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GEOPOLITICS BACK IN FULL FOCUS FOR LESLIE PALTI-GUZMAN

Things have come full circle for Director of Global Gas at The Rapidan Group, Leslie Palti-Guzman, whose career as an energy analyst was precipitated by an interest in geopolitics. A French native, after completing her studies in the US she began working as a journalist covering the energy sector, an assignment that combined her passion for geopolitics with business, finance, and technology, among others. She says working at Energy Intelligence for several years was a great way to get to know the sector, delving into the details of things like long-term contracts and pricing.

"The geopolitics of energy can remain very superficial if you don't understand the basics of the market," she explains. "So, following on a day-to-day basis the pricing, going to a lot of conferences, meeting a lot of different people from the industry taught me the fundamentals."

Ms. Palti-Guzman's next stint, as an energy analyst, was working at the Eurasia Group, a political risk consultancy.

Today, her new post at The Rapidan Group, she says, deals with both energy and geopolitics. "The whole company is doing energy and integrates geopolitics into energy and market analysis - there's no predominance of one over the other."

Natural Gas Europe (NGE) had the opportunity to catch up with Ms. Palti-Guzman at the World Gas Conference 2015 in Paris, where she offered up her insights into the natural gas industry.

NGE: At the recent World Gas Conference, and in the context of the COP 21 Paris climate talks later this year, there seems to be a change in how the sector is orientating itself. You're an international person who's based in the US, where things are very pro gas, but there's obviously a very different reality for gas in Europe. How do you see this situation?

There is no question in the US why gas should play such a big role, but there's a disconnect in the European gas market, and I think in Asia the competition between coal and gas is still uncertain.

In the US, gas is really a winner for sure. In Europe, it's a big loser, unless there is a carbon price at some point. And in Asia there's a fierce competition, and coal is here to stay, but what gas is trying to do is limit the increasing share of coal and have gas grow in the energy mix of those countries.

There are lessons to be learnt from the success in the US. It is really good at messaging – why gas is important in the energy mix and how it is one of the cleanest fossil fuels. Renewables are part of the energy mix in the US-they are going to grow-but they need a partner, and gas is a natural partner.

There is a lot of regulation, whether it's in Europe or China, India and especially in the US, where we're going to see the retirement of coal and more stringent regulation to close coal power plants, so gas has a vacuum to fill.

At the WGC, one wonders "where are the governments?" No one really showed up from the French government: Francois Hollande was announced at the beginning; Segolene Royal, the Minister of Energy, was not there. The Minister of Foreign Affairs, Laurent Fabius, cancelled at the last minute and sent a vice delegate. Since shale gas has been such a controversy in France I'm wondering if policymakers here didn't want to associate themselves with the industry, in line with COP 21 and the green agenda, maybe for the sake of public image did not want to be associated with the gas industry – maybe that was a consideration.

Public opinion and the government in many European countries want to move directly to a greener energy, and they don't understand that it's not possible to do it instantly – you need to phase out fossil fuels slowly, and you will need gas, oil, coal in the energy mix, because renewables are not able to take the entire load just like that.

In the US, policymakers are much more involved because they understand how important it is for national security, competitiveness, job creation, exports-imports, bilateral relations, international cooperation – gas is part of all that and is an opportunity for governments that they should take.

Just a few years ago we heard some people in the gas business scoffing at the prospects of US exports possibly landing on European shores. Now, the prospect of that seems much more possible. In that context, Western policymakers have been pushing the need to diversify sources and routes of gas. Is that message finally beginning to resonate?

US LNG is happening. There are six projects under construction. They will reach European shores, Asia; a lot will also go to Latin America, the Middle East.

The biggest question now is, in the lower oil price environment, if there will be another push for further projects, and will those new projects be in the US, Canada, Mozambique – there are different options, but the US still presents a very compelling attractiveness, because it's revolutionary in terms of pricing, being indexed to Henry Hub, and I think that the share of oil indexation will continue to decrease. Second, it's revolutionary in its flexibility, because there is no destination clause, so nobody knows exactly where US LNG is going to go; what we do know is that it's going to follow the highest price. So it's not going to be bound to any destination or market, it's going to go where the buyers are ready to pay a good price for it and where the spread in the market will justify the shipment.

Third, it's revolutionary because it's a back-up supply. The US will become this emergency, go-to supplier.

Post-Fukushima, Qatar was the swing supplier. Right after the big disaster Japan was able to take 10 million tons of LNG instantly from Qatar, because the country had this flexible, divert-able supply, which the US will have a lot of.

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So for Washington that's a great tool for economic reasons, for business, for national security. It's a foreign policy tool. Yes, Washington will use it for its self-interest – strategic, economic – but at the same time it also benefits the world, because it's going to liberalize the oil and gas market, make it freer and more competitive. So, in a way, US LNG is kind of accelerating this transition of the global gas market that's looking a bit more like the oil market.

