to reach close to 25% in the next two decades, consolidating its position among fossil fuels.

That seems to be, in a nutshell, the consensus view on the outlook for gas. Its future, it appears, is bright.

But some short to medium term trends are at odds with this long-term view.

On the supply side, it is unclear when and how fast the shale revolution will expand beyond North America. Geology, infrastructure, the environment, and legal frameworks are affecting the pace at which other regions develop their reserves. Even in North America we see these factors at play, and there is a discussion about the profitability –and by extension, the durability -- of current shale production.

Natural gas is today more costly to produce and distribute. It is harder to reach. It travels longer distances. And it requires new skills and more expertise that are scarce.

On the demand side, recent experiences around the world remind us that the attractiveness of gas depends strongly on the price of other fuels used for power generation –notably coal.

Coal has been trumping gas virtually everywhere -- even with policies aimed at reducing the use of carbon-intensive fuels. There is only so much –it seems-- that policies can accomplish against market forces.

Then there are unsolved issues regarding the process of price formation –that main arbiter between producers and consumers-- and the role of gas in the climate-change agenda.

Given the fivefold price differential between Asia and North America, many question whether gas contracts must –or can-- continue to be indexed to oil, and suggest it must be determined in spot markets, or referenced instead to a spot gas price. This is a hotly debated issue among consumers in Europe and Asia and producers in the Middle East and Africa. Much of the discussion involves the apparent trade off between short-term price flexibility and long-term supply and demand certainty, which long-term investments require.

A related concern is the impact that a change in the pricing methodology for gas might have on its own price volatility. Gas prices are in general more variable than oil prices, because of inelastic supply and seasonal demand. And segmented gas markets around the world have basically confined this volatility to each regional market. How this might change with a shift from

contract to spot pricing is an open question. Consumers think this can bring down prices, but producers believe volatility will be higher, hurting investment. Moreover, greater integration through LNG trade, combined with gas-to-gas competition in new trade hubs, may synchronize volatility across regions.

The greater availability of natural gas is also opening the door to thinking differently about carbon emissions. The question is if increased use of natural gas helps to combat climate change. Some suggest that gas can bring down emissions faster and at lower cost than renewable energies. Others say this is wrong in principle and in practice. From their perspective, gas has hardly a place in the sustainable economy of the future, where renewables must rule. You can tell there are strong opinions on both sides of the debate. The jury is still out.

Much is happening, then, in gas markets that merits discussion. How they evolve will influence the course of global energy security and the environment. That is why this IEF-IGU Ministerial Forum exists, and I trust your dialogue today contributes to your understanding of the potential and risks involved in gas policy and investment.

Before I give the microphone to **Jérôme Ferrier**, my colleague and friend who presides over the IGU, our partner in this Forum, let me underscore that, whatever your perspective, whatever your approach to policy, it will be incomplete without good data to assess the supply and demand balance. Policymakers and investors rely on it. Orderly markets require it.

This is a subject dear to the IEF, which coordinates the Joint Organizations Data Initiative (or JODI) in partnership with other seven organisations, including the IEA and OPEC, who are present

here. The recent launch of JODI-Gas at the 14th IEF Ministerial was an important step to bring about data transparency to gas markets. Yet JODI-Gas is a work in progress. It rests on the on-going commitment of governments, companies and international organizations. I respectfully encourage you to continue supporting JODI-Gas, which was born as an initiative at a Ministerial meeting like this. JODI-Gas is an essential tool for the analysis of gas market trends and for decision-making.

Welcome once again to Mexico and to the 4th IEF-IGU Ministerial Gas Forum! May this meeting be all you want it to be.

Thank you.