

# EMBARGOED UNTIL NOVEMBER 20, 2014, 00:01 GMT



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**The 2014 edition of CEDIGAZ's flagship survey Natural Gas in the World highlights some disturbing signs of weakness on the demand and supply sides, indicating structural challenges that will need to be addressed before a golden age of gas can occur.**

In 2013, growth in worldwide gas demand decelerated, up by only 1% versus 2.4% in 2012. This is less than the 3% growth achieved by coal and, most remarkably, less than that of oil (1.4%). Moreover, gas was the only fossil fuel to record lower growth in 2013 than in 2012. This phenomenon may be observed even in Asia – a powerhouse in terms of growth in gas demand – where demand rose 4% in 2013, down from 6% one year earlier. Gas demand had already shown its limitations in 2012, when it gained only 2.4%, compared to an average growth of 2.8% per year in the previous decade.

This disappointing performance is partly due to supply side issues, including acute gas shortages in several gas producing countries. Many of the latter, e.g. Egypt, India and countries in the Middle East, have seen low, regulated gas prices stimulate gas demand while discouraging the investments needed to boost production. Moreover, with domestic gas selling at below market prices, imports must be subsidized at high cost for the state budget. Many emerging economies now facing the prospect of increasing imports (e.g. China and India) have to carry out a reform of their regulated gas prices, which raises two important questions. One is whether these countries (e.g. India) can make the requisite reforms. The other concerns the impact that higher prices will make on demand, with the risk of gas becoming less competitive, in particular vis-à-vis coal. In 2013, greater competition from coal and renewables in the power sector was one reason why growth in gas demand was weak.

As seen in Europe<sup>1</sup>, the double whammy of cheap coal and an increasing share of renewable power seriously undermines the business model of gas-fired power plants. Left solely to market forces, gas cannot compete with coal for base load power and its role is limited to meeting peak load demand. However, in mature electricity markets presenting little, if any, growth in demand, the introduction of a growing share of renewable power puts pressure on wholesale prices and displaces gas during peak hours when solar power is at its maximum. In this context, gas cannot make a significant contribution to electricity generation without a significant upswing in CO<sub>2</sub> prices. Even in the United States, which enjoys low gas prices, coal consumption went up by 4.4% in 2013, while gas demand in the power sector dropped 10.5% as a result of the rise in the average Henry Hub price from \$2.75/MBtu to \$3.7/MBtu one year previously.

Even in emerging economies, gas will not displace coal in the power sector without strong policy incentives. On a Btu basis, coal is three to five times cheaper than natural gas in gas importing countries. The new Japanese energy policy includes the promotion of highly efficient coal technologies for export to

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<sup>1</sup> Gas And Coal Competition in the EU Power Sector (CEDIGAZ, June 2014)

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emerging countries<sup>2</sup>. Similarly, the recent announcement by the BRICs about the launch of a new development bank in response to restrictions by the U.S. and Europe on financing new coal plants abroad are clear indications that those countries will continue to promote coal in the power sector. This challenge to the golden age of gas and the fight against climate change will have to be addressed through appropriate policies.

**Geoffroy Hureau**  
**Secretary General of Cedigaz**

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**Natural Gas in the World 2014**

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*Cedigaz (International Center for Natural Gas Information) is an international association with around 90 members worldwide, created in 1961 by a group of international gas companies and the Institut Français du Pétrole Energies nouvelles (IFPEN). Dedicated to natural gas information, CEDIGAZ collects and analyses worldwide economic information on natural gas, LNG and unconventional gas in an exhaustive and critical way.*

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<sup>2</sup> Japan's New Energy Policy: in search for stable and competitive energy supply (CEDIGAZ, November 2014)