WHOLESALE GAS PRICE SURVEY
2019 EDITION

A GLOBAL REVIEW OF PRICE FORMATION MECHANISMS

2005 TO 2018

MAY 2019
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Key Findings

The 2018 IGU Wholesale Gas Price survey is the eleventh to be undertaken in a series which began at the start of the 2006 to 2009 triennium culminating in the World Gas Conference in Buenos Aires. Prior to the 2018 survey, previous surveys were undertaken for the years 2005, 2007, 2009, 2010, and then annually from 2012. The eleven surveys are now indicating the changing trends in wholesale price formation mechanisms over a period of rapid and significant change in the global gas market.

The surveys consider different types of price formation mechanism which are described in the Box on the next page.

The share of gas on gas competition rose again between 2017 and 2018

The share of gas on gas competition rose by half a percentage point between the 2017 and 2018 surveys to 47%. That largely reflected the increasing share of spot LNG cargoes in LNG imports and rapidly growing US consumption, that more than offset the declining share in pipeline imports, as a result of reduced European pipeline imports and increased China pipeline imports. The oil price escalation share declined by a quarter of a percentage point to 19%, with the loss in LNG imports being partly offset by gains in pipeline imports and domestic production in China. The regulated cost of service and regulated social and political were largely unchanged overall, at 10% and 14% respectively, but the latter declined by almost half a percentage point, reflecting slower consumption growth in countries with regulated social and political pricing and a switch away in Argentina to regulated cost of service. In turn regulated cost of service lost share in China to oil price escalation.

Figure 1.1 World Price Formation 2005 to 2018
# Types of Price Formation Mechanisms

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Oil Price Escalation (OPE)</strong></td>
<td>The price is linked, usually through a base price and an escalation clause, to competing fuels, typically crude oil, gas oil and/or fuel oil. In some cases, coal prices can be used as can electricity prices.</td>
</tr>
<tr>
<td><strong>Gas-on-Gas Competition (GOG)</strong></td>
<td>The price is determined by the interplay of supply and demand – gas-on-gas competition – and is traded over a variety of different periods (daily, monthly, annually or other periods). Trading takes place at physical hubs (e.g. Henry Hub) or notional hubs (e.g. NBP in the UK). There are likely to be developed futures markets (NYMEX or ICE). Not all gas is bought and sold on a short-term fixed price basis and there will be longer term contracts but these will use gas price indices to determine the monthly price, for example, rather than competing fuel indices. Also included in this category are any spot LNG cargoes, any pricing which is linked to hub or spot prices and also bilateral agreements in markets where there are multiple buyers and sellers.</td>
</tr>
<tr>
<td><strong>Bilateral Monopoly (BIM)</strong></td>
<td>The price is determined by bilateral discussions and agreements between a large seller and a large buyer, with the price being fixed for a period of time – typically this would be one year. There may be a written contract in place but often the arrangement is at the Government or state-owned company level. Usually there would be a single dominant buyer or seller on at least one side of the transaction, to distinguish this category from GOG, where there would be multiple buyers and sellers.</td>
</tr>
<tr>
<td><strong>Netback from Final Product (NET)</strong></td>
<td>The price received by the gas supplier is a function of the price received by the buyer for the final product the buyer produces. This may occur where the gas is used as a feedstock in chemical plants, such as ammonia or methanol, and is the major variable cost in producing the product.</td>
</tr>
<tr>
<td><strong>Regulation: Cost of Service (RCS)</strong></td>
<td>The price is determined, or approved, by a regulatory authority, or possibly a Ministry, but the level is set to cover the “cost of service”, including the recovery of investment and a reasonable rate of return.</td>
</tr>
<tr>
<td><strong>Regulation: Social and Political (RSP)</strong></td>
<td>The price is set, on an irregular basis, probably by a Ministry, on a political/social basis, in response to the need to cover increasing costs, or possibly as a revenue raising exercise – a hybrid between RCS and RBC.</td>
</tr>
<tr>
<td><strong>Regulation: Below Cost (RBC)</strong></td>
<td>The price is knowingly set below the average cost of producing and transporting the gas often as a form of state subsidy to the population.</td>
</tr>
<tr>
<td><strong>No Price (NP)</strong></td>
<td>The gas produced is either provided free to the population and industry, possibly as a feedstock for chemical and fertilizer plants, or in refinery processes and enhanced oil recovery. The gas produced maybe associated with oil and/or liquids and treated as a by-product.</td>
</tr>
<tr>
<td><strong>Not Known (NK)</strong></td>
<td>No data or evidence.</td>
</tr>
</tbody>
</table>

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*Wholesale Gas Price Survey 2019 Edition*
Overall over the 2005 to 2018 period, the share of gas on gas competition has risen by almost 16 percentage points, while oil price escalation has declined by 5 percentage points. Bilateral monopoly has declined by 2.5 percentage points, while in the regulated categories regulation cost of service has risen by 9 percentage points, regulation social and political has risen by nearly 3 percentage points and regulation below cost has declined by almost 20 percentage points.

In Europe gas on gas competition has risen to almost 76% of total consumption, with oil price escalation a third of this level....

The major overall changes, in the 2005 to 2018 period, have been the continuous move away from formal oil price escalation to gas on gas competition in Europe, and also in Russia as the independents and Gazprom competed for sales to large eligible customers such as power plants. This is clearly a different kind of gas on gas competition from the liquid trading markets in North America and Europe but reflects the fact that there are multiple buyers and sellers, distinguishing it from the bilateral monopoly category, where there would be a single dominant buyer and/or seller.

In Europe the move from formal oil price escalation to gas on gas competition, has seen the latter’s share increasing from 15% in 2005 – when oil price escalation was 78% – to 76% in 2018 – when oil price escalation had declined to 24%. The changes have reflected a number of factors over the years; switching of domestic gas produced and consumed in a number of countries – Netherlands, Germany, UK and Italy especially – away from oil price escalation, a decline in the volume of gas imported under the traditional oil indexed contracts, being replaced by imports of spot gas and increasing volumes traded at hubs, followed by the ending of contracts or the renegotiation of the terms to include a proportion of hub/spot price indexation in the pricing terms, or even a move to 100% hub price indexation, and in some cases, a reduction in the take-or-pay levels. The renegotiations have also seen the introduction of hybrid pricing formulas where oil indexation is partly maintained but within a price corridor set by hub prices. The respondents to the survey allocate the hybrid contracts in part to gas-on-gas competition and in part to oil price escalation, depending on how narrow or wide the price corridor is.
The change in price formation mechanisms in Europe was not universal across the region. Northwest Europe\(^1\) has seen the most dramatic change in price formation mechanisms, with a complete reversal from 72% oil price escalation and 28% gas on gas competition in 2005 to 6% oil price escalation and 94% gas on gas competition in 2018, as a result of increased hub trading and contract renegotiations, as noted above. Central Europe\(^2\) has also, more recently, seen significant changes. Oil price escalation has declined from 85% in 2005 to 22% in 2018, while gas on gas competition has increased from almost zero in 2005 to 75% in 2018, principally reflecting increased imports of spot gas, some re-exported from Germany, and contract renegotiations. There has been less change in other areas of Europe such as the Mediterranean\(^3\), where oil price escalation has declined from 100% in 2005 to around 56% in 2018 with gas on gas competition rising from nothing to 44%, largely reflecting spot LNG imports with significant changes in pipeline imports into Italy in the last couple of years, as a result of contract renegotiations with both Gazprom and Sonatrach. In Southeast Europe\(^4\) there is now around 62% gas on gas competition, from nothing in 2012, as Romania completed its liberalization of domestic production prices.

...but oil price escalation has gained ground in Asia...

While oil price escalation has lost share in Europe, there have been large gains in share in Asia with a rise from 35% in 2005 to 67% in 2016, initially as China began importing more LNG and pipeline gas from Turkmenistan, but largely reflecting the domestic pricing reform, initially in two Chinese provinces, followed by rolling these changes out to the whole of China for most sectors. The share fell back slightly in 2017 but recovered in 2018 to 67% again.

In Asia Pacific there has been a steady increase in oil price escalation up to 2017, reaching some 66%, largely at the expense of regulated pricing, principally in Malaysia and Indonesia. The share of oil price escalation declined in 2018 as spot LNG imports surged.

....regulated pricing continues to move away from subsidies in many regions

Apart from the changes concerning gas on gas competition and oil price escalation in Europe, Asia and Asia Pacific, there have also been significant changes in the regulated pricing categories. The increases in regulated pricing and policy changes in Russia not only saw a switch towards gas on gas competition, but also a switch from the subsidised regulation below cost in 2009 to regulation cost of service as Gazprom finally stopped losing money on their domestic gas sales, although with the freeze in regulated prices in 2014, there was a partial switch back to regulation social and political.

There were also significant changes in China as pricing reforms, again around the 2009 period, saw domestic production prices being more formally regulated and the price formation mechanism changing from regulation social and political to regulation cost of service, before the significant move to oil price escalation. Similarly, in Iran prices were raised significantly with the category changing from regulation below cost to regulation social and political in 2012, and a similar change in Nigeria in 2014, as prices increased, and gas-on-gas competition was introduced.

\(^1\) Belgium, Denmark, France, Germany, Ireland, Netherlands, UK
\(^2\) Austria, Czech Republic, Hungary, Poland, Slovakia, Switzerland
\(^3\) Greece, Italy, Portugal, Spain, Turkey
\(^4\) Bosnia, Bulgaria, Croatia, FYROM, Romania, Serbia, Slovenia
Pipeline trade has seen a continuous shift to gas on gas competition, and in LNG trade it appears that oil price escalation started to lose ground in 2018.

In pipeline imports there has been a largely continuous rise in gas on gas competition at the expense of oil price escalation, rising from 23% in 2005 to 61% in 2018, as oil price escalation declined from 57% to 31%. However, the decline in oil price escalation has been partly offset by a switch from bilateral monopoly in intra-FSU trade in 2009, and more recently the imports of pipeline gas from Turkmenistan to China, and in 2016, the change in one of the gas contracts from Russia to Turkey.

The rise in gas on gas competition at the expense of oil price escalation has been almost entirely in the European market as the Northwest Europe countries began switching to gas on as competition and more recently the Central Europe countries and, in 2014, Italy. In respect of pipeline imports into Europe gas on gas competition in 2018 has a 75% share compared to 25% for oil price escalation. This is in marked contrast to 2005 when it was 91% oil price escalation and only 7% gas on gas competition. In 2017, Ukraine switched to importing gas from Europe at hub prices, reducing the oil price escalation share in the Former Soviet Union.

