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GECF Expert Commentary

**OIES Review Discussion Meetings**

**& the Annual Gas Day**

**Oxford, UK**

**22<sup>nd</sup> to 24<sup>th</sup> Oct 2019**

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## OIES Review Discussion Meetings and the Annual Gas Day at OIES

22<sup>nd</sup> to 24<sup>th</sup> Oct 2019

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On October 22<sup>nd</sup>, 2019, the OIES Review Discussion Meetings took place at St. Hugh's college at Oxford University in the UK. It is a part of the Natural Gas Research Programme by Oxford Institute for Energy Studies. The event was over two days and covered hot topics in the natural gas market.

The program included discussions on LNG short-term outlook, Nigeria LNG, LNG in Canada, growing Asia Market for LNG and Russian LNG outlook. The discussions highlighted the expansion of LNG in the global market.

- In Asia Pacific region, natural gas will win the challenge against the cheaper coal option due to policy support in the region. Interestingly, energy per capita is expected to grow by 4 times in 2040 in Indonesia. The growth in demand for LNG in Malaysia, Thailand and Pakistan compensated for the slow down in growth in China with 1 bcm/month growth this year, lower than 2018.
- In Europe, the demand for LNG is increasing especially in the Netherlands and the UK. Storages in Europe are currently at 90% full to hedge against any unplanned interruptions or surge in demand especially for the case of cold winter.
- Nigeria has a lot of natural gas potential plus availability of finance, however, the policy wheel is needed to make use of the money efficiently and foster investments.
- Canadian LNG has several advantages including low-cost, 4.9 to 5.9 USD/mmbtu compared to 4.6 to 4.8 USD/mmbtu in Qatar, potential to link with North America gas market, low shipping cost to Asia of 0.7 USD/mmbtu. Canada needs to solve regulatory uncertainty together with investment in enhancing infrastructure to take advantage of the coal to natural gas transition in Asia.
- Russia's progress in LNG production over the last 10 years was a surprise and its future ambitions of reaching to a range from 130 to 160 million tons (144 to 177 bcm) in 2030 should be taken seriously because of the impressive progress the country achieved in LNG production.

A panel discussion came under the title “Russian Exports and Ukraine Transit: Implications for Europe”. The panel believes that “No Deal” is likely to be the result of the negotiations between the three parties (Russia, Ukraine and EU). They may follow the “Brexit Scenario” of having short agreements later after 31 Dec 2019. In the case of supply interruption, if happened, Europe has storage capacities that can last from 2 to 3 month. Unfortunately, cold weather scenario will consume the LNG storage faster. As a result, Europe should make efforts for “Deal” using the US LNG as a threat to the Russian gas.

The second day of the Review Discussion Meeting started with a discussion on “Gas Prospects in China and North East Asia”. The session highlighted that gas price in China will drive the gas demand more than the coal to gas transition policy. China imports gas from Qatar, US, Australia, Russia, and Turkmenistan. As a result, China is becoming concerned with gas security and will focus on domestic gas resources and diversification together with integrating “clean coal” in the energy mix. The Japanese gas market will stagnate if LNG prices are high, 10 USD/mmbtu. However, lower LNG price, 6 USD/mmbtu, will foster the replacement of coal by natural gas, it will also influence new FIDs. Predictions of the Korean market is uncertain as the country is facing political changes in the government that may impact the nuclear energy phase out policy. The second session of the day was on the hydrogen and decarbonization that will be covered in more details on points that concern the LNG industry.

OIES Annual Gas Day started on the 24<sup>th</sup> of October 2019 at St. Anne’s College in Oxford. The day was structured in three sessions with panellists from OIES, Naftogaz, LNG Canada, Wood Mackenzie, RWE, IEEJ, Platts, and more. The day started with a session named “Russia-Ukraine and Implications on Europe”, the second “LNG in Transition: Managing Uncertainty” and the last was on Gas Prices.

Decarbonization is one of the topics that is surrounding the natural gas industry and may impact the profitability of LNG projects especially the new ones. Climate activists are requesting politicians to put pressure on all fossil fuels including natural gas to meet the decarbonization targets by 2050.

Measurements of GHG emissions from the supply chain of natural gas inherit a lot of complexity that obscure the compatibility of natural gas as an environmental solution for GHG cut. Some studies showed that the loss of natural gas along the LNG value chain could be around 13% of the natural gas produced at the wellhead. It is highly recommended that the LNG producers and consumers should work on achieving credibility for the GHG emissions from production at the wellheads and down to unloading at the gasification terminals.

Emissions need to be certified for three stages of the LNG business. First, exploration and production, pipeline transportation, liquefaction (this will be required in the LNG Exporting Country). Second, emission certification along shipping the LNG to the regasification terminal. Third, certification of regasification and transportation to consumption (in the LNG importing country). This can be done through three different certification authorities, one for each stage or through a single company for emissions verification for each element in the value chain.

The majority of the projects in the gas industry belongs to LNG construction projects. LNG projects exceed pipeline projects by far. LNG projects start operation after 5 years of FID, as a result, projects should prepare for the decarbonisation era at early project stage as policies and regulations are moving fast in European countries in promoting environmental goals.

The events and discussions were fruitful in terms of highlighting the progress of natural gas in international markets while shedding the light on the challenges that should be worked on.

The majority of projects in the natural gas industry are LNG projects. Thus, it is highly recommended to focus and invest in decarbonization research and development to come up with the optimal application to keep international markets, including carbon sensitive markets, expanding for the existing and the coming LNG projects.

Natural gas exporting and producing countries are encouraged to establish partnerships with technology companies to develop a tool for accurately monitoring and quantifying emissions to support their efforts of reducing the environmental footprint of natural gas. Quantifying emissions has always been a difficult task for the natural gas industry, but digitalization can find us a way out.

Gas exporters should not go for any interruption of supply to keep the reputation of natural gas as a secure source of energy untouched.

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