

RECENT DEVELOPMENTS: OCTOBER 2004

APEC Cross-Border Natural Gas Trade Findings to be Released on 11 November 2004

In January 2004, the Asia-Pacific Economic Cooperation Energy Working Group (APEC EWG) appointed ResourcesLaw International (ResourcesLaw) to undertake a study of best practice in cross-border interconnection of natural gas in APEC member economies, with the aim of accelerating APEC cross-border natural gas trade.

ResourcesLaw initially developed a framework paper. After this, it organized or participated in three workshops to review the framework paper with a wide cross-section of government officials and industry participants.¹ Between the first and second workshops, APEC Energy Ministers held their 6th biennial meeting and endorsed a set of best practice principles to facilitate the development of APEC LNG trade.²

The final report will be released at an APEC seminar to be held in Sydney on 11 November 2004.

Changes in Energy Dependencies

At a global level, except for a handful of major energy exporters in the Middle East and Russia, all economies now depend on the efficient functioning of an open global trading system for their energy supplies.

Global Energy Security

Cross-border energy trade takes place today between a much larger number of sellers and buyers than ever before but greater energy import dependencies highlight the risk of a major global

oil supply disruption. A major supply disruption is not predicted to occur but, if one did occur, it could have economic, social and environmental consequences almost too terrifying for most energy importing economies to contemplate – hence the search for other energy supply options such as natural gas.

MAIN FINDINGS

- Within APEC economies, an abundance of stranded gas resources is waiting to be taken to markets.
- A swing to natural gas is supported by APEC at the highest political level as one solution to heightened global energy insecurity.
- Increased use of natural gas is a key factor in progressing towards a sustainable global economy and a sustainable global environment.
- Domestic gas markets in many APEC importing economies are however immature and require to be developed.
- There is also a paucity of gas transportation infrastructure in APEC economies, requiring an unprecedented level of expenditure on development of new infrastructure.
- Some communities hold exaggerated safety fears about the development of liquefied natural gas (LNG) import terminals.
- The great expectations that are held for cross-border natural gas trade will only be realized if there is international collaboration amongst governments, investors and communities in developing and operating natural gas supply chains.

A Paucity of Infrastructure

The contemporary global energy security issue has two elements: one is the long-debated issue of whether the energy resources are adequate (“is the oil/gas running out?”). This is not the priority issue. The priority issue is the barely-appreciated question of whether there is energy infrastructure of sufficient capacity to reliably handle the volumes of energy that must be produced and transported across borders for use by consumers.

¹ The first workshop, focused on LNG trade into the West Coast of the United States, was organized by the US Department of Energy and held in San Francisco, California, USA on 29-30 April 2004. A second, also on LNG trade, was organized by ResourcesLaw and held in Tokyo, Japan on 16-17 June 2004. The third workshop, on the Trans-ASEAN Gas Pipeline, was organized by ResourcesLaw and held in Singapore on 12-13 August 2004. Case studies based on all three workshops are contained in the report.

² The APEC LNG trade best practice principles were endorsed at the 6th meeting of APEC Energy Ministers in Manila, Philippines on 10 June 2004. The principles are set out in full in the report.

Sustainable Development

On top of the above issues, there looms the specter of climate change. It is now almost universally accepted that greenhouse gas (GHG) emissions from energy production must be minimized in the interests of tempering the effects of this widely-feared phenomenon.

Natural gas offers the lowest GHG emissions of any fossil fuel. The acceleration of cross-border natural gas trade is a key factor in progressing towards sustainability of the global economy and the global environment.

Natural Gas – The “Swing Fuel”

The world has an abundance of resources of natural gas. These resources are adequate for at least the next 50 years and perhaps for as long as 200. They are, however, “stranded” in the sense that they are isolated from markets and cannot be taken to markets without installing very costly transportation channels. The two main channels are gas pipelines and shipment by special tankers as liquefied natural gas (LNG).

Taking into account all of the economic, energy security and environmental implications of energy production and utilization, the world has expressed a preference for natural gas as the “swing fuel” for at least the next quarter century.

Giving effect to this preference for natural gas will however require unprecedented amounts to be invested in the global gas sector. This provides a major commercial opportunity for investors but it also poses a development challenge of unprecedented magnitude.

Market Forces Alone Are Not Enough

Assuming adequate transportation infrastructure can be installed to enable exports of natural gas to reach importing economies, many domestic gas markets are too immature to utilize large additional volumes at the present time. Gas markets do not automatically happen – they need to be created and they need investment to underpin them.

The Missing Link

In the age of the global economy, an abundance of indiscriminate and extravagant information is circulating about the energy industry in general and the natural gas industry in particular. There are also conferences and information peddlers galore.

There is a missing link ... the dots need to be connected.

Overcoming all of the trade, investment and information challenges in the natural gas sector requires proactive and collaborative involvement by governments, investors and communities in developing and operating natural gas supply chains.

The APEC report will make recommendations by which the great expectations that are held for cross-border natural gas trade and investment within APEC can be realized within a reasonable timeframe.

The APEC report will be released at a seminar to be held in Sydney at the offices of KPMG on 11 November 2004.

The APEC seminar will be sponsored by:

- The Australian Petroleum Production and Exploration Association (APPEA)
- The Australian Pipeline Industry Association (APIA)
- The International Banks and Securities Association of Australia (IBSA)

To register to attend the forthcoming APEC release, contact Rosemary Ryan of The Meetings Manager in Sydney on (612) 9241 2955 or email: meetings@tmm.com.au