

NATURAL GAS: MARKET AND COMPETITIVENESS

- *Natural gas supply has increased in the world and countries that implemented liberalizing regulatory changes have benefited from a decline in the prices of this energy input.*
- *The price of natural gas in the Brazilian final market is one of the highest in the world and it is thus an obstacle to the competitiveness of industry.*
- *The natural gas regulatory framework needs to be reviewed if it is to induce investment and competition in the industrial sector.*

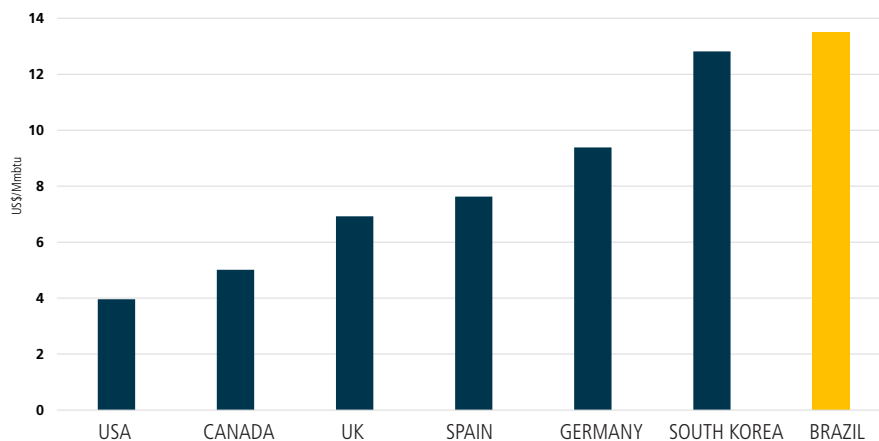
The natural gas industry is undergoing deep changes globally. A strong growth in natural gas supply fueled by the exploitation of non-conventional resources has contributed to the fall in prices and to increasing the competitiveness of gas in relation to other energy sources. This has benefited countries that implemented liberalizing regulatory changes in the gas market. In this scenario, **natural gas has become a major vector in defining relative competitiveness between countries.**

The price of natural gas in the Brazilian final market is one of the highest in the world and it is thus an obstacle to the competitiveness of industry, particularly of energy-intensive segments. The way the natural gas industry is organized and regulated in Brazil is not in line with international best practices, particularly because Petrobras still enjoys a de facto monopoly over the entire production chain.

The quest for a new development model for the sector is justified by the low competitiveness of the gas supplied in Brazil at a time when gas is becoming increasingly competitive internationally and Petrobras has decided to reduce its share in the sector.

With regard to the gas transportation segment, its regulatory framework is clearly failing to induce investment and competition. On the other hand, highly complex and biased tenders for gas pipelines and, on the other, weak sectoral planning make it impossible to expand the gas pipeline network.

Necessary legal changes to promote greater competitiveness in the natural gas market must take place in all the links of the production chain.

AVERAGE NATURAL GAS PRICE FOR THE INDUSTRIAL SEGMENT IN SELECTED COUNTRIES IN 2017*
(US\$/MMBTU)

*Prices in July 2017 for Brazil

Source: Prepared by CNI based on IEA data. Energy prices and taxes. Paris. International Energy Agency, 2017 and Brazilian Ministry of Mines and Energy (MME). Boletim Mensal de Acompanhamento da Indústria de Gás Natural, 2018.

Main recommendations

1 Bill 6,407/2013, which is under analysis in the National Congress, should be passed. The text of the bill represents the consensus among industrial consumers, producers, traders and the Federal Government.

2 A competitive supply of natural gas should be promoted:

- Barriers to entry of new suppliers should be removed by promoting non-discriminatory access to essential infrastructure (application of the essential facilities doctrine); and
- Land gas production should be stimulated through the effective implementation of the Reate Program.

3 A robust and competitive gas transportation system should be created:

- a transportation capacity market should be created by adopting an entry-exit tariff regime; and
- an independent management system for the transportation system should be developed.

4 The gas trading activity of the National Petroleum Agency (ANP) should be regulated with the aim of:

- increasing competition in the supply of the molecule; and
- creating the Organized Natural Gas Market (virtual hub) and the Natural Gas Market Managing Entity.

5 Competitiveness in the distribution segment should be strengthened:

- state regulations should be harmonized;
- independent and qualified state-level regulatory agencies should be developed;
- a competitive contracting mechanism should be adopted by distributors (gas purchase auctions); and
- distributors should be privatized.

The full version of the document can be accessed through the QR code on the side or at: <http://www.cni.com.br/eleicoes2018/downloads/> This summary is part of the series Proposals of Industry for the 2018 Elections comprising 43 documents. The series, which is based on the *2018-2022 Strategy Map for Industry* is a CNI contribution to the new federal administration and presents analyses and proposals of priorities to increase Brazil's competitiveness. Any part of this publication may be copied, provided that the source is acknowledged. Brasília-DF, July 2018.