From 2007 to 2017, in contrast, oil price escalation largely held its share in the LNG market, averaging 72%, compared to 28% for gas on gas competition. However, in 2018, there was a large surge in spot LNG imports.
The respective shares fluctuated over the years between 2007 and 2017 as the LNG market grew, sometimes with more oil indexed contracts and sometimes with more gas on gas competition. The gas on gas competition share can be divided into LNG going into traded markets such as the USA, in the early years, and European markets such as the UK, Belgium and Netherlands, and then spot LNG cargoes into the traditional LNG markets where oil indexed contracts dominate. The share of LNG trade going into traded markets has largely been in decline since 2010, while spot LNG gas been on the increase. The traded markets share has declined as less LNG went to the USA and then as Northwest Europe has taken less LNG. The increase in the gas on gas competition share in 2017 reflected the sharp rise in spot LNG more than offsetting the decline in LNG into Northwest Europe's traded markets.

2018, however, has shown the most significant change in LNG imports of all the surveys, driven by the continued rise in Henry Hub priced US LNG exports but also by a general rise in spot LNG cargoes. Gas on gas competition accounted for more than 50% of LNG imports into Europe in 2018 – compared to 33% in 2017, while the GOG in Asia rose from 24% to 30.5% and in Asia Pacific from 18% to 24%. Despite the growth in LNG imports between 2017 and 2018 of some 22 bcm or 5.5%, the actual volume of oil price escalation imports declined for the first time ever.

The share of spot LNG imports reached just over 30% of total LNG imports in 2018 amounting to some 126 bcm – an increase of 65 bcm since 2016 or 10.5 percentage points.

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5 The definition of Spot LNG in this survey is not the same as the GIIGNL definition of spot and short-term contracts. In this survey, spot LNG excludes the short-term contracts element i.e. contracts over one year but less than four years, of the GIIGNL reports. In addition, since LNG imported by the trading markets of North America and Northwest Europe is classified in the “Trading” category, there may be significant volumes, of what might be regarded as spot, not included in the “Spot LNG” category.
Wholesale prices, outside North America, rose pretty continuously between 2005 and 2014, declined in most regions in 2015 and 2016, before rebounding in 2017 and 2018

Wholesale price levels, in most regions, reached their peak in 2013 or 2014. This rise was across all regions apart from North America, where the dramatic increase in shale gas supply has led to sharp falls in prices – with a small rebound in 2013. The rise in prices in Europe and Asia Pacific has been well documented and studied, but prices have also risen in Asia, largely due to increases in prices in China, both as more gas was imported and regulated domestic prices increased, and in India for similar reasons.

In 2014, though, prices in Europe began to decline as the market weakened and, in the FSU especially, as the rouble depreciated. This accelerated in 2015 and 2016, and prices also fell back in North America and Asia Pacific on the back of weak demand, abundant supply and the impact of the sharp fall in oil prices. However, some regions did not see the 2015 and 2016 fall in prices. These were Asia, as pricing reforms and inertia increased and kept prices up in China and India, the Middle East – as regulated prices were increased in Bahrain, Oman and Iran, with other prices staying stable – and Africa – where prices have increased in Egypt, Nigeria and more recently Algeria.

In 2016 Asia prices also declined as the delayed effects of the oil price decline impacted China prices and also the fall in spot prices affected the India domestic pricing formula. FSU prices declined further reflecting currency weakness, but Africa and Middle East prices continued to rise. Average wholesale prices at the world level were $3.35 per MMBTU in 2016 which was the lowest level recorded in all the surveys.

2017 and 2018 has seen prices rebounding back in almost all regions, but mainly in the areas of market pricing as oil prices increased and spot markets tightened. Prices also increased, however, in the more regulated regions such as Africa and the Middle East, as authorities continued policies to increase prices to more market or economic levels. The average world wholesale price in 2018 was $4.38 per MMBTU – the highest average price since 2014.

Figure 1.5 Wholesale Price Levels 2005 to 2018 by Region
The highest wholesale prices in 2018 were again found in the main LNG importing countries in Asia Pacific – Chinese Taipei, South Korea and Japan – plus Singapore and China. Not far behind were many European countries, with GOG pricing, as spot prices rose in 2018. Prices were much lower in the USA, where prices were even below those in Egypt, Nigeria, Indonesia and Malaysia and some Middle East countries. Prices in Russia have fallen well below other countries, which, in previous years, they had been above, as a consequence of the large rouble depreciation. At the bottom of the chart are generally countries where wholesale prices were subject to some form of regulation and often below the cost of production and transportation – Turkmenistan, Algeria and Venezuela.
Global gas prices have been converging over the period since 2005.

In the period 2005 to 2018, it is generally recognised that the global natural gas markets have become more integrated through increased LNG trade, increased market related pricing and gas hub development. It might be expected, therefore, that global gas prices would converge, as markets became more integrated. However, the conventional wisdom is that of global gas price divergence, based on a few regional gas price markers such as Henry Hub, NBP and Japanese import prices.

However, analysis, using the price survey data, shows that global gas prices have been converging continuously since 2005, indicating further globalisation of the gas markets, at least up until 2018, when some divergence occurred. It is also concluded that there is more gas price convergence amongst countries (1) with market related pricing, (2) which are connected with the global gas market through gas imports, (3) with oil-indexed gas prices, and (4) within Europe. The trend of global gas price convergence is more distinct when we exclude the data of the, effectively disconnected, North American countries.
Introduction

BACKGROUND

The 2018 IGU Wholesale Gas Price survey is the eleventh to be undertaken in a series which began at the start of the 2006 to 2009 IGU triennium culminating in the World Gas Conference in Buenos Aires. Prior to the 2018 survey, previous surveys were undertaken for the years 2005, 2007, 2009, 2010, and then annually from 2012. The eleven surveys have confirmed the significant changes in wholesale price formation mechanisms during a period of key developments and upheaval in the global gas market. In the 2018 survey responses were received for 87 out of 113 countries, but these responses covered 95% of total world consumption. Data on the remaining countries, where responses were not received, was researched by members of the Gas Pricing Group and/or based on past responses.

TYPES OF PRICE FORMATION MECHANISMS

In preparation for the initial 2005 survey, a series of discussions were held at the PGCB meetings, in 2006 and early 2007, on the definition of different types of price formation. It was decided to use for categorisation purposes the wholesale pricing mechanisms described in Box 1.

In the discussion of regions, the IGU regional definitions are used and there is a map in the Appendix which shows the regions. A key point to note is that the Asia region is China and the Indian sub-continent and Asia Pacific is the rest of what is often called Asia.

REPORT LAYOUT

Section 3 of the report covers the results at the World level of the 2018 survey for the different categories – domestic production, pipeline imports, LNG imports, total imports and total consumption. A comparison of the results across all eleven surveys, at the World level, is then analysed to identify key trends, concluding with an analysis of changes in the GOG category.

Section 4 of the report covers wholesale price levels including a discussion and analysis of the results of the 2018 survey, by region, price formation mechanism and country, and then comparisons over all eleven surveys.

Section 5 of the report contains an analysis of global gas price convergence over the ten surveys.

Section 6 of the report looks at the individual regions (IGU definitions) results for the 2018 survey and comparisons across all eleven surveys for the price formation mechanisms.

Appendix A describes the survey methodology, including the data collection method, the IGU regional definitions, the definitions of the price formation mechanisms and the analytical framework.

6 The Wholesale Gas Pricing Group began life as Sub Group 2 of PGCB and was chaired in the period leading up to the 2009 World Gas Conference by Runar Tjersland of Statoil and between 2009 and 2018 by Mike Fulwood, formerly of Nexant, but now a Senior Research Fellow at the Oxford Institute for Energy Studies and a Fellow at the Center on Global Energy Policy at Columbia University. It is now part of the IGU’s Strategy Committee and has been re-titled as the Gas Pricing Group. The 2018 survey was organised by Mike Fulwood, under the guidance of the IGU Strategy Committee.
## BOX 1: TYPES OF PRICE FORMATION MECHANISMS

<table>
<thead>
<tr>
<th>Mechanism</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OIL PRICE ESCALATION (OPE)</strong></td>
<td>The price is linked, usually through a base price and an escalation clause, to competing fuels, typically crude oil, gas oil and/or fuel oil. In some cases, coal prices can be used as can electricity prices.</td>
</tr>
<tr>
<td><strong>GAS-ON-GAS COMPETITION (GOG)</strong></td>
<td>The price is determined by the interplay of supply and demand – gas-on-gas competition – and is traded over a variety of different periods (daily, monthly, annually or other periods). Trading takes place at physical hubs (e.g., Henry Hub) or notional hubs (e.g., NBP in the UK). There are likely to be developed futures markets (NYMEX or ICE). Not all gas is bought and sold on a short term fixed price basis and there will be longer term contracts but these will use gas price indices to determine the monthly price, for example, rather than competing fuel indices. Also included in this category are spot LNG cargoes, any pricing which is linked to hub or spot prices and also bilateral agreements in markets where there are multiple buyers and sellers.</td>
</tr>
<tr>
<td><strong>BILATERAL MONOPOLY (BIM)</strong></td>
<td>The price is determined by bilateral discussions and agreements between a large seller and a large buyer, with the price being fixed for a period of time – typically one year. There may be a written contract in place but often the arrangement is at the Government or state-owned company level. Usually there would be a single dominant buyer or seller on at least one side of the transaction, to distinguish this category from GOG, where there would be multiple buyers and sellers trading bilaterally.</td>
</tr>
<tr>
<td><strong>NETBACK FROM FINAL PRODUCT (NET)</strong></td>
<td>The price received by the gas supplier is a function of the price received by the buyer for the final product the buyer produces. This may occur where the gas is used as a feedstock in chemical plants, such as ammonia or methanol, and is the major variable cost in producing the product.</td>
</tr>
<tr>
<td><strong>REGULATION: COST OF SERVICE (RCS)</strong></td>
<td>The price is determined, or approved, formally by a regulatory authority, or possibly a Ministry, but the level is set to cover the “cost of service”, including the recovery of investment and a reasonable rate of return.</td>
</tr>
<tr>
<td><strong>REGULATION: SOCIAL AND POLITICAL (RSP)</strong></td>
<td>The price is set, on an irregular basis, probably by a Ministry, on a political/social basis, in response to the need to cover increasing costs, or possibly as a revenue raising exercise – a hybrid between RCS and RBC.</td>
</tr>
<tr>
<td><strong>REGULATION: BELOW COST (RBC)</strong></td>
<td>The price is knowingly set below the average cost of producing and transporting the gas often as a form of state subsidy to the population.</td>
</tr>
<tr>
<td><strong>NO PRICE (NP)</strong></td>
<td>The gas produced is either provided free to the population and industry, possibly as a feedstock for chemical and fertilizer plants, or in refinery processes and enhanced oil recovery. The gas produced maybe associated with oil and/or liquids and treated as a by-product.</td>
</tr>
<tr>
<td><strong>NOT KNOWN (NK)</strong></td>
<td>No data or evidence.</td>
</tr>
</tbody>
</table>
World Results

INTRODUCTION

This section covers the full results and analysis at the World level for wholesale price formation mechanisms and comprises three parts:

- Results for the 2018 survey at the World level for the different categories – domestic production, pipeline imports, LNG imports, total imports and total consumption;
- Comparisons and analysis of the results of the surveys from 2005 to 2018; and
- An analysis of changes in the gas-on-gas competition (GOG) category.

