

The gasification of international relations

Not many days go by without a newspaper article or television item on the changes taking place in the international energy markets. The gasification of the world energy market has introduced the complexities of geopolitics to the industry, states Coby van der Linde, Professor Geopolitics and Energy Management at the University of Groningen in The Netherlands.

It is not that long ago that the general public and our politicians were mostly unaware of how the

natural gas market operated. Even the sensitive long term contracts between gas companies in Western Europe and the erstwhile Soviet Union fell off the political radar screen fairly quickly when these supplies became a political non-issue in the 1980s. The gas industry was mostly a domestic or regional affair, the companies were often in public hands, and the relations between producer and consumer countries were cemented in long term contracts. Rather boring stuff for most and certainly not headline news material. Today that has dramatically changed.

Expansion

The growing demand for natural gas and declining domestic production has increased the need for imported natural gas. The cost reductions in LNG and robust natural gas prices brought more natural gas from different geographic origins within economic reach of more markets. At the turn of this century, consumer countries still expected their natural gas markets to be awash with large flows of natural gas from various suppliers competing for end-user markets. Asia foresaw a market in which more LNG suppliers would reach their market. In the United States, LNG was seen as a booming business and the number of LNG terminals that made it to the drawing table was significant. In Europe, the excitement about LNG and the diversification and flexible supply options it could offer in the future strengthened the position of natural gas as the transition fuel to

a more sustainable energy mix.

The expectation of the future international natural gas market was of a market with ample supply from a variety of sources; a buyers market. The excitement in the



By
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market a few years ago about developments in Qatar, where various LNG projects were underway, has waned and instead, has been replaced by a much more subdued mood about whether these ample and diversified supplies will indeed materialise. There appears to be a widening gap between producing and consuming countries on how best to match national interests in security of supply and security of demand.

Endangered

The combined development of tight natural gas markets and growing import dependency has drawn more attention to the real potential of diversifying natural gas imports. The realisation that natural gas reserves, like oil, are fairly concentrated in a few countries and that access to natural gas resources for foreign direct investments is also limited, has encouraged policy makers in many consuming countries to re-assess their energy strategies.

Rather than stimulating the expansion of their gas markets, policy makers are now focussed on how best to manage the natural gas (and oil) dependency and on studying how to bring the introduction of new sustainable energy options forward in time. At

the same time, they urge producing countries to increase investment in new gas fields and development of infrastructure for gas export. The policy response of these consumer countries is fuelling the fear of producer countries of over-investing in the natural gas sector at the cost of the national economy. They see their security of demand endangered by these policy-responses and increase their efforts to manage their market share.

National gas companies show a growing appetite for forward integration into the mid- and downstream end of the gas sector. Producer and consumer countries are increasingly engaged in a conflict over which interest must be served first: security of supply or security of demand. In other words, they are engaged in a battle over the distribution of economic returns in the value chain. This battle is not only fought over the molecules themselves, but also over the routing of export pipelines and the economic structure of the natural gas industry.

Gasification

The internationalisation of the natural gas industry, which was heralded with so much enthusiasm only a few years ago, has not only brought new business opportunities and markets, but also introduced the complexities of geopolitics to the industry. Gas has come of age with the gasification of international relations.

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