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The Shifting Balance of Global Energy Supply

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BRR Today I'm speaking with two K&L Gates Managing Partners, Nick Nicola, who's the Managing Partner of Australia and David Tang, who's the Managing Partner in Asia, and we're discussing the implications for Asia Pacific on the shifting balance of global energy supply. David and Nick thanks for joining us.

NN You're welcome.

DT Thank you Kate.

BRR David if I can start with you, the very recent and rapid development of the U.S.' unconventional natural gas industry has reduced U.S. energy prices, renewed the U.S. manufacturing sector and also created new LNG export opportunities. For you as someone based in both Seattle and Beijing, are you seeing a shift in the flow of investment dollars?

DT Absolutely. First with respect to just the effect of the increased production of natural gas as an illustration, the price of gas which was at about US\$13 in 2008 per million BTU has dropped to about US\$4 per million BTU today and just to show the significance of what the effect on pricing has been and certainly that affects industry manufacturing by lowering the energy prices so that the cost of production is lower, so we're seeing a lot more manufacturing take place. It's also shifted the flow of investment to other countries, United States is certainly being viewed much more seriously now from a cost perspective and so that's diverting potential investment to other countries.

BRR And Nick from your perspective, will the US energy revolution have a significant impact on Australia and our LNG industry?

NN Well Kate the prospect of cheaper U.S. gas entering or saturating the Asian energy markets might – might perhaps scare proponents of new LNG projects in Australia. But I think I probably would agree with the analysts who expect a far lesser impact on Asian energy prices, for example energy companies like Santos and Woodside Petroleum expect the U.S. gas exports to reach something between 40 to 50 million tonnes per annum by the end of the decade, which is really less than half the 130 million tonnes capacity that's proposed across North America. And I think the other point I'd make would be that for Australian LNG exporters the bulk of their current sales contracts are quite long term in nature and linked to crude oil prices.

BRR David looking at the Asia Pacific region, what do you see as the long term implications for the region of reduced U.S. energy prices?

DT The long term implications I think will be very significant, the question will be in what direction will those implications take? I think just generally there will be two, one certainly will be the geopolitical ramifications having this diversity of supply and source in the future where in the past historically the Middle East has been a big focus for the United States protecting the Strait of Hormuz for instance to ensure the safety and security of energy supplies, if

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United States becomes more self dependent the cost and the responsibility for looking after the safety and security of that to supply for the Asia Pacific region perhaps will fall more intensely on the countries in the Asia Pacific region itself. And certainly the implications on pricing will be significant, I mentioned earlier the reduction in prices certainly in the United States in the Asia Pacific the prices - the gas prices link more to oil and if those benefits are not seen in Asia because there's a hoarding of supply, there will be some fairly significant geopolitical ramifications from that as well. So the situation will certainly change over the course of the next five to 10 years.

BRR **Yes certainly, well Nick if we just focus on this global shift that's to take place, what are some of the key opportunities for businesses and how can they take advantage of them?**

NN I think the opportunity for Australia Kate is can we replicate the U.S. story. So the U.S. Energy Information Administration for example it is estimated that Australia could have up to 396 trillion cubic feet in shale gas resources, now if you think about that in terms of current production rates, this is roughly equivalent to about 180, 190 years worth of total Australian gas production. So if we in Australia can tap into these resources, we would boost Australia's energy security and economy, we'd provide larger reserves, a reliable cleaner energy, shale gas exploration, appraisal programs, we know that they are now underway in Western Australia, South Australia and the Northern Territory, so I would say that if these programs are successful, Australia could well experience economic benefits very similar to those in the U.S..

BRR **Well it will be interesting to see if Australia can follow in the US' footsteps, but Nick and David thanks so much for sharing your insights on this topic with us today.**

NN Thank you very much Kate.

DT Thank you Kate.

BRR **That was David Tang, who's the Managing Partner in Asia and Nick Nicola, who's the Managing Partner of Australia for K&L Gates. Now listeners if you have any questions for either David or Nick feel free to send them through and you can do this by sending an email using the panel on your screen or otherwise via email to law@brrmedia.com.**

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