

# Practical Recommendations for Increasing Transparency in International Gas and Coal Markets

Report by

IEA, IEF and OPEC

to

G20 Finance Ministers, May 2013

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## Introduction

In June 2012, the IEA, IEF and OPEC (hereafter referred to as International Organisations, or IOs) responded to a request from the G20 Finance Ministers to continue work on gas and coal market transparency. The IOs jointly submitted a report entitled “Increasing Transparency in International Gas and Coal Markets”, which provided recommendations to the G20 Finance Ministers on several fronts.

Regarding gas markets, the June 2012 report emphasised the importance of the JODI-Gas database as a step towards reducing uncertainty, improving predictability, facilitating project planning and enhancing market transparency. The report also recognised that the transition from regional gas markets towards a global market is not expected in the short-term, and pointed out the importance of improving regional gas markets through increased and transparent market access, the expansion of transportation capacity, more transparency vis à vis the involvement of financial actors, and enhanced regulatory competency.

Concerning coal markets, the report emphasised the necessity of reducing uncertainty in major consuming countries by adopting microeconomic policies for the coal market, developing and implementing regulations to improve transparency of coal OTC markets, establishing coal futures markets to improve transparency and manage risks, and developing more standardised contracts and price indexes in off-specs coal trade.

The communiqué from the meeting of G20 Finance Ministers and Central Bank Governors held on 5 November 2012 in Mexico City, welcomed the Report and asked the IO’s to propose practical steps by mid-2013 that G20 countries could take to implement them<sup>1</sup>.

This report is an attempt by the IOs to provide practical recommendations to the G20 Finance Ministers to increase transparency in international gas and coal markets. The practical recommendations in this report focus on improvements to the JODI-Gas database, in light of the fact that the IOs consider data availability as one of the cornerstones of a more transparent and better functioning gas market. In addition to recommendations related to JODI-Gas, this report also suggests practical recommendations related to the fields of market access, capacity expansion and availability, and regulatory competency. Finally, the report provides practical recommendations to increase transparency in coal markets, addressing coal OTC markets, off-specs coal trade and microeconomic policies in the coal market.

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<sup>1</sup> “We welcome the report prepared by the IEA, the IEF and the OPEC on increasing transparency in international gas and coal markets and ask these organizations to propose practical steps by mid-2013 that G20 countries could take to implement them. We welcome progress on the JODI-Gas database and look forward to working with it in 2013”.

## JODI-Gas Database since June 2012

The globalisation of the natural gas market continues, highlighting a growing need for the improved availability, quality and timeliness of gas market data. Energy Ministers and other stakeholders, including Finance Ministers, the G20, and the G8, continue to call for a progressive extension of JODI to natural gas.

In light of this request, in June 2012 the IOs provided recommendations to the G20 Finance Ministers in a joint paper entitled “Increasing Transparency in International Gas and Coal Markets”. Therein, the IOs updated the G20 Finance Ministers on the progress made to date on the JODI-Gas database, and provided recommendations to increase transparency in gas and coal markets beyond the JODI-Gas database.

The communiqué from the February 2013 G20 Meeting of Finance Ministers and Central Bank Governors underscored the on-going support for energy data transparency, welcomed progress on the JODI-Gas database, and encouraged the JODI Partners to take the Initiative to the next level during 2013.

One of the key outcomes of the 2nd Gas Data Transparency Conference (May 2012, Doha) was consensus among the seven JODI Partners in transforming the JODI-Gas exercise into a permanent reporting initiative. In January 2013 the JODI Partners launched a beta version of the JODI-Gas database. Access to JODI-Gas was initially only given to the JODI Partners, with access subsequently provided to the countries and economies that have been submitting gas data. At present, the database is being reviewed and improved by the JODI Partners and their member countries. The next step will be to launch JODI-Gas to the public, by the end of 2013 or as soon as feasible.

Since Doha, the number of countries participating in the JODI-Gas initiative has increased to nearly 70, covering roughly 80% of global natural gas supply and 82% of global demand. JODI organisations will continue their efforts to increase the number of participating countries submitting JODI-Gas questionnaires, and as JODI-Gas continues to gain momentum more countries are expected to start participating. In the interest of expanding coverage and increasing the number of participating countries, the Gas Exporting Countries Forum (GECF) was invited to participate in the JODI-Gas initiative. The GECF has indicated its interest in being involved in the Initiative, and has been encouraged to seek ways to contribute to the JODI-Gas process.

The Third Gas Data Transparency Conference will be held on 4-5 June 2013 in Indonesia. The objectives of the conference are to raise the profile of JODI-Gas, to review case studies in gas data reporting from selected countries to identify good practices, to review the JODI-Gas training manual (which is being developed by the United Nations Statistics Division in consultation with the other JODI Partners), and to discuss the remaining milestones that must be met prior to launching JODI-Gas to the public. The participants in this conference will include professionals from international organisations and member countries, as well as gas analysts and experts from companies and institutions.

