

The APEC GAS FORUM

1- 2 September 2005, Perth, Australia

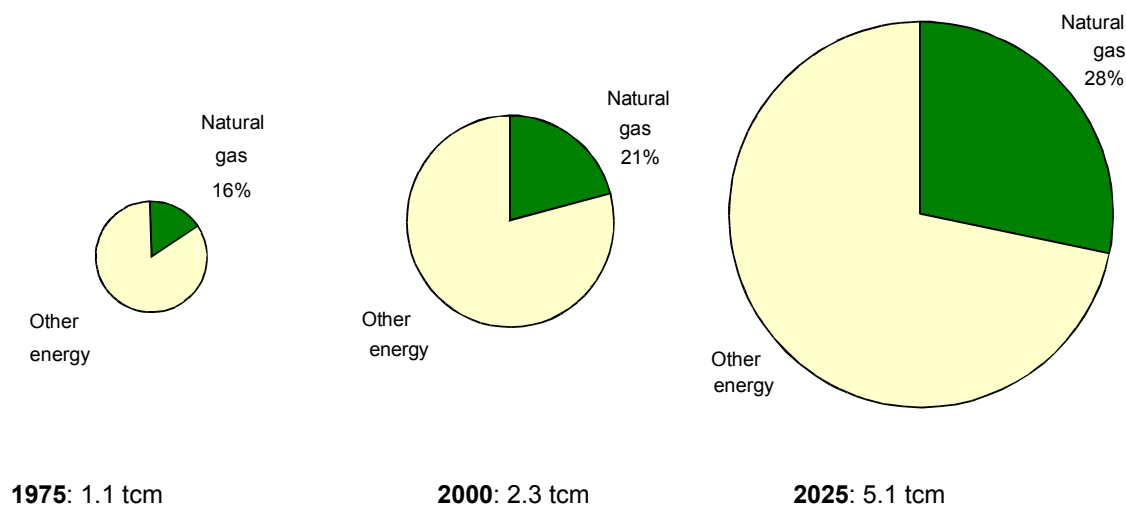
PLENARY SESSION: TOWARDS BEST PRACTICE IN CROSS-BORDER NATURAL GAS TRADE AT THREE LEVELS: INTERNATIONAL, ECONOMY-SPECIFIC & PROJECT-SPECIFIC

Chairman's Opening Remarks

Robert Pritchard
ResourcesLaw International

At the outset of this first APEC Gas Forum, we can remind ourselves that the world population has doubled over the last 30 years and is continuing to grow. Population growth and increased prosperity account for the enormous growth in energy consumption over the last quarter of the 20th century and projected growth in the first quarter of this century.

Natural gas has become the world's fastest growing fuel. This is illustrated below.



The Growing Share of Natural Gas in Primary Energy Consumption

Continuing growth in energy consumption underscores two issues of great concern to APEC economies: the first is energy security, that is, the risk of energy supply disruptions, and the second is the threat of adverse climate change. These issues have been recognised by APEC Energy Ministers from the time they first met in 1996.

APEC's self-sufficiency in oil is continuing to decline. In 1992, APEC self-sufficiency in oil was 77% but it had declined to 67% by 2002. It has been projected to fall to 38% in 2030. If current trends continue, by 2030, the APEC region will be importing 62% of its total needs.¹

In contrast with natural gas, the oil market is mature. Countless oil wells around the world produce crude petroleum which is transported by pipelines and tankers to refineries for conversion into consumable products. The industry is well-catered for by port facilities at the exporting and importing ends and there are 700 refineries worldwide. This compares with less than 20 liquefaction plants and 50 gasification plants for LNG.

The Unique Features of Cross-Border Natural Gas Trade

Cross-border natural gas trade has three unique features, each of which poses a major bottleneck in bringing gas to markets.²

The first is the **sheer scale of investment** required in pipelines and LNG infrastructure.

The second is the **complexity of multi-party deals and investment structures**.

The third is the **immaturity of the markets** in the consuming economies. Natural gas markets do not automatically happen, they must be created. This requires both contractual and regulatory issues to be addressed.

We all remember the brave attempts to convert electricity markets into spot markets overnight. Gas, much more so than electricity, depends on massive investment in pipelines and LNG infrastructure.

Structural changes in gas markets are taking place. Market activities such as swapping of surplus cargoes, negotiations to remove destination clauses in long-term LNG supply contracts, volume and price adjustments and arbitrage activities are on the increase. However, any suggestion of turning international gas trade and transportation into some giant international equivalent of the Henry Hub would be unworkable. In the natural gas industry, long-term bilateral contracts

¹ ABARE and ResourcesLaw International, "Energy Security in APEC: Assessing the Costs of Energy Supply Disruptions and the Impacts of Alternative Energy Supply Strategies", Report to the APEC Energy Working Group, APEC Secretariat, Singapore, 2005.

² ResourcesLaw International "Great Expectation: Cross-Border Natural Gas Trade in APEC Economies", APEC Energy Working Group, Singapore www.apecenergy.com.au.

perform a vital risk management function for sellers, buyers and financiers and they are here to stay.

The Purpose of APGAS

APGAS is not a conference or an educational Forum. It is a meeting of minds between all of the players involved in cross-border natural gas trade, including government officials and private sector representatives. APGAS has been initiated by the APEC Energy Working Group Business Network (EBN).

The EBN represents industry and not governments. However, the EBN also includes state-owned companies. Its main purpose is to offer practical advice to government officials to help them make policy and administrative decisions with full appreciation of their impact on industry.

APGAS can be contrasted with the 13-member Gas Exporting Countries Forum (GECF). Formed in 2001, the GECF recently held its fifth ministerial meeting in Trinidad and Tobago and decided to establish a liaison office in Qatar to facilitate its affairs. Two APEC member economies, Malaysia and Russia, are GECF members. Fears have been expressed that GECF could operate as a cartel. Even if it could, I do not believe that there is anything to be gained by cartels of any sort.

The need for best practice principles to guide APEC economies in the development of LNG trade was endorsed by APEC Energy Ministers in June 2004.

The EBN recognises that the endorsement by APEC Energy Ministers of the LNG Best Practice Principles is a major achievement. However, more is needed. The principles have to be put into effect. To achieve this, we need, first, best practice frameworks and, second, a process of capacity building within the agreed frameworks.

There are three levels of best practice framework:

- At the **international level** within the APEC region, it is intended that APGAS will provide the main framework.
- At the **individual economy level**, APEC exporting economies and importing economies will develop their own strategic priorities to complement whatever is happening at the international level.
- At the **individual project level**, the commercial parties need to adopt a “total package project management” approach.

In the Forum materials, participants will find the reports of the three APEC gas workshops that were held in 2004. The first related to LNG trade in the North

American market; the second related to LNG trade in general; the third related to the Trans-Asean Gas Pipeline project.

The Challenge

The challenge to all APGAS participants is to decide on some recommendations that you would like to send to the next meeting of APEC Energy Ministers on 19 October in Kyungju, Korea. Tomorrow afternoon, we will provide you with a draft list based on your discussions.

After the Forum, Professor Ripple of Macquarie University, Sydney will write an official record of this Forum.

We ask everyone to speak openly, candidly and constructively. No-one will be quoted without their permission. The media is present at this opening plenary session but all other sessions will be discussion sessions and will be conducted in private.

Please take advantage of this opportunity to send your recommendations to the APEC Energy Ministers.

∞ ∞ ∞