The results for previous surveys may, in some cases, appear slightly different from what has been published in previous reports. This reflects mostly revisions to IEA data on consumption, production, imports and exports but can also reflect retrospective changes to price formation classification when survey respondents have a better appreciation of the classification definitions as they reflect upon the results from the surveys overall.

2018 SURVEY RESULTS

DOMESTIC PRODUCTION

Domestic production in 2018 accounted for some 72% of total world consumption – around 2,830 bcm.
The percentage shares of the mechanisms for each region are shown in Figure 3.2 below.

GOG has the largest share in domestic production at 46%, totalling some 1,292 bcm, with North America accounting for 920 bcm – around 70% of the total. The next largest share is in the Former Soviet Union, where the sales of gas in Russia to the large eligible customers by either Gazprom or the independent producers is classified as GOG (see the section on Former Soviet Union in the regional analysis for further discussion), accounting for some 168 bcm. The balance is in Europe at 94 bcm – principally the Netherlands and UK, Asia Pacific at 39 bcm – Australia and New Zealand, Asia at 36 bcm – India and China (see section on Asia in the regional analysis for further discussion), and Latin America at 20 bcm – mainly Argentina and Colombia.

OPE has a relatively small share in domestic production at 10%, totalling some 273 bcm, with 151 bcm in Asia – China and Pakistan mainly, 81 bcm in Asia Pacific – Thailand, Indonesia, Vietnam, Philippines, Australia and Malaysia, 28 bcm in Latin America – Brazil and Colombia, 5 bcm in Africa, mainly Tunisia, the Middle East at 5 bcm in Israel, and Europe – small amounts in a few countries.

The regulated categories – RCS, RSP and RBC – in total account for 40% of domestic production, with RCS principally in the Former Soviet Union, Asia and Asia Pacific, RSP principally in the Middle East, Former Soviet Union, Latin America and Asia Pacific and RBC in the Former Soviet Union, Africa, Latin America and the Middle East. A more detailed breakdown of the regulated categories is contained in the regional analysis sections.
PIPELINE IMPORTS

Pipeline imports in 2018 accounted for some 17% of total world consumption – around 680 bcm\(^7\).

**Figure 3.3 World Price Formation 2018 – Pipeline Imports**

Pipeline imports are split between just three categories – OPE, GOG and BIM\(^8\). The regional breakdown is shown in figure 3.4 below.

GOG is 61% of all pipeline imports, totalling some 417 bcm, with Europe at 273 bcm, North America 127 bcm and the Former Soviet Union 11 bcm (Ukraine imports from Europe). Most of the European gas importing countries, have some element of GOG pipeline imports with the top four countries being Germany, Italy, France and UK.

OPE is around 30% of all pipeline imports, totalling some 205 bcm, mostly in Europe with some 97 bcm – Turkey, Spain and Italy being the main contributors. Asia accounts for some 50 bcm – China, 20 bcm in Asia Pacific – Thailand, Singapore and Malaysia, and 16 bcm in Latin America – mainly Brazil and Argentina. There are also small quantities in other regions, apart from North America, including countries such as Russia, Iran and Tunisia.

BIM has the balance of 9%, totalling some 59 bcm. This is mainly in the Former Soviet Union and the Middle East with just two routes – Russia to Belarus and Qatar to the UAE – comprising most of it.

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\(^7\) This figure represents the total effective net pipeline imports for all countries. Many countries will produce gas and import by pipeline and LNG and also export by pipeline from the “pool” of all sources of supply. Gross pipeline imports in total in 2018 were almost 815 bcm so effectively 135 bcm was “re-exported” by pipeline.

\(^8\) There is a very small amount of RCS in Africa reflecting the regulated transportation tariff element of pipeline gas from Nigeria to Ghana.
LNG IMPORTS

LNG imports in 2018 accounted for some 11% of total world consumption – around 416 bcm.  

As for pipeline imports, the figure represents total effective net LNG imports for all countries. Gross LNG imports (net of re-exported LNG) were some 423 bcm in 2018, with around 7 bcm being regasified and re-exported as pipeline gas.
LNG imports are split 66% OPE and 34% GOG. The regional breakdown is shown in Figure 3.6 below.

OPE at some 273 bcm is mostly Asia Pacific – Japan, Korea and Chinese Taipei, followed by Asia – China and India – and Europe – mainly Spain, Turkey, France and Italy.

GOG totals some 143 bcm and can be divided into imports into North America and countries such as the UK, Belgium and Netherlands, where the domestic market pricing mechanism is GOG, and all other countries which are importing spot and short term priced LNG cargoes, which is almost every other LNG importing country – Japan taking the largest volume – but also includes countries like China, India, Korea, Turkey, Spain, Jordan, Argentina and Brazil. In Europe, just over 50% of LNG imports are now GOG.

**Figure 3.6 Regional Price Formation 2018 – LNG Imports**

**Figure 3.7 World Price Formation 2018 – Total Imports**

Total imports in 2018 accounted for some 28% of total world consumption – 1,098 bcm. Total imports are the sum of pipeline and LNG imports and comprise the three categories of GOG (51%), OPE (44%) and BIM (5%).
The table below shows the regional and category breakdown in volume terms.

**Table 3.1 World Price Formation 2018 – Total Imports**

<table>
<thead>
<tr>
<th>REGION</th>
<th>OPE</th>
<th>GOG</th>
<th>BIM</th>
<th>TOT</th>
</tr>
</thead>
<tbody>
<tr>
<td>NORTH AMERICA</td>
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</tr>
<tr>
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<td>122.8</td>
<td>31.9</td>
<td>0.0</td>
<td>154.7</td>
</tr>
<tr>
<td>ASIA PACIFIC</td>
<td>181.9</td>
<td>51.6</td>
<td>0.0</td>
<td>233.5</td>
</tr>
<tr>
<td>LATIN AMERICA</td>
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<td>10.6</td>
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<td>30.5</td>
</tr>
<tr>
<td>FSU</td>
<td>9.8</td>
<td>11.4</td>
<td>32.7</td>
<td>53.9</td>
</tr>
<tr>
<td>AFRICA</td>
<td>5.8</td>
<td>3.4</td>
<td>4.4</td>
<td>14.1</td>
</tr>
<tr>
<td>MIDDLE EAST</td>
<td>11.1</td>
<td>6.6</td>
<td>21.7</td>
<td>39.4</td>
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<tr>
<td>TOTAL</td>
<td>477.7</td>
<td>559.9</td>
<td>58.8</td>
<td>1096.8</td>
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</table>

**TOTAL CONSUMPTION**

Total consumption in 2018 was around 3,930 bcm.
GOG has the largest share at 47%, totalling around 1,850 bcm, dominated by North America at 1,056 bcm, followed by Europe at some 402 bcm. In all GOG can now be found in some 59 countries, in one form or another, and in all regions.

The OPE share at 19%, totals around 751 bcm and is predominantly Asia (275 bcm), Asia Pacific (263 bcm) and Europe (129 bcm). OPE is widespread also being found in some 59 countries, including most countries in Europe, and in all regions except North America.

The regulated categories – RCS, RSP and RBC – account in total for some 30%, around 1,158 bcm:

- RCS totals some 392 bcm and is in 17 countries, mainly the Former Soviet Union (Russia and Azerbaijan) and Asia (China and Bangladesh), followed by Asia Pacific (Malaysia) and Africa (Egypt and Nigeria);
- RSP totals some 552 bcm and is in 24 countries, with the Middle East dominating – Iran, Saudi Arabia, UAE and Oman – followed by the Former Soviet Union – Russia and Ukraine – and Latin America – Argentina, Bolivia and Peru with some in Asia Pacific – Indonesia;
- RBC totals some 215 bcm and is in 14 countries, mainly the Former Soviet Union – Kazakhstan, Turkmenistan and Uzbekistan, Africa – Egypt and Algeria – and Latin America – Venezuela.

The BIM share at 3% totals some 133 bcm and is in 23 countries, predominantly Middle East – Qatar, UAE, Israel and Iraq, and the Former Soviet Union – largely Belarus.

The NET share at less than 1% totals some 16 bcm in just 1 country – Trinidad.

The NP share at 1% totals some 19 bcm in 9 countries, largely Mexico, Turkmenistan, Kuwait, and Brunei, where it is used in the energy industry in refining processes or enhanced oil recovery.

The table below shows the regional and category breakdown for total world consumption and figure 3.9 the regional breakdown in percentage terms.
### Table 3.2 World Price Formation 2018 – Total Consumption

<table>
<thead>
<tr>
<th>REGION</th>
<th>OPE</th>
<th>GOG</th>
<th>BIM</th>
<th>NET</th>
<th>RCS</th>
<th>RSP</th>
<th>RBC</th>
<th>NP</th>
<th>NK</th>
<th>TOT</th>
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<td>0.0</td>
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<tr>
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<tr>
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<td>12.2</td>
<td>6.2</td>
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<td>543.5</td>
</tr>
<tr>
<td>TOTAL</td>
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<td>1851.7</td>
<td>132.6</td>
<td>16.1</td>
<td>391.9</td>
<td>551.8</td>
<td>214.7</td>
<td>19.0</td>
<td>0.0</td>
<td>3928.8</td>
</tr>
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</table>

### Figure 3.9 Regional Price Formation 2018 – Total Consumption

[Bar chart showing the regional price formation]
WORLD LEVEL COMPARISONS 2005 TO 2018

In comparing the survey results over the whole period, the presentation of some charts has been changed this year, with not all years being shown. Most charts will now include the years 2005, 2010, 2015 and then 2016 through 2018. This excludes 2007, 2009, 2012, 2013 and 2014, although these years are included where it adds to the analysis.

DOMESTIC PRODUCTION

The main changes in price formation over the eleven surveys have been the general rise in GOG from 36% in 2005 to 46% in 2018. The share was unchanged between 2017 and 2018, although there was growth in volume terms. The OPE category is not particularly large in terms of domestic production but grew from 9.1% in 2017 to 9.7% in 2018, principally as pricing in China switched away from regulated pricing at the city-gate – discussed further in the regional section.

Over the period as a whole, GOG has gained share from the three regulated categories which in 2005 totalled some 51% compared to 41% in 2018. Half of this occurred in 2009 and 2010 when the GOG category increased in Russia at the expense of the regulated categories, as the market began to open up to independents more, and there was more effective competition between the independents and Gazprom for power sector and industrial customers. This was followed by the changes in India in 2015, as regulated pricing was replaced with a formula linked to international, predominantly hub, prices for key sectors. There has also been an increase in GOG in Latin America as well, principally in 2007 and 2009.
Within the regulated categories, there have been two main changes, in 2009 when Russia changed from RBC to RCS as prices were finally increased above the cost of production and transportation, and in 2012 when Iran increased prices sharply to move from RBC to RSP. RSP increased again in 2014 as prices to the population in Russia was switched away from RCS. In 2017, there was also a change in Malaysia, away from RSP to RCS.