## Practical recommendations for further improving the JODI-Gas Database

The IOs recognise that notable progress has been made in strengthening the JODI-Gas database since the exercise began in October 2009. Nonetheless, they share the view that JODI-Gas could further strengthen its role in enhancing transparency in the gas markets. Practical steps are outlined below.

A first important pillar to strengthen JODI-Gas is to increase participation, both from large gas producers and consumers. The commitment to the JODI-Gas project of as many producing and consuming countries as possible will strengthen the position of JODI-Gas as a leading platform for natural gas data and thereby contribute to improve gas market transparency. Therefore, the IOs welcome the interest shown by GECF, to contribute to the development of JODI-Gas.

Another recommendation would be to improve timeliness, data coverage and sustainability of submitted data. To improve this, a similar system as JODI-Oil can be put in place that evaluates timeliness, completeness and sustainability for each participating country and gives a smiley face to good performers and a straight or unhappy face for less good or bad performers. The IOs welcome efforts related to the data collection mechanism, methodology and infrastructure.

On data quality, another recommendation is to intensify training for statisticians of participating countries on reporting data to JODI. Also, at a later stage, evaluating the quality and consistency of delivered data should get more attention. In this regard, users of JODI-Gas should be encouraged to provide feedback on the quality and completeness of the JODI-Gas database. A continuous feedback loop from users will help to adapt, improve and/or expand JODI-Gas.

The success of JODI-Gas requires sustained commitment at all levels: from Leaders and Ministers to statisticians who work directly with the energy data. The JODI Partners have enthusiastically welcomed the support received from Ministers and other key stakeholders in recent years, and this support has inspired them to include JODI within their work programmes. That said, it is important that this top-level political support reach the front-line actors working to collect and analyse JODI data. Some of the JODI partner organisations and participating countries suffer from shortage of resources. Therefore, support of the initiative by supplementing resources at some of the partner organisations and participating countries could be helpful in this regard. Also, provision of financial support for various capacity building efforts is needed to take this initiative forward.

## Further recommendations to improve gas market transparency

In addition to recommendations specific to JODI-Gas, the IEA, IEF and OPEC recognise that no global natural gas market is likely to take shape anytime soon but wish to highlight some key considerations to improve market access, capacity availability and regulatory competency. This section will build on the recommendations made in last year's report and provide more practical steps.

### *Market Access*

As already stated in last year's report, a first step towards open market access is transparent regulation. The IOs recommend that, when implementing related regulations, strong emphasis should be placed on making (technical) information understandable and easily accessible for all entry and connection points to market players. Even when the basic rules for market access are transparent and clear, the more technical information that market parties need to analyse in order to get access to a market can in some cases still form a bottleneck. One approach would be to support a Transmission System Operator (TSO), which uses a central platform where all relevant data and documents are available, preferably in multiple languages of which one has to be English. A central platform furthermore allows for alerting potential market participants on possible changes in market access regulations.

### *Capacity expansion and availability*

With regards to capacity availability and utilization, the IOs noted that despite increasing volumes of gas traded across the world as LNG, the gas market remains regional. The recommendations on capacity expansions and availability should take into account the national and regional circumstances, specificities and priorities. Therefore, the IOs recommend discussing this issue during the second IEA-IEF-OPEC Symposium on Gas and Coal Market Outlooks.

### *Regulatory competency*

Regulators can play a crucial role in the process of increasing transparency in energy markets. Regulatory initiatives that aim at increasing transparency will benefit from a continuous feedback loop between the regulator and market participants, which would allow the regulator to assess in what areas data availability and market transparency can be improved.

## **Practical recommendations to improve coal market transparency**

In last year's Report, the IOs already identified a need for increased transparency in off-spec coal trade. Increasing the number of standardised contracts was identified as one of the possible improvements. In 2012, Argus Media and IHS McCloskey extended the scope of their API coal indexes, by starting the publication of two new indexes. The price formation process for off-spec coal should be more transparent. Despite the clear advantage of burning high calorific coal, sometimes prices for off-spec low calorific coal are still higher on a per MJ basis. Clear and market wide accepted mechanisms for discounting or increasing benchmark prices based on off-spec coal characteristics should help in this respect.

In addition, increased trade of standardized OTC derivative contracts on exchanges and electronic trading platforms, where appropriate, along with reporting to trade repositories, should provide better market transparency, thus improving the quality of pricing signals for coal.

### **JODI-Coal**

Finally, it is an important practical step in improving international coal market transparency that the JODI partners are open to considering the extension of JODI to cover coal data if provided with the necessary resources.