RUSSIA-UKRAINE GAS TALKS PLANNED TO RE-COMMENCE

Last year, in your presentation at Flame, you spoke of the risks of gas shut-offs through Ukraine. How do you see the position of Europe's largest gas supplier and, in connection with that, the state of gas diplomacy in Europe?

Russia is here to stay as the main supplier to Europe, but US LNG is going to provide a lot of competition to the European gas market and Europe will be one of the main beneficiaries of US LNG. Unless what was expected 2 years ago, not all US LNG will go to Asia – actually a lot of it will go to Europe, and doing so will put a lot of pressure on existing suppliers because you're getting new supply that will push prices down and you improve your bargaining power.

US LNG also has a geopolitical dimension, because clearly, in 2014, there was an acceleration in the approval process from the Department of Energy (DOE), and I think that the Crimea crisis played the role of a boost for increasing the support for LNG in the White House on LNG exports.

As for all new resource-rich countries, when you find such a resource you have some hesitancy how best to use it: do we put an export quota to preserve the domestic market versus the export market?

Two, 3 years ago there was a lot of hesitancy in the US government on approving exports and they were really slow. Then it accelerated last year and there was a streamlining of the process.

What will be the impact on the domestic gas price in the US and Henry Hub? There are some parties in the US that don't want to alter the competitiveness of the market: the chemical industry and others that are using the gas, who may become concerned about the gas price. So there could be a pause again in the process, but at the same time the US congress is also likely to pass very soon a bipartisan bill that will force the DOE to approve projects after a certain period of time.

So, all in all, I think there is a question on the next wave of US Gulf Coast projects and how fast they will be approved, but in any case, because we're in a financially constrained world, it's going to get slower anyway. I still see maybe two brownfield projects in the US going ahead for the post-2020 framework, and some extension of existing ones, so there are some opportunities in the US but it's going to be slower.

How much attention are you paying to Turk Stream and source/route diversification in South-eastern and Central Europe?

There's a lot of geopolitics involved in those projects. The Southern Gas Corridor, with gas coming from Azerbaijan, is happening, it's under construction. It took more than a decade to make it happen.

Building pipelines has become more complicated because they involve many different countries, a lot of politics, geopolitics. When you deal with the European Union now you have to deal with the European Commission and need to abide by their rules.

For an exporter like Gazprom, it means changing your business model and abiding by the regulations of the EU. So Gazprom has been trying to divide the different European players rather than dealing with the Union; I think they are still testing the Union with Turk Stream, because yes, Turkey is not part of the European Union, but Greece is. So for now the pipe is only going to go to Turkey, but they still would like to expand it to Greece.

What's going to be interesting is that there will be a portion of Turkish Stream and the Trans Anatolian Pipeline (TANAP)/Trans Adriatic Pipeline (TAP) that could be the same. So potentially there could be only one pipe, right?

Third party access and having Azeri and Russian gas in the same pipe could actually make commercial sense, but politics trump economics in some cases. Gazprom wants to bypass Ukraine – that's the main goal. They are really determined to do that, so I think it's going to happen – they've already spent a lot of money conceptualizing South Stream and they are repurposing some pipe and design that they had for South Stream for Turkish Stream. I think they're a bit ambitious on the deadline, but I see it happening and Turkey is a growing market: it has a lot of demand and it makes a lot of sense to bring gas to Turkey.

For European consumers, they won't be buying new gas – it's diverted gas from Ukraine.

Given the Third Energy Package, from where you sit, how do you view the Energy Union?

I think there is a case to make that there's a need in Europe to better align energy policies, but the problem is that it's still sovereign, national policy. They can agree on some big vision, on consulting the EU before signing a contract, or having emergency measures in place in case of disruption – all of this is quite useful and should be done, but I think some countries will drag their feet and will not accept the idea of being managed from Brussels, because energy is too strategic, too linked to security of supply and so on, and each European country is in a different position.

Poland is really pushing for it and likes the idea, because they need the support of the EU when they negotiate with the Russians – they like this idea of having this kind of protection, as do other Eastern European countries.

If you go to Western Europe – France, Germany – Germany didn't ask anybody to phase out nuclear; they did it very independently. So each country still sees its national interests when it comes to energy.

How strong is the natural gas proposition for integrating itself into the mix in the context of the climate change talks set for Paris at the end of the year?

Six large oil and gas companies produced a powerful message before the start of the conference, saying that they want a carbon price, and I think it's a very interesting twist for them to come out and say it. One, as a way to get towards a greener economy, but, secondly, to sell gas in Europe.

-Drew Leifheit

Natural Gas Europe welcomes all viewpoints. Should you wish to provide an alternative perspective on the above article, please contact editor@minoils.com

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