**PIPELINE IMPORTS**

The main changes in the eleven surveys from 2005 to 2018 are the continued rise in GOG from 23% in 2005 to 61% in 2018, which has been at the expense of the OPE category. The decline in OPE was partly offset by a switch from BIM to OPE in intra-FSU trade in 2009, and more recently the imports of pipeline gas from Turkmenistan to China, and in 2016, the change in one of the gas contracts from Russia to Turkey. In 2018, however, the GOG share fell slightly as Europe reduced net pipeline imports and the OPE share rose as China imported more by pipeline.

The rise in GOG at the expense of OPE has been entirely in the European market, up until the Ukraine change during 2015, as the Northwest Europe countries began switching to GOG and more recently the Central Europe countries and, in 2014 and 2017, Italy. In respect of pipeline imports into Europe GOG in 2018 has a 74% share compared to 26% for OPE.
The main changes in the eleven surveys from 2005 to 2018 are a rise in GOG from just over 13% in 2005 to 32% in 2012, which was largely at the expense of the OPE category, before it fell back in 2014 to 25%. In 2015 there was a recovery back to a 32% share, a fall in 2016 to 26%, before rising to 30% in 2017 and 34.5% in 2018.

The GOG share is comprised of LNG going to the traded markets of North America and in Europe the UK, Belgium and Netherlands, and spot LNG cargoes to the “traditional” LNG markets in Asia Pacific and Europe and some of the newer markets.

There was a significant increase in GOG between 2005 and 2007, which was principally due to a rise in spot LNG imports in Asia and Asia Pacific and a smaller rise in North American imports. Since 2007, there have been offsetting changes with North American LNG imports – which are all GOG – declining, European imports, principally to the UK increasing in 2009 and 2010 and relatively stability in Asia and Asia Pacific spot LNG imports. In 2012, as Europe’s LNG imports declined, these were more than offset in the GOG category by rising spot LNG imports in Asia and Asia Pacific. The decline in 2013 reflected the fall in the share of spot LNG imports and a decline in LNG imports into the UK, the USA and Canada. The further small decline in 2014 was principally due to lower spot LNG cargoes in Asia and Asia Pacific, with correspondingly higher OPE under long term contracts. The rebound in 2015 was largely due to more spot LNG cargoes in all markets but especially Japan and the new markets, as the fall in spot LNG prices preceded the decline in oil-linked contract prices. In 2016, the decline in GOG was a consequence of LNG trade becoming more contracted, with fewer spot LNG cargoes, which benefitted OPE. In 2017 this was reversed as spot LNG cargoes increased, in part due to the rise in Henry Hub priced US LNG exports.
2018, however, has shown the most significant change in LNG imports of all the surveys, driven by the continued rise in Henry Hub priced US LNG exports but also by a general rise in spot LNG cargoes\textsuperscript{10}. GOG accounted for more than 50% of LNG imports into Europe in 2018 – compared to 33% in 2017, while the GOG share in Asia rose from 24% to 30.5% and in Asia Pacific from 18% to 24%. Despite the growth in LNG imports between 2017 and 2018 of some 22 bcm or 5.5%, the actual volume of OPE imports declined for the first time ever.

\textbf{Figure 3.12 World Price Formation 2005 to 2018 – LNG Imports}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure312.png}
\caption{World Price Formation 2005 to 2018 – LNG Imports}
\end{figure}

\textsuperscript{10} The definition of Spot LNG in this survey is not the same as the GIIGNL definition of spot and short-term contracts. In this survey, spot LNG excludes the short-term contracts element i.e. contracts over one year but less than four years, of the GIIGNL reports. In addition, since LNG imported by the trading markets of North America and Northwest Europe is classified in the “Trading” category, there may be significant volumes, of what might be regarded as spot, not included in the “Spot LNG” category.
The volume of LNG going to the traded markets has been in decline since 2010, with the decline in US LNG imports, and from 2014 and 2015 as UK imports declined. In contrast, spot LNG cargoes have increased, especially in 2017 and 2018 in Asia Pacific, Asia and parts of Europe plus the newer LNG importing countries. Figure 3.13 shows the volume of GOG LNG imports. Spot LNG cargoes totalled some 126 bcm in 2018, compared to 92 bcm in 2017 and just 70 bcm in 2016.

To further illustrate the growth of spot LNG, figure 3.14 breaks down the data from figure 3.12, showing Spot LNG separately and the percentage of Spot LNG in total LNG imports.
TOTAL IMPORTS

Total imports are the sum of pipeline imports and LNG imports and have only comprised three categories – OPE, GOG and BIM – in all eleven surveys from 2005 to 2018\(^\text{11}\). As well as the figure the table below shows the volume breakdown. OPE declined from 63% in 2005 to 59% in 2007 as GOG rose from just over 21% to 28% and then in 2009, OPE gained share rising to 66% as BIM fell from 14% to 6%, with GOG rising to 29%. Since then OPE has lost share by around 20 percentage points and GOG gained a similar share, in large part due to pipeline imports in Europe.

\(^{11}\) Apart from the very small RCS on the Nigeria to Ghana pipeline since 2010
### Table 3.3 World Price Formation 2005 to 2018 – Total Imports

**BCM**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>OPE (BCM)</th>
<th>GOG (BCM)</th>
<th>BIM (BCM)</th>
<th>TOTAL (BCM)</th>
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</thead>
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<td>2005</td>
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<td>165.9</td>
<td>128.4</td>
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</table>

### TOTAL CONSUMPTION

The figure below shows the changes in the price formation mechanisms over the eleven surveys from 2005 to 2018.

**Figure 3.16 World Price Formation 2005 to 2018 – Total Consumption**
### Table 3.4 World Price Formation 2005 to 2018 – Total Consumption

**BCM and %ages**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>OPE</th>
<th>GOG</th>
<th>BIM</th>
<th>NET</th>
<th>RCS</th>
<th>RSP</th>
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<td>45.1%</td>
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<td>14.0%</td>
</tr>
<tr>
<td>NP</td>
<td>0.8%</td>
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The changes between each survey can be summarised as follows:

- Between 2005 and 2007, GOG increased its share by some 2 percentage points and OPE decreased by 2 percentage points reflecting faster growth in consumption in North America than most other regions, a switch from OPE to GOG in Europe, and to a lesser extent in Asia Pacific and Asia, and a very small move from regulated pricing to GOG in Russia and Latin America. RSP also increased its share by half a percentage point reflecting more rapid growth in consumption in the RSP countries;

- Between 2007 and 2009, GOG increased its share by a further 4 percentage points, at a time when total world consumption showed little change, mainly because of the change in Russia from RBC to GOG but also because of the continuing switch from OPE to GOG in Europe. OPE actually gained 1 percentage point with the loss in share in Europe being more than offset by a switch from BIM, which lost 2 percentage points overall, to OPE in intra-FSU trade. The other major change was the decline of 14 percentage points in RBC and a similar gain in RCS, mainly in Russia, but RCS also gained at the expenses of RSP, which lost almost 2 percentage points, as China's domestic production changed categories as prices increased as a consequence of regulatory change;

- Between 2009 and 2010, GOG increased its share by another 3 percentage points, with the continuing switch from OPE to GOG in Europe and further move in Russia away from RCS to GOG. OPE declined by half a percentage point with losses in share in Europe being partly offset by gains in shares in Asia, as China began importing pipeline gas and more LNG under contract, and Asia Pacific on the back of rapid growth in demand in Korea, Taiwan and Thailand;

- Between 2010 and 2012, GOG increased its share by half a percentage point, rising to 41%, with the continuing increase in share in Europe away from OPE, and more spot LNG imports in Asia and Asia Pacific, being partly offset by a decline in share in Russia. OPE declined by 2.5 percentage points, based on the switch to GOG in Europe (and to BIM in Turkey, as a contract changed) coupled with declining European demand, only partly offset by a rising share in pipeline imports in China. RCS increased its share by 1.5 percentage points, principally in Russia but also as demand grew sharply in China. RSP increased its share by 5 percentage points, principally due to the change in pricing in Iran and rising demand in Saudi Arabia. RBC declined by a similar amount, reflecting the Iran pricing change.

- Between 2012 and 2013, GOG increased its share by over 2 percentage points, gaining from OPE as pricing mechanisms continued to switch in Europe, and from RCS in Russia as the independent producers recovered market share. OPE declined by another half a percentage point reflecting the changes in Europe, partly offset by a small gain in the LNG import segment with spot LNG trade declining, and in China with the new pricing regime in two provinces. RCS declined by 1.5 percentage points, largely reflecting the change in Russia towards GOG and in China to OPE. The BIM category regained almost half a percentage point in share reflecting domestic production growth in Qatar.

- Between 2013 and 2014, the GOG share declined marginally as the continued switch away from OPE in Europe and more rapid consumption growth in North America was offset by a decline in the share of GOG in Russia towards regulated pricing, and fewer spot LNG cargoes. OPE was down by over 1 percentage point reflecting the changes in Europe, partly offset by an increase in China. RCS was down by 1 percentage point largely as a result of the switch to RSP in Russia and the RSP category was up by almost 2.5 percentage points, reflecting the Russia switch but also a change in Nigeria as well, away from RBC, coupled with more rapid consumption growth in RSP countries. RBC was unchanged, with the decline in Nigeria, being offset by rising consumption on Kazakhstan, Turkmenistan and Uzbekistan.
Between 2014 and 2015, the GOG share increased by almost 2 percentage points reflecting rising gas consumption in North America and Europe, together with the continuing move away from OPE in Europe, the change in pricing in India and more spot LNG, partly offset by a decline in Australia as OPE netback contracts began to be introduced, and the switch in Ukraine to imports of hub-priced gas from Europe. OPE’s share increased by just over half a percentage point, with the decline in Europe and lower share of LNG imports being more than offset by the change in the domestic pricing mechanism in China. The RCS share declined by just under 1 percentage point reflecting the changes in China, partly offset by moves to RCS in Egypt and Nigeria. RSP was down by 1 percentage point, principally reflecting the changes in pricing in India and Nigeria. RBC was lower by almost 1 percentage point, reflecting moves away in Bangladesh and partially in Egypt.

Between 2015 and 2016, the GOG share rose by just under half a percentage point, with an increase in the share in Europe and the Former Soviet Union, together with growing consumption in North America, being partly offset by declines in Asia and Asia Pacific, reflecting fewer pure spot LNG cargoes. The OPE share increased by 1.5 percentage points, reflecting a small rise in Europe at the expense of BIM (in Turkey), but principally in Asia and Asia Pacific, as the share in LNG imports increased, but also reflecting a rise in domestic production in China, as the full year effect of the change in city-gate pricing came through. The RCS share declined by half a percentage point, principally reflecting the changes in China, partly offset by a rise in Iran in gas as a feedstock to petrochemicals, and faster consumption growth in some countries with RCS pricing. The RSP share was down by just under half a percentage point as a result of declines in the Middle East – Iran – and the FSU, principally in Russia with switching to GOG and RCS. The RBC share was down very slightly on slower consumption growth.

