



Oil, Gas & Energy Law Intelligence

## **The Establishment of the APEC Gas Forum**

**Robert Pritchard  
ResourcesLaw International**

The inaugural APEC Gas Forum (known as APGAS) was convened in Perth, Australia in September 2005. APGAS provided the first opportunity for key gas industry players to debate many of the issues facing the natural gas industry in the APEC region, a region that consumes more than half of world energy.

The annual Madrid Gas Forum, a regulatory forum held under the auspices of the European Union, has helped European member countries to move more quickly towards a single energy market. The Madrid Forum provided a reference point for APGAS organisers. APGAS has a similar purpose but is driven by the business sector rather than by regulators. Another important difference is that, whilst EU members are bound by treaty to a political and economic union, the 21 APEC member economies remain entirely politically independent whilst collaborating on a non-binding, consensus-driven basis, supporting inter alia the promotion of free trade in goods and services via the WTO.

Expansion of natural gas trade in the APEC region has been uppermost on the agenda of APEC Energy Ministers since 1998. Building on this, and on the more recent emphasis within APEC on energy security, the APGAS Forum now facilitates natural gas trade by forging closer linkages and alliances between government and business, by aligning policy objectives with private sector investment activities in supply, transportation, markets and financing and by encouraging the implementation of gas industry "best practice".

The establishment of the APEC Gas Forum was one of the recommendations of a report by ResourcesLaw International to the APEC Energy Working Group, a committee of government officials from APEC member economies that has met twice-yearly since 1990 (ResourcesLaw International, "Great Expectations: Cross-Border Natural Gas Trade in APEC Economies", APEC Secretariat, Singapore, 2004; the full report is downloadable from the Publications page of the APEC Energy Working Group website [www.apecenergy.org.au](http://www.apecenergy.org.au)). APGAS has been established on the initiative of the business network that is affiliated with the APEC Energy Working Group.

### **The Special Characteristics of Cross-Border Natural Gas Projects**

Unlike oil, natural gas is not a commodity that can be easily traded across borders – it requires massive investment in the installation of infrastructure such as gas pipelines, port facilities, liquefied natural gas (LNG) plants and receiving terminals – natural gas trade also entails very complex commercial arrangements between buyers and sellers. As well, financiers of natural gas projects need the assurance that prudent, long-lasting policies are in place within exporting and importing economies that will underpin cross-border trade over the long term.

The development of large-scale natural gas projects requires very long lead times – often a decade from concept to commissioning. The challenge for governments and investors alike is to reduce this typical lead time by putting in place policies that will be conducive to early investment decisions and will reduce investment and financing risks.

In the case of each importing economy, transparent regulatory support must be put in place to align the local market with the requirements of the global market.

### **The APGAS Vision**

The vision adopted by the organising committee for the inaugural APEC Gas Forum (APGAS 2005) is set out in the box below:

**The vision of APGAS is to achieve a common understanding amongst the Asia Pacific Economic Cooperation (APEC) economies on the actions necessary to ensure free and unhindered trade in gas and LNG. The key goal is to enhance energy security by encouraging commercially sustainable cross-border gas trade in the region. This is best achieved by bringing representatives of government and business together in a forum where all can express their views.**

**APGAS** is seeking to create consensus on the steps necessary to promote cross-border trade in gas and LNG, and will achieve its vision by:

- Facilitating a 'meeting of the minds' between senior members from all stakeholders in the Asia-Pacific gas trade - governments, regulators, industry, financiers and communities.

- Critically examining the functioning and interaction of gas markets regionally and globally to determine how the various players can contribute to the development of gas industry “best practice” in Asia-Pacific.
- Encouraging dialogue between governments, buyers, sellers and users of gas to foster understanding of the needs and concerns of each.
- Building greater commercial transparency and community trust.

## **An Industry in Transition**

At APGAS 2005, participants agreed that the natural gas industry is in a state of transition, with drivers of change originating both within and outside the APEC region.

Within the APEC region, for example, the North American market is the most developed and competitive natural gas market in the world but lacks sustainable domestic resources; an increased reliance on LNG imports will transform the North American market and will have a significant effect on cross-border trade flows and pricing within APEC and in the Atlantic market. The North American market comprises tens of thousands of suppliers and consumers reacting to short term demand and pricing signals. Increasing the flow of LNG into North America may provide an international price benchmark and will accelerate the trend from predominantly long-term bilateral contracts to a market with a significant proportion of spot transactions. At present, market impediments and a shortage of access to receiving terminals for imported gas into North America are inhibiting this trend.

