



The APGAS Initiative After Three Years – the Way Ahead: An Issues Paper for Stakeholders

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The APEC Gas Forum (APGAS) was established in 2005 as a business sector response to a call from APEC Energy Ministers for the acceleration of cross-border natural gas trade in the APEC region. Since that time APGAS has conducted three international forums, engaged in frequent dialogue with representatives of the 21 APEC member economies and has participated in numerous meetings with APEC Energy Ministers and energy officials.

A fourth APGAS Forum is planned to be held in Asia in the first half of 2009. The views of all APGAS stakeholders are sought on the issues in this paper.

Changes in the LNG Market

Since the first APGAS Forum in 2005, LNG demand in the Asia Pacific region has increased and buyer interest in acquiring more LNG has become strongly established. Although this increased LNG demand has been commercially driven, it has also been influenced by concerns about energy security and climate change in many APEC economies.

For most buyers, the key issues have become supply availability and price rather than barriers or hindrances to trade and development. For most developers of LNG projects, the key current issue is cost of supply rather than demand risk or regulatory constraints.

Impediments to Increases in Supply Capacity

The governments of many APEC energy-importing economies, including both traditional importers and newer players such as China and India, need no further convincing of the merit of importing LNG. Growth in LNG demand is expected to increase for the foreseeable future – notwithstanding competition from coal and problems related to oil-market linked LNG price increases.

Growth in LNG supply capacity is however presently impeded by sharply rising costs, shortages of materials and skilled people, an overheated construction market and – to a lesser extent - the time required to obtain project approvals, all of which have contributed to delays in project implementation. A number of these factors are also impeding import terminal development.

APGAS as a Mechanism for Enhancing Energy Security

APGAS has brought together experts from both the public and private sectors with responsibility for aspects of natural gas trade, in order to debate, share information, identify key issues and develop consensual views on the way forward for the industry. In particular, APGAS has identified and drawn attention to the significant barriers to expansion of natural gas trade in the Asia-Pacific region. It has assembled a useful collection of reports from its three forums and has access to data from a range of industry-affiliated bodies, such as the International Gas Union and SIGTTO, and from the energy administrations of APEC member economies.

APGAS is accepted by APEC Energy Ministers and officials as the appropriate public/private sector vehicle through which APEC's energy security policy framework can be enhanced.¹

Climate Change

Natural gas has a high environmental value as a relatively low-emission fuel and provides one of the key interim solutions to the climate change problem by reducing the intensity of greenhouse gas emissions in the stationary energy sector, notably in power generation and some industrial applications. However clear national policies on greenhouse gas emissions are essential for investors in the LNG industry and for potential LNG end-users in order for them to properly manage their risks.

What More Can APGAS Do?

APGAS has drawn attention to the fact that a number of barriers impede **investment** in new export and import capacity. These investment barriers are internal (so-called "behind the border") issues that are affected by domestic economic policies (including competition policy) as much as they are the concern of broad energy policy. The main issues are related to project approvals, investment constraints, and tensions between domestic and export requirements for gas resources.

It also remains the case that, within some economies, public trust in, and further support for, LNG projects must be won in order to avoid capricious and discriminatory political decisions. Such trust is best won through cooperation between government and industry, face-to-face contact and open dialogue between relevant government and industry players. APEC provides an existing framework that can be utilised for this purpose.

Other forums exist – the APEC Energy Working Group (EWG) meets at 6-monthly intervals and APEC Energy Ministers usually meet every alternate year – but the agenda at those meetings is driven by protocol and by political and foreign policy concerns. APGAS currently represents a unique instance of a public/private sector forum on energy that is driven by commercial and business concerns.

¹ The APEC's "Energy Security Initiative Fact Sheet", tabled by Energy Ministers at their most recent meeting in Darwin in 2007 notes that: *"The APEC Gas Forum (APGAS) was established with the aim of creating a competitive, open and transparent marketplace for natural gas, particularly LNG, in the region. The two APGAS Forums to date, Perth 2005 and 2006, have provided a platform for high-level discourse between suppliers, consumers and transporters in both government and industry to discuss and debate issues that facilitate a vibrant regional trade in natural gas and LNG."*

The Way Forward for APGAS

(i) The APEC Energy Trade and Investment Roundtable

APEC has announced that an important one-off event, the APEC Energy Trade and Investment Roundtable, will be held in Cairns, Australia in September 2008. APGAS has been invited to participate in the Roundtable.

There is a need, as APGAS has highlighted, for governments to be vigilant in identifying and lowering domestic barriers to natural gas trade and investment. The APEC Energy Trade and Investment Roundtable will be an important step in this process because it will seek to align regional energy policy with finance and trade policy.

(ii) The Fourth APGAS Forum

Following the Cairns Roundtable, APGAS is proposing a fourth APGAS Forum, to be held in Asia in the middle of 2009. APGAS will consider proposals from host cities for this next forum.

(iii) The APP Gas Committee

The Asia-Pacific Partnership on Clean Development and Climate (APP) has established a gas committee, with the objective of developing an "Asia-Pacific Gas Master Plan". APGAS welcomes this initiative, and foresees potential opportunities for cooperation with this committee.

(iv) Key Future Issues

Focusing on practical outcomes, the APGAS Board sees the following as key issues for facilitating and growing natural gas trade in the region:

- security of supply
- promotion of investment in new supply capacity and new infrastructure
- development of an APEC 'code of best practice' to foster timely project approvals
- clearly articulated national policies on greenhouse
- interlinking of future carbon markets
- coordination of technical, commercial and policy research
- documentation and auditing of measures that constrain trade in natural gas
- development of best practices in market design and regulation and
- development of industry standards.

(v) Sustainability of the APGAS Initiative

The work of APGAS has been supported in the past by a number of the leading LNG supplier companies.

A wider participation in the activities of APGAS by industry participants would be welcomed, and will be promoted by the APGAS Board. APGAS will also re-examine the potential for

ongoing, recurrent funding by APEC in order to progress key initiatives and research, and maintain momentum, during the gaps between forums.

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The views of all APGAS stakeholders are sought on any of the issues raised in this commentary.