Between 2016 and 2017, the GOG share rose by over 1 percentage point as a result of a continuing rise in Europe, at the expense of OPE, the rise in Asia as China introduced market pricing for direct sales from upstream producers to large users, the general recovery in spot LNG cargoes. The OPE share declined by half a percentage point, with the losses to GOG being partly offset by an increase in Asia Pacific, mainly in Malaysia and Indonesia. The BIM share was down almost half a percentage point reflecting the switch in Indonesia to OPE. The RCS share increased by over half a percentage point, largely as a result of the change in Malaysia away from RSP, which was down almost 1 percentage point. RBC had a small quarter of a percentage point rise, reflecting consumption growth in the Former Soviet Union and more below cost pricing to power in Egypt.

Between 2017 and 2018, the GOG share rose by half a percentage point largely reflecting the increasing share of spot LNG cargoes in LNG imports and rapidly growing US consumption, more than offsetting the declining share in pipeline imports, as a result of reduced European pipeline imports and increased China pipeline imports. OPE share declined by a quarter of a percentage point, with the loss in LNG imports being partly offset by gains in pipeline imports and domestic production in China. RCS and RSP were largely unchanged but RSP declined by almost half a percentage point, reflecting slower consumption growth in countries with RSP and a switch away in Argentina to RCS. In turn RCS lost share in China to OPE.

Overall over the 2005 to 2018 period, OPE has declined by 5 percentage points, GOG has risen by 15.5 percentage points, BIM has declined by 2.5 percentage points, RCS has risen by 9 percentage points, RSP risen by 2.5 percentage points and RBC declined by 19.5 percentage points.
While there have been a number of significant changes over the period of the surveys between the 8 categories, as described above, the changes have been almost wholly within larger groupings of categories, until very recently. The categories of OPE, GOG, BIM and NET can be broadly described as “market” pricing, while the categories of RCS, RSP, RBC and NP can be broadly described as “regulated” pricing. The figure below compares the changes in the “market” and “regulated” categories over the eleven surveys.

The total of “market” pricing rose from 62% in 2005 to 70% in 2018, mirrored by a decline in “regulated” pricing, from 38% in 2005 to 30% in 2018. Changes in percentages between surveys can arise because of actual changes in price formation mechanism or because of more rapid growth in consumption in countries with a specific type of price formation mechanism. The switch to “market” pricing is down to the following:

- The move away from regulated pricing in the Russian market to GOG as the independent producers began to compete with each other and Gazprom to sell gas to the power sector and large industrials – this was partly reversed in 2014 with more “regulated” pricing;
- A similar move in Argentina, to GOG, as the eligible market opened up, and more recently in Nigeria;
- The recent changes, since 2013, in China where there was initially a move to OPE in 2 provinces away from RCS which in 2014 became nationwide for incremental production over 2012 levels and then in 2015 for all sectors except residential and fertilizers – some of this OPE in 2017 switched to GOG – and halfway through 2018 the move to OPE for residential city-gate pricing;
- The pricing reforms in India, which began in late 2014, moving pricing away from RSP to GOG; and
- The rise in new LNG importers, importing at OPE and/or GOG, to enhance or replace domestic production which was regulated.
ANALYSIS OF CHANGES IN GAS-ON-GAS COMPETITION

The rise in GOG from 31% of total world consumption in 2005 to 47% in 2018 and in which regions, has been discussed in some detail above. It has been noted earlier that GOG is not one homogeneous category and can be considered to comprise the following types of pricing mechanisms:

- **Trading** – what is generally thought of as GOG where the price is determined by the interplay of supply and demand and is traded over a variety of different periods (daily, monthly, annually or other periods). Trading takes place at physical hubs (e.g. Henry Hub) or notional hubs (e.g. NBP in the UK). This will also include longer term contracts where the price is linked to hub prices in markets where there is hub trading.

- **Bilateral** – there is no trading market or hub but there are multiple buyers and sellers – distinguishing this from BIM – providing the competitive element. This is largely in Australia, Russia, Argentina and now China.

- **Spot LNG** – simply spot LNG cargoes into markets where there are no trading hubs, but the price of the cargoes reflects the current supply-demand situation.

The figure below breaks down the GOG percentages over the eleven surveys into these 3 categories.

The Trading category is by far the largest – dominated by North America and increasingly Europe – and has increased from 30% of total world consumption in 2005 to 37.6% in 2018 – a rise of 7.5 percentage points. The Bilateral category has risen from 1.2% to 6.2% - a rise of 5 percentage points, while the Spot LNG category has risen from 0.2% to 3.2% - a rise of 3 percentage points. The total rise in GOG between 2005 and 2018 has been 15.6 percentage points. The rise in 2018 of half a percentage point reflected a small rise in the Trading category, as US consumption grew rapidly, and the rise in Spot LNG more than offsetting a decline in the Bilateral category.

12 In order to emphasise changes the vertical axis starts at 25%
Over the period as a whole, just under one third of the rise in GOG has come from the Bilateral category and is largely in Russia together with much smaller changes, in volume terms, in Argentina and, latterly, Nigeria and China. The rise in the Trading category is almost entirely due to changes in the European market, both in terms of increased trading volumes and contract renegotiations, although at the end of 2014 indexation to hub prices in India, away from RSP for domestic production, also increased the Trading category. The changes in the Spot LNG category have been variable over time reaching a peak of 2.2% in 2012 before falling back in 2013 and 2014 as the number of spot LNG cargoes declined. The share then rebounded in 2015, as spot LNG cargoes recovered, declined again in 2016 as LNG trade became more contracted, followed by sharp rebounds in 2017 and 2018.

In terms of the three different categories of consumption – domestic production, pipeline imports and LNG imports, the figure below shows the changes over the eleven surveys.

Apart from the rise in domestic production share between 2007 and 2010, as a result of the changes in Russia and, to a lesser extent, in Europe, the share of GOG has been relatively stable. Similarly, the share in LNG imports has also not changed much since 2007, fluctuating largely in response to changes in spot LNG cargoes, until the 2018 rise. The big rise has been in pipeline imports, almost all in Europe.
The similar chart for changes in OPE, is the mirror image of the GOG chart for LNG imports, and for pipeline imports. For domestic production, the share declined continuously from 2005 to 2013, principally down to the changes in Europe, before recovering by some 3.5 percentage points through to 2016, principally reflecting the pricing changes in China and, to a lesser extent in Australia and Vietnam.
Wholesale Price Levels

INTRODUCTION

This section covers the full results and analysis on wholesale price levels at the overall World level and comprises:

- The results for the 2018 survey; and
- Comparisons across the eleven surveys.

In considering wholesale price levels across regions, countries or price formation mechanisms, it should be noted that the wholesale price can cover different points in the gas chain – wellhead price, border price, hub price, city-gate price – so the comparison of price levels is not always “like for like”. **Comparisons, therefore, should be treated with utmost caution and taken only as a broad indication.**

2018 SURVEY RESULTS

PRICE LEVELS BY PRICE FORMATION MECHANISM

The figure below shows a snapshot of wholesale prices for 2018 by price formation mechanism\(^\text{13}\).  

The highest prices, by some margin, are in the OPE category, which, at $7.76 per MMBTU, is $3.40 higher than the GOG category which is $4.36. However, the price level in the GOG category is heavily influenced by the relatively low prices in 2018 in North America and Russia. If these were excluded then the balance of GOG prices would be, on average, $7.47, which is much closer to the OPE levels.

\(^{13}\) It should be noted that on an individual country basis no break down has been made of the price level for different price formation mechanisms within the country, so the same price level is applied to all mechanisms. This simplifying assumption is not considered to have any material influence on the conclusions.
In the regulated categories, it can be seen that the prices in the RCS category are higher than those in RSP and, in turn, RBC – which were the lowest at $1.34 per MMBTU in 2018.

PRICE LEVELS BY REGION AND COUNTRY

The figure below shows a snapshot of wholesale prices for 2018 by IGU region.

Wholesale prices can obviously vary significantly from year to year. Asia Pacific had prices averaging over $8 and Asia had average prices just over $7.00. OPE is the primary pricing mechanism in both regions. Prices in Europe were very close to Asia Pacific prices as spot prices increased sharply in 2018. Prices in North America in 2018 were below the average for Latin America and even Africa. Prices in the Former Soviet Union, in $ terms, continued to be lower than in the Middle East, reflecting the continued currency weaknesses.

These conclusions are further reinforced when wholesale prices are viewed at the country level. The figure on the following page includes all countries with consumption greater than 8 bcm in 2018.
Figure 4.3 Wholesale Prices in 2018 by Country
The highest wholesale prices in 2018 were again found in the main LNG importing countries in Asia Pacific – Chinese Taipei, South Korea and Japan – plus Singapore and China. Not far behind were many European countries, with GOG pricing, as spot prices rose in 2018. Prices were much lower in the USA, where prices were even below those in Egypt, Nigeria, Indonesia and Malaysia and some Middle East countries. Prices in Russia have fallen well below other countries, which, in previous years, they had been above, as a consequence of the large rouble depreciation. At the bottom of the chart are generally countries where wholesale prices were subject to some form of regulation and often below the cost of production and transportation – Turkmenistan, Algeria and Venezuela.

COMPARISONS 2005 TO 2018

CHANGES IN WHOLESALE PRICES BY PRICE FORMATION MECHANISMS

The figure below compares changes in wholesale price levels across the eleven surveys by price formation mechanisms.

In 2005 the highest prices by price formation mechanism were for GOG at $8.08 per MMBTU, but these declined between 2005 and 2009, before levelling off at around $4.50, followed by small rise to the $5.25 range in 2013 and 2014 and sharp declines and 2016 reaching $3.04. There was a rise in 2017 to $3.77, with prices rising in all markets, and in 2018 to $4.36, largely driven by rising European hub prices. In contrast OPE prices rose significantly from $5.48 per MMBTU in 2005 to over $11.00 in 2013, as oil prices increased, remaining around that level through 2014, before declining to around $8.00 in 2015 and $6.00 in 2016, following the oil price fall. OPE prices also rose back in 2017 to $6.64, as oil prices recovered, and to $7.76 in 2018. There were also general increases in prices over time in the regulated price categories as well, through to 2014, although in 2015 and 2016 this trend was reversed, principally due to sharp dollar declines in the FSU as currencies depreciated. These again were reversed in 2017 as some predominantly regulated countries increased prices. In 2018, RCS prices declined, principally due to Russia – in $ terms, while some other countries continued to increase regulated prices.
Changes in Wholesale Prices by Region

At the world level, on average, wholesale prices have rose between 2005 and 2013 from around $4.47 per MMBTU to $5.62. This rise was across all regions apart from North America, where the dramatic increase in shale gas supply has led to sharp falls in prices – with a small rebound in 2013. The rise in prices in Europe and Asia Pacific has been well documented and studied, but prices have also risen in Asia, largely due to increases in prices in China, both as more gas was imported and regulated domestic prices increased, and in India for similar reasons.