Outside the APEC region, the emergence of Europe as a destination for large volumes of LNG has set the stage for strong competition between Atlantic and Pacific Basin buyers of LNG. This is heralding a new era of shipping and market arbitrage, and is creating new opportunities for gas traders. This presents new challenges for investors, end users and market regulators.

No clear consensus developed at APGAS 2005 regarding the ultimate structure of the natural gas market. In the short-term, it is clear that there will be increased competition; however, there are obviously practical limits on the extent to which the natural gas market can develop into a commodity market resembling that of oil.

## **Culmination in Consensus**

The culmination of APGAS 2005 was a consensus-forming session where five key themes were identified. These are listed in the box below:

## THE FIVE KEY THEMES ADOPTED BY APGAS 2005

### 1. Gas is a key driver of regional development

The APEC Gas Forum recognises that natural gas is a driver of regional development and governments should continue to create opportunities for different business models to flourish.

APGAS delegates emphasized the needs of both importers and exporters for security and certainty of trade.

The industry has an exemplary safety record and the continued safety of the trade is of paramount importance for all players.

Driven by new demand, particularly in North America and China, the opportunities to accelerate trade seem to be limited only by infrastructure, which is highly capital intensive. Globalisation of LNG trade will change the dynamics of the trade in the APEC region.

Natural gas has a vital role in providing a clean source of energy over the next forty years.

### 2. Accelerating market growth produces new challenges

However, this new demand, which will see a doubling of present volumes traded by 2015, brings new tensions with traditional terms of LNG trade requiring ongoing dialogue between importers and exporters. Periods of transition to new trading models to accommodate emerging "spot" market conditions will be required, as will compromise. These new markets open new possibilities for less rigidity in long term contracts, which contracts are still seen as essential to provide certainty and security.

Whilst demand is forecast to grow and there will be a 'natural' increase in trade, the downside risks are not generally identified.

There is a critical role for governments in streamlining and facilitating the approval process to bring additional infrastructure on line.

### 3. More data and research adds transparency

Some economies are more centrally guided through policies which directly affect demand and even price. Where this is the case, additional transparency and understanding of such policies is encouraged, as both buyers and sellers must make heavy financial commitments over several years before the trade can commence.

APGAS delegates support more transparency on existing trades and the establishment of a central APEC information centre, expanding on the existing official records. Research into competitiveness of LNG would provide a common platform for members' on-going dialogue.

**4. Relationships remain essential**

The natural gas business is characterized by long lead times and long relationships. Dialogue and understanding build the trust and confidence necessary for productive and durable relationships.

**5. There is likely to be a shortage of human resources**

There is a looming shortage of skilled human resources for the development of new projects and the operation of LNG tanker fleets.

These themes will be explored in greater depth at future APGAS Forums.

**The Future of APGAS**

APEC Energy Ministers, when they met in Korea in October 2005, endorsed APGAS as a continuing initiative.

APGAS 2006 will be held on August 31 and September 1 in Perth. This will be another meeting of APEC minds on the trading of gas and LNG, the role of natural gas in regional energy security, and the policy measures to speed up trade and investment.

One of the new topics on the 2006 agenda will be how APGAS can play a constructive and complementary role in the recently-formed Asia-Pacific Partnership on Clean Development and Climate by facilitating the deployment of the latest gas pipeline and LNG technologies.

In summary, APGAS has the potential to play a pivotal role in enhancing energy security in the APEC region, not by regulatory intervention but by implementing best practice in natural gas markets. Details of APGAS 2006 are available from the APGAS website: [www.apgas.com.au](http://www.apgas.com.au).

24 March 2006

ResourcesLaw International is an Australian-based consultancy which provides specialist advisory services to governments and corporations on:

- energy law and policy
- energy projects, project financing and risk management
- energy industry reform and regulation.

Their website address is [www.resourceslaw.net](http://www.resourceslaw.net)

Robert Pritchard is the editor of "Economic Development, Foreign Investment and the Law", published by the International Bar Association and Kluwer Law International, London 1996.

In 2000/2001, Robert chaired the World Energy Council study on "Electricity Market Creation in Asia Pacific". In 2001/2002, he was a consultant to the APEC Energy Working Group on Cross-Border Power and on Micro-Economic Reform of the Electricity Industry. In 2004, he was a consultant to APEC on Cross-Border Natural Gas Trade and on Energy Security.

Robert Pritchard may be contacted by email at [robert@resourceslaw.net](mailto:robert@resourceslaw.net)