

## RECENT DEVELOPMENTS: April 2006

### ***Green Light for the APEC Gas Forum (APGAS)***

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

The establishment of APGAS 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 (see ResourcesLaw International, "Great Expectations: Cross-Border Natural Gas Trade in APEC Economies", APEC Secretariat, Singapore, 2004).

APEC Energy Ministers have now given the green light to APGAS as a continuing initiative.

#### ***The Special Characteristics of Cross-Border Trade in Natural Gas***

Unlike oil, natural gas is not a commodity that can be easily traded across borders – it requires substantial investment in 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 is to reduce this typical lead time by putting in place policies that will be conducive to early investment decisions.

#### ***The APGAS Vision***

The vision adopted by the organising committee for the inaugural APEC Gas Forum 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.

## APGAS 2005

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.

Increasing the flow of LNG into North America will 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.

The emergence of Europe as a destination for large volumes of LNG has set the stage for competition between Atlantic and Pacific Basin buyers of LNG. This is heralding a new era of shipping and market arbitrage, and will create new opportunities for gas traders.

### THE FIVE KEY CONCLUSIONS OF APGAS 2005

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

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

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

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 are still seen as essential for certainty and security.

#### 3. More data and research adds transparency

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 on-going dialogue.

#### 4. Relationships remain essential

The natural gas business is characterised 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.

## APGAS 2006

The APEC Gas Forum is likely to play a pivotal role in enhancing energy security in the APEC region, not by regulatory intervention but by building best practice in natural gas markets.

APGAS 2006 will be held on August 31 and September 1 in Perth. Details are available from the APGAS website: [www.apgas.com.au](http://www.apgas.com.au).

An executive summary of the ResourcesLaw International report to the APEC Energy Working Group may be downloaded from our website [www.resourceslaw.net](http://www.resourceslaw.net).

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