In 2014, though, prices in Europe began to decline as the market weakened and, in the FSU especially, as the rouble depreciated. This accelerated in 2015, and prices also fell back in North America and Asia Pacific on the back of weak demand, abundant supply and the impact of the sharp fall in oil prices. However, some regions did not see the sharp 2014 and 2015 fall in prices. These were Asia, as pricing reforms and inertia increased and kept prices up in China and India, the Middle East – as regulated prices were increased in Bahrain, Oman and Iran, with other prices staying stable – and Africa – where prices increased in Egypt, Nigeria and Algeria.

In 2016, prices declined further in all regions apart from Africa and the Middle East, with average world wholesale price falling to $3.35 per MMBTU, the lowest level in all surveys which started in 2005.

In 2017, prices generally rose again in all regions as the global supply – demand situation tightened and oil prices rose. Price also increased, however, in the more regulated regions of the Former Soviet Union, Africa and the Middle East.

In 2018, prices increased in all regions, except for the Former Soviet Union, where Russian prices fell in $ terms. The average world wholesale price in 2018 was $4.38 per MMBTU – the highest average price since 2014.
GLOBAL GAS PRICE CONVERGENCE

INTRODUCTION

In the period 2005 to 2018, it is generally recognised that the global natural gas markets have become more integrated through increased LNG trade, increased market related pricing and gas hub development. It might be expected, therefore, that global gas prices would converge, as markets became more integrated. However, the conventional wisdom is that of global gas price divergence, based on a few regional gas price markers such as Henry Hub, NBP and Japanese import prices, especially until 2015. A casual look at figure 4.5 on wholesale price levels by region would appear to confirm the conventional wisdom, as the differentials between Asia Pacific and Europe prices, on the one hand, widened compared to most other regions.

This section contains an analysis of whether gas prices have been converging on a global basis over the years of the survey, using the wholesale price data from the eleven surveys.

MEASURING PRICE CONVERGENCE

The wholesale price surveys have resulted in a unique database with data on gas price formation mechanisms, gas volumes, and annual average gas prices of well over 100 countries. The database enables analysis of different subsets of countries, categorized by properties such as price formation mechanism, region, and shares of imports. This has been used to shed more light on the apparent contradiction between the expectation of price convergence based on economic theory\(^\text{14}\) and market developments and the conventional market view of gas price divergence. The large number of countries available in the database, as well as the use of the coefficient of variation as a measure for price convergence can provide new insights.

The coefficient of variation of prices of a dataset in a certain year is determined by the standard deviation divided by the mean value of these prices. The amount of absolute price variation (standard deviation) is thus measured relative to the average price in a certain year. A low coefficient of variation indicates a higher level of price convergence and vice-versa.

This measure is particularly suitable for datasets with a limited number of data points (in our database 11 years), for a large number of price lines (in our database 109 countries), and the ability to subdivide into subsets of countries with different mean gas prices.

PRICE CONVERGENCE USING THE SURVEY DATA

In the period 2005 to 2018 the coefficient of variation of gas prices of 109 countries declined by 25% up to 2017, indicating continuing global gas price convergence, but there was a small rise in 2018, suggesting a slight divergence. This trend of a decreasing coefficient of variation is consistent with our expectations based on the economic theory of the Law of One Price and can be seen as an indicator that the global gas markets were converging.

\(^{14}\) The economic theory of the Law of One Price states that, in a perfect market, potential arbitrage opportunities between countries are immediately exploited by market participants, leading to convergence to one single price. With growing LNG trade and more countries involved, it might be expected that global gas prices should have converged, due to increasing arbitrage possibilities and further market integration.
In order to be able to trade to exploit arbitrage opportunities (leading to gas price convergence), countries should be connected to the global gas market. Connectedness to the global gas market could be realized through physical gas imports or through market related pricing. We therefore looked at a subset of countries with a minimum level of gas imports (10%) and a subset of countries with market related prices. The result is as expected, with the coefficient of variation being much lower in countries connected to the global gas market through physical imports and/or market related prices. Importing countries and market related pricing countries had very similar levels of convergence, with a large overlap in terms of data. As would be expected, the group of countries with both gas imports and market related prices has the lowest coefficient of variation. In 2018, the (relatively lower priced) USA and Canada had less than 10% import penetration and were excluded from this analysis, which resulted in continuing convergence. Keeping the USA and Canada in would have led to a higher coefficient of variation in 2018 reflecting divergence.
We have defined countries with market related prices as countries where the majority of gas is priced through market related price formation mechanisms – OPE, GOG, BIM and NET – with OPE and GOG having by far the larger share. Non-market related prices mainly include the regulated price formation categories: RCS, RSP and RBC.

When we look within the group of countries with market related pricing, we see that a subset of countries with OPE as the main price formation mechanism shows more price convergence i.e. a lower coefficient of variation. This is not surprising, since these prices are largely all indexed to crude oil, gasoil and/or fuel oil prices. The relative stability of coefficient of variation of the subset of countries with OPE is interesting to note.
When we look at the different IGU regions, Europe is the only region with sufficient countries to make meaningful convergence calculations. Here we can conclude that there is more price convergence amongst gas importing countries with market related prices within Europe than on a global level, since the decline in the coefficient of variation had been greater than in all importing countries with market-based gas prices. This, again, is not surprising since intraregional trade of natural gas is usually easier and less costly than interregional trade.

In recent years, the shale gas revolution has made the North America region (Canada, Mexico and United States) virtually self-sufficient with little or no LNG imports, from outside the region. As a result, the region has become effectively disconnected from the global gas market. Looking at a subset of countries, without these three countries, shows that the trend of global gas price convergence is more distinct with no, effectively disconnected, North American countries. In
2018, the influence of the start-up of large LNG exports from the USA cannot yet be seen. It will be interesting to further follow these developments in the coming years.

CONCLUSIONS

This analysis shows that global gas prices have been converging continuously since 2005, indicating further globalisation of the gas markets, at least up until 2018. The trend of price convergence is against the conventional market wisdom of gas price divergence in the years up to 2015, but in line with developments such as the growth of LNG trade and increased market-related gas pricing.

It is also concluded that there is more gas price convergence amongst countries (1) with market related pricing, (2) which are connected with the global gas market through gas imports, (3) with oil-indexed gas prices, and (4) within Europe. The trend of global gas price convergence in the period 2005 – 2018 is more distinct when we exclude the data of the, effectively disconnected, North American countries.
Regional Level Results

INTRODUCTION

This section covers the regional level results for the eight IGU regions and for each region the results of the 2018 survey are discussed, followed by a comparison of the results of the eleven surveys undertaken from 2005 to 2018.

The results for previous surveys may, in some cases, appear slightly different from what has been published in previous reports. This reflects mostly revisions to IEA data on consumption, production, imports and exports but can also reflect retrospective changes to price formation classification when survey respondents have a better appreciation of the classification definitions as they reflect upon the results from the surveys overall.

NORTH AMERICA

NORTH AMERICA 2018 SURVEY RESULTS

North America consumption in 2018 was some 27% of total world consumption – around 1,060 bcm.

GOG clearly dominates the North American market with fully liquid trading markets in the USA and Canada. The wholesale price in Mexico used to be referenced to prices in the USA, but there are now reference prices based on trades in Mexico. The small amount of NP is in Mexico where Pemex uses the gas in the refinery process and for enhanced oil recovery.
NORTH AMERICA COMPARISON 2005 TO 2018

Price formation mechanisms have not changed at all, in effect, in North America over the nine surveys. Apart from the small amount – under 1% - of NP which, as noted earlier, is gas used by Pemex in refinery processes and enhanced oil recovery, North America was all GOG in 2005 and has remained so ever since. In fact, if the surveys had gone back even further, it is likely that the USA at least would have been GOG since the early 1990s.

Figure 6.2 North America Price Formation 2005 to 2018
EUROPE

EUROPE 2018 SURVEY RESULTS

European consumption in 2018 was some 13.5% of total world consumption – around 533 bcm.

![Figure 6.3 Europe Price Formation 2018](Image)

GOG remains the largest share in Europe, standing at 76%, totalling around 402 bcm. Some 94 bcm is domestic production, mainly Netherlands and UK, with some 278 bcm being pipeline imports, predominantly all the northwest European countries plus Italy in the Mediterranean area, but also increasingly the central European countries of Poland, Czech Republic, Slovakia, Austria and Hungary. LNG imports account for some 31 bcm, 35% of which are into the trading markets of the UK, Belgium and Netherlands, with the remaining quantities being largely spot cargoes into the more traditional LNG importing countries.

OPE is now down to 24%, totalling around 154 bcm, and is predominantly pipeline imports (97 bcm), followed by LNG imports (29 bcm) into Spain, France, Italy, Turkey, Portugal, Poland and Greece, with domestic production (3 bcm) in a handful of countries.

RSP also accounts for some 2 bcm and is also domestic production in Hungary and Croatia.

EUROPE COMPARISON 2005 TO 2018

Europe is one of the regions where the most significant changes in price formation mechanisms have taken place. There has been a broadly continuous move from OPE to GOG since 2005, with GOG’s share increasing from 15% in 2005 – when OPE was 78% – to 76% in 2018 – when OPE had declined to 24%. The RCS category – domestic production in Romania – has steadily declined to zero, while RSP declined in 2017 as it disappeared in the Polish market.
The changes have reflected a number of factors over the years; initially a decline in the volume of gas imported under the traditional oil indexed contracts, being replaced by imports of spot gas and increasing volumes traded at hubs, followed by the ending of contracts or the renegotiation of the terms to include a proportion of hub/spot price indexation in the pricing terms, or even a move to 100% hub price indexation, and in some cases, a reduction in the take-or-pay levels. The renegotiations have also seen the introduction of hybrid contracts 15

The trend towards GOG and away from OPE, was reinforced by the continued decline in domestic production in the UK in the old legacy contracts, which were in the OPE category, to be replaced by pipeline and LNG imports, all at GOG.

![Figure 6.4 Europe Price Formation 2005 to 2018](image)

The change in price formation mechanisms in Europe was not universal across the region. The figures below summarise the changes in the key sub-regions.

Northwest Europe 16 has seen the most dramatic change in price formation mechanisms, with a complete reversal in the ratio of OPE to GOG from 72% OPE and 28% GOG in 2005 to 4% OPE and 96% GOG in 2018, as a result of increased hub trading and contract renegotiations, as noted above.

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15 Under the pricing formulas, oil indexation is partly maintained but within a price corridor set by hub prices. Such contracts are sometimes called quasi-oil indexed but could equally be referred to as quasi-hub indexed. It is suggested to the respondents to the wholesale price survey that such hybrid contracts are split between GOG and OPE, with the proportion dependent on how narrow the price corridor is. For example, if the price corridor is very narrow, the contract is effectively only notionally linked to oil prices and therefore would be allocated more towards GOG. In contrast if the band is relatively wide then more would be allocated to OPE.

16 Belgium, Denmark, France, Germany, Ireland, Luxembourg, Netherlands, UK
Central Europe has also, more recently, seen significant changes. OPE has declined from 85% in 2005 to 22% in 2018, while GOG has increased from almost zero in 2005 to 76% in 2018, principally reflecting increased imports of spot gas, often from Germany, and contract renegotiations. However, in 2017 the GOG increase – 59% to 73% - was mostly down to the switch from RSP in Poland as a result of regulatory reform.

There has been much less change in other areas of Europe such as the Mediterranean, where OPE has only declined from 100% in 2005 to a low of 56% in 2018, and GOG rising from nothing to around 44%. This initially reflected spot LNG imports in the sub-region and some spot pipeline imports into Italy, as well as changes in the pricing of domestic production in Italy. However, in 2014 this was further enhanced by the renegotiation of the main Russian contract into Italy, and in 2017, the change in the Algerian contract into Italy.

17 Austria, Czech Republic, Hungary, Poland, Slovakia, Switzerland
18 Greece, Italy, Portugal, Spain, Turkey
In Southeast Europe GOG began in 2013 as Romania began liberalising domestic production pricing, moving away from RCS – a process which was completed in 2018. There is also a small amount of GOG in Croatia but in no other country. The rise in OPE in 2012 reflected a switch from BIM in Bulgaria, where until 2010 there was payment in kind for transit (BIM) which then became a cash payment with the gas being purchased under the same OPE terms as the other imported gas. OPE fell back again in 2013 and 2014 as imports declined in Romania, before stabilising in 2015. 2017 and 2018 saw more declines for OPE, as Romanian imports fell.
In Scandinavia and Baltics\textsuperscript{20}, GOG has gained ground in recent years in Sweden, Norway and more recently in LNG imports into Lithuania and had risen to 60% in 2016, almost all at the expense of OPE, which is now down to 40%. The early switch in 2009 from BIM to OPE was in the contiguous Baltic States. The large gain in GOG in 2016 reflected, in part, the switch from NET and to GOG in Norway, but largely the LNG imports into Lithuania linked to NBP prices. In 2017 GOG increased further to 60% with the move away from NP in Norway, as all domestic production now priced at European hub levels \textsuperscript{21}.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{Scandinavia_Baltics_Price_Formation_2005_to_2018.png}
\caption{Scandinavia and Baltics Price Formation 2005 to 2018}
\end{figure}

\textsuperscript{20} Estonia, Finland, Latvia, Lithuania, Norway, Sweden

\textsuperscript{21} Previously gas used in refineries and gas processing was thought not to be priced so allocated to NP
ASIA

ASIA 2018 SURVEY RESULTS

Asian consumption in 2018 was some 10.5% of total world consumption – around 408 bcm.

Figure 6.10 Asia Price Formation 2018

OPE at 67% totals some 275 bcm and is principally domestic production, pipeline and LNG imports in China, LNG imports together with a small amount of domestic production in India, and LNG imports and domestic production in Pakistan where the regulator sets gas wellhead prices but linked to the oil price.

GOG at 17%, some 68 bcm, is mainly domestic production in India, reflecting the mainly hub linked pricing formula, spot LNG imports into India, China and Pakistan and domestic production in China, reflecting the direct sales of coalbed methane at market prices from upstream producers to large users in power and industry.

RCS accounts for some 15%, totalling around 38 bcm of domestic production in China with around 22 bcm in Bangladesh.

The small amount of BIM at 1% - 4 bcm – is in Bangladesh.
ASIA COMPARISON 2005 TO 2018

The changes in price formation mechanisms in Asia have been dominated by China and India. Firstly, there has been an increase in OPE from around 35% to 67% over the eleven surveys, largely at the expense of the regulated categories and BIM. The move from BIM to OPE reflected the change in the pricing of the Qatar LNG contract to India between 2007 and 2009, while the more recent rise in 2010 and 2012 was due to the start of pipeline imports into China from Turkmenistan, which are oil indexed under the contract. The change from RSP to RCS in China in 2009 came as the regulator increased prices to economic levels. Finally, there was the further change in domestic production pricing, initially in two provinces in China, before extending nationwide to all sectors except residential and fertilizer, again increasing OPE to 67% in 2016. In 2018, OPE was 67% rising from 63% in 2017, as China extended the pricing reforms to city gate pricing to residential customers. The rise in GOG in 2015 to some 13.5% reflected the pricing reform in India, linking domestic prices to a basket of market hub prices. GOG increased further in 2017 to 14% and to 17% in 2018, partly as spot LNG imports increased in India and China.

The changes in RSP – down from 48% in 2005 to almost zero in 2015 was almost all due to the change in price formation in China as regulated prices were increased to economic levels, and the more recent change in India. Initially, RCS was the beneficiary, rising to 44% by 2012, but this has since declined with the pricing changes in China, partly offset by the move to more RCS in Bangladesh. The decline in RBC, from 10% in 2005 to zero in 2016, largely reflected changes in pricing in Bangladesh in 2009 and 2015 to RCS via RSP.
ASIA PACIFIC

ASIA PACIFIC 2018 SURVEY RESULTS

Asia Pacific consumption in 2018 was some 10.5% of total world consumption – around 410 bcm.

OPE at 64% totals some 263 bcm, with LNG imports – predominantly in Japan, Korea and Taiwan, but also now including Indonesia, Singapore, Thailand and Malaysia – accounting for 162 bcm. Pipeline imports are some 20 bcm into Singapore, Thailand and Malaysia, while domestic production is 81 bcm – mostly Thailand but also Vietnam, Malaysia, Australia and the Philippines.

GOG at 22% totals some 91 bcm, of which 52 bcm is spot LNG imports mainly in Japan, Korea and Taiwan – but also some in Singapore and Malaysia, while the balance is domestic production in Australia and New Zealand.

BIM at 1% totals some 3 bcm, comprising domestic production in Japan.

RCS at 6% totals 26 bcm and is domestic production largely in Malaysia, while RSP at 6% totals some 24 bcm and is domestic production in Indonesia. NP at 1% or 3 bcm is domestic production in Brunei and PNG consumed in the energy industry.
ASIA PACIFIC COMPARISON 2005 TO 2018

Until 2017, there were only minor changes in price formation mechanisms in Asia Pacific since 2005. GOG had risen from 14% in 2005 to as high as 22% in 2012, while OPE was broadly unchanged, with RSP down from 22% to 15%. After 2012, GOG declined through 2016 as spot LNG imports fell. This has since been reversed by the sharp rises in spot LNG imports in 2017 and 2018. The gradual decline in RCS to 2016 reflected the changing pricing in Vietnam towards OPE.

In 2017, however, there were significant changes in Malaysia, with pricing moving to RCS and OPE in domestic production away from RSP, which has fallen from 15% in 2012 to under 6% in 2018.

Figure 6.13 Asia Pacific Price Formation 2005 to 2018
LATIN AMERICA

LATIN AMERICA 2018 SURVEY RESULTS

Latin America consumption in 2018 was some 4.5% of total world consumption – around 177 bcm.

Figure 6.14 Latin America Price Formation 2018

<table>
<thead>
<tr>
<th>Mechanism</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>OPE</td>
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</tr>
<tr>
<td>GOG</td>
<td>18%</td>
</tr>
<tr>
<td>BIM</td>
<td>4%</td>
</tr>
<tr>
<td>NET</td>
<td>9%</td>
</tr>
<tr>
<td>RCS</td>
<td>12%</td>
</tr>
<tr>
<td>RSP</td>
<td>16%</td>
</tr>
<tr>
<td>RBC</td>
<td>13%</td>
</tr>
<tr>
<td>NP</td>
<td>1%</td>
</tr>
</tbody>
</table>

OPE at 27% totals some 48 bcm, mainly domestic production in Brazil and Colombia, pipeline imports into Brazil and Argentina and a proportion of LNG imports into Chile and Argentina.

GOG at 18% totals some 31 bcm, of which 20 bcm is domestic production in Argentina, Colombia, Chile and Peru. The balance is LNG imports into Brazil, Argentina, Puerto Rico and Dominican Republic.

BIM at 4% totals some 7 bcm and is almost all domestic production to the power sector in Trinidad, plus a small amount in Colombia. NET at 9% totals some 16 bcm and is the balance of domestic production in Trinidad used as a feedstock in petrochemicals.

RSP at 16% totals some 29 bcm and comprises domestic production in Argentina, Peru, Ecuador and Bolivia, plus a small amount in Brazil. RCS at 12% totals some 21 bcm and is domestic production in Argentina and Colombia. RBC at 13% totals some 22 bcm and is domestic production in Venezuela and a small amount in Chile. NP at 1% or 1 bcm is Cuban domestic production.

LATIN AMERICA COMPARISON 2005 TO 2018

The changes in price formation mechanisms in Latin America have seen a rise in GOG from 4% to 17%, a decline in RSP from 52% to 16% and a rise in RBC from 0% to 13% - the latter almost all in Venezuela. The rise in GOG in part is due to rising spot LNG imports in Argentina and Brazil, and a switch away from RSP to GOG in Argentina, and to a lesser extent from RCS to GOG in Colombia. In Argentina, this reflected producers and marketing entities, being allowed to sell gas at unregulated prices to large eligible customers, such as power plants. RCS in 2018 increased at the expense of RSP in Argentina.
FORMER SOVIET UNION

FORMER SOVIET UNION 2018 SURVEY RESULTS

Former Soviet Union consumption in 2018 was some 16.5% of total world consumption – around 655 bcm.

RCS at 38% is the largest share, totalling some 250 bcm and is almost all the major proportion of domestic production in Russia together with most of the domestic production in Azerbaijan. RBC at 15% or 95 bcm is domestic production in Kazakhstan, Turkmenistan, Uzbekistan and
a small amount in Azerbaijan, while RSP at 13% or 82 bcm is a proportion of Russia domestic production (sold to the population) and Ukraine domestic production.

GOG at 27% totals some 179 bcm and is largely domestic production to the eligible large customer market in Russia, but also pipeline imports into Ukraine at hub prices from Europe.

OPE at 1% or 10 bcm is all pipeline imports into Russia, while BIM at 5% or 33 bcm represents other pipeline imports in the FSU region, principally from Russia to Belarus, but also Armenia, Georgia, Kazakhstan, Kyrgyzstan, Moldova and Tajikistan.

NP at 1% or 5 bcm is part of domestic production in Turkmenistan.

**FORMER SOVIET UNION COMPARISON 2005 TO 2018**

The Former Soviet Union is another region, like Europe, where there have been significant changes in price formation mechanisms, largely based around Russia. From having domestic production completely in the RBC category in 2005, there was a switch to GOG as the independent producers began to compete with each other and Gazprom to sell gas to the power sector and large industrials, and the rising Gazprom regulated prices saw a switch from RBC to RCS, although in 2014 the regulated pricing to the population saw a move from RCS to RSP, maintained in 2015 and 2016. The other change was in intra-FSU trade where pricing switched from BIM to OPE, particularly in the Russia to Ukraine trade, and then during 2015 when Ukraine began importing from Europe at hub prices so switch to GOG from OPE. RCS and RSP gained share in 2018 at the expense of GOG in Russia.

![Figure 6.17 Former Soviet Union Price Formation 2005 to 2018](image-url)
AFRICA

AFRICA 2018 SURVEY RESULTS

African consumption in 2018 was some 3.5% of total world consumption – around 145 bcm.

RBC at 58% or some 84 bcm, has the largest share and is domestic production in Egypt, Algeria and Libya.

RCS at 19% or some 28 bcm is domestic production in Egypt and Nigeria plus part of pipeline imports from Nigeria to Ghana, Benin and Togo.

RSP at 2% or some 4 bcm is domestic production in Equatorial Guinea, Gabon, Ghana, Morocco, Mozambique and Tanzania.

OPE at 7% or some 10 bcm comprises pipeline imports into Tunisia and Morocco from Algeria, a proportion of the pipeline imports from Nigeria to Ghana, Benin and Togo, and into Egypt from Jordan, as well as domestic production in Tunisia, South Africa and part of Ivory Coast and Tanzania.

GOG at 8% or some 16 bcm is part of domestic production in Nigeria (sales to the non-power sector) and spot LNG imports into Egypt.

BIM at 5% or some 4.5 bcm is pipeline imports into South Africa from Mozambique and the balance of domestic production in Ivory Coast, plus domestic production in Cameroon.

NP at 1% is Angola.
AFRICA COMPARISON 2005 TO 2018

There was very little change in price formation mechanisms in Africa between 2005 and 2014, apart from the switch to RSP from RBC in 2012 in Nigeria, with some GOG as non-power markets were freed up. However, in 2015, Nigerian domestic production moved again from RSP to RCS as prices to power plants were increased, and also in Egypt there was a similar partial move away from RBC to RCS in some sectors, plus the start-up of spot LNG imports. In 2017, RBC gained at the expense of RCS and NET in Egypt as prices to the power sector were kept down and regulated to fertilizer plants. The main changes in 2018 was a decline in GOG as spot LNG imports into Egypt fell sharply and an increase in RCS in Egypt with more consumption met by domestic production. The region remains dominated, however, by RBC, with gas prices largely subsidised.

Figure 6.19 Africa Price Formation 2005 to 2018
MIDDLE EAST

MIDDLE EAST 2018 SURVEY RESULTS

Middle East consumption in 2018 was some 14% of total world consumption – around 544 bcm.

RSP at 76% or 412 bcm dominates the region and is domestic production in Iran, Saudi Arabia and the UAE with smaller amounts in Oman, Bahrain and Kuwait.

RBC at 2% or 12 bcm is domestic production in Iraq and Syria.

BIM at 14% or 77 bcm is partly pipeline imports from Qatar to UAE and Oman and domestic production in Qatar and part of Israel.

OPE at 3% or 16 bcm is largely pipeline imports into Iran from Turkmenistan, some LNG imports into UAE, Jordan and Kuwait, and the balance of domestic production in Israel.

GOG at 3% or 13 bcm includes spot LNG imports into Jordan, Kuwait, UAE and Israel, and domestic production delivered to petrochemical plants in Iran, where prices are partly linked to international hub prices.

NP at just over 1% or 7 bcm is largely gas used in enhanced oil recovery and refineries in Kuwait and Yemen.
MIDDLE EAST COMPARISON 2005 TO 2018

The changes in price formation mechanisms in the Middle East have almost totally taken place between 2010 and 2012, when prices were increased significantly in Iran, moving from the RBC category to the RSP category. The other change was in small quantities of OPE and GOG as LNG began to be imported into Kuwait, UAE and, in 2015, into Jordan, plus the change in gas pricing to petrochemical plants in Iran. LNG imports are, however, slowly increasing in the region which is introducing more market related pricing in the form of both OPE and GOG.

![Figure 6.21 Middle East Price Formation 2005 to 2018](image-url)
Appendix A: Survey Methodology

The idea for a survey of wholesale gas price formation mechanisms arose at the beginning of the triennium leading to the 2009 World Gas Conference. The Strategy, Economics and Regulation Programme Committee (PGCB) had set up a new sub-group to consider gas pricing, with a key remit to carry out a comprehensive analysis of gas price formation mechanisms. The sub-group decided to carry out a survey of current pricing mechanisms around the world, not only for gas traded internationally, but also for gas produced and consumed within countries. IGU members were surveyed and provided the data and the survey responses were collated and analysed by Nexant. The 2009 World Gas Conference in Buenos Aires presented the results of the surveys for the years 2005 and 2007. Two further surveys for the years 2009 and 2010 were undertaken and presented at the 2012 World Gas Conference in Kuala Lumpur. Three surveys were undertaken and presented at the 2015 World Gas Conference in Paris, covering the years 2012, 2013 and 2014. The 2015 was the first in the triennium for the 2018 World Gas Conference to be held in Washington DC, 2016 was the second and 2017 the third. In the 2017 survey responses were received for around 84 out of 112 countries, but these responses covered 92% of total world consumption. Data on the remaining countries, where responses were not received, was researched by members of the Gas Pricing Group and/or based on past responses.

A.1 DATA COLLECTION

The focus of the gas pricing sub-group, and the surveys, was very much on wholesale prices, which can cover a wide range. In fully liberalised traded markets, such as the USA and the UK, the wholesale price would typically be a hub price (e.g. Henry Hub or the NBP). In many other countries, where gas is imported, it could typically be a border price. The more difficult cases are countries where all gas consumed is supplied from domestic production, with no international trade (either imports or exports) and the concept of a wholesale price is not recognised. In such cases the wholesale price could be approximated by wellhead prices or city-gate prices. Generally the wholesale price is likely to be determined somewhere between the entry to the main high pressure transmission system and the exit points to local distribution companies or very large end users.

The initial data collection was done on a country basis. The data were then collated to a regional level using the standard IGU regions shown in the figure below. Most of the regions are defined along the usual geographic lines, although the IGU includes Mexico in North America, and divides Asia into a region including the Indian sub-continent plus China, called Asia, and another region including the rest of Asia plus Australasia which is called Asia Pacific.

In terms of the allocation between different price formation mechanisms in any country, the general rule is that the wholesale price at the “point of first sale” in the country should be considered. For example, if gas enters a country under an oil-indexed contract and is then re-traded at a hub it is still considered to be in the oil price escalation (OPE) category.

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22 Panama was added this year
Data for each country were collected in a standard format. As an example, a data collection form for the UK is shown in the figure below. Individual country gas demand may be supplied from a combination of three sources – domestic production, pipeline imports and LNG imports (storage is ignored for the purpose of this analysis). For each of these three sources data was collected separately on what percentage of the wholesale price for that category is determined by each mechanism. In some countries, one single mechanism was found to cover all transactions and that mechanism, therefore, was allocated 100%. In many cases, however, several mechanisms were found to be operating, in which cases estimates were made of the percentages for each price mechanism. The only constraint is that the total for each source of gas – domestic production, pipeline imports and LNG imports – must add up to 100%.

Information was also collected on wholesale price levels. This covered the annual average price and the highest monthly average price and lowest monthly average price. All prices were converted to $ per MMBTU. A comments section was included to identify and acknowledge the source of the information and any other useful information.

All data in the IGU study on gas volumes for consumption, production, imports and exports is taken from the IEA database, supplemented where necessary by any specific country and/or regional knowledge. It should be noted that 2017 volume data is still preliminary and may be adjusted once the final estimates are published later this year by the IEA. In addition previous years may also be revised. These revisions may lead to small changes in the percentages for each price category when country data is aggregated at both the regional and world level.
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A.2 TYPES OF PRICE FORMATION MECHANISMS

In preparation for the initial 2005 survey, a series of discussions were held at the PGCB meetings on the definition of different types of price formation. It was decided to use for categorisation purposes the wholesale pricing mechanisms described in Box 2.

<table>
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<th>BOX 2: TYPES OF PRICE FORMATION MECHANISMS</th>
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<tbody>
<tr>
<td><strong>OIL PRICE ESCALATION (OPE)</strong></td>
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<td><strong>GAS-ON-GAS COMPETITION (GOG)</strong></td>
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<td><strong>BILATERAL MONOPOLY (BIM)</strong></td>
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<td><strong>NETBACK FROM FINAL PRODUCT (NET)</strong></td>
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<td><strong>REGULATION: COST OF SERVICE (RCS)</strong></td>
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<td><strong>REGULATION: SOCIAL AND POLITICAL (RSP)</strong></td>
</tr>
</tbody>
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The Wholesale Gas Pricing Group began life as Sub Group 2 of PGCB and was chaired in the period leading up to the 2009 World Gas Conference by Runar Tjersland of Statoil and between 2009 and 2018 by Mike Fulwood, formerly of Nexant, but now a Senior Research Fellow at the Oxford Institute for Energy Studies and a Fellow at the Center on Global Energy Policy at Columbia University. It is now part of the IGU’s Strategy Committee and has been re-titled as the Gas Pricing Group. The 2018 survey was organised by Mike Fulwood, under the guidance of the IGU Strategy Committee.
A.3 ANALYSING THE RESULTS

In looking at the different price formation mechanisms, the results have generally been analysed from the perspective of the consuming country. Within each country gas consumption can come from one of three sources, ignoring withdrawals from (and injections into) storage – domestic production, imported by pipeline and imported by LNG. In many instances, as will be shown below, domestic production, which is not exported, is priced differently from gas available for export and also from imported gas whether by pipeline or LNG. Information was collected for these three categories separately for each country and, in addition, pipeline and LNG imports were aggregated to give total imports and adding total imports to domestic production gives total consumption. For each country, therefore, price formation could be considered in 5 different categories:

- Domestic production (consumed within the country, i.e. not exported)
- Pipeline imports
- LNG imports
- Total imports (pipeline plus LNG)
- Total consumption (domestic production plus total imports)

Each country was then considered to be part of one of the IGU regions, as described above, and the 5 categories reviewed for each region. Finally the IGU regions were aggregated to give the results for the World as a whole.

As well as collecting information on price formation mechanisms by country, information was also collected on wholesale price levels in each country. Comparisons of wholesale price levels, however, need to be treated with caution. As noted above, the wholesale price can cover different points in the gas chain – wellhead price, border price, hub price, city-gate price – so the comparison of price levels is not always a like for like comparison.