

## RECENT DEVELOPMENTS: September 2006

### ***Key Part for ResourcesLaw in Two Recent APEC Natural Gas Initiatives***

ResourcesLaw International has played a key part in two recent initiatives to accelerate natural gas trade in the Asia-Pacific Economic Cooperation (APEC) region.

#### **APGAS 2006**

The second APEC Gas Forum (APGAS 2006) took place in Perth, Australia on 31 August and 1 September 2006.

Our managing director Robert Pritchard helped to organise this event, which brought together government ministers, officials, regulatory and industry participants from 19 countries. For the first time, India was invited as a significant future importer of LNG.

With Ms Jane Liao of Chinese Petroleum Corporation of Chinese Taipei, Robert Pritchard also chaired a workshop of APEC gas customers. The conclusions reached by customers are set out in the table in the right-hand column.

A full report on the proceeding of APGAS 2006 will be published soon on the APGAS website [www.apgas.com.au](http://www.apgas.com.au).

#### **TAYLOR-DEJONGH REPORT ON NATURAL GAS IN APEC DEVELOPING ECONOMIES**

ResourcesLaw recently cooperated with Taylor-DeJongh of Washington DC, USA in preparing a new report: "Potential for Growth of Natural Gas as a Clean Energy Source in APEC Developing Economies".

The new report will be published on the APEC Energy Working Group website [www.ewg.apec.org](http://www.ewg.apec.org).

#### **WHAT APEC GAS CUSTOMERS THINK**

1. Customers consider that destination restrictions in LNG supply agreements are an impediment to free trade.
2. Customers are very concerned about the current LNG supply shortage and wish to see the project development process speeded up. Customers believe this could be achieved by:
  - (a) improving the fiscal terms for exploration and production
  - (b) expediting the government approvals process and
  - (c) developing a better understanding of the environmental value of greater utilisation of LNG (including by reducing CO<sub>2</sub> emissions).
3. Customers believe that energy policies in the importing economies should be more transparent and should encourage the take-up of LNG as a fuel source. Government policy signals should be firm and should be set as early as possible.
4. Customers also believe that domestic regulations must be pragmatic and flexible and must be in harmony with the international market.
5. Customers recommend that technical research should be customised by APEC (under the direction of APGAS) in order to develop standardised LNG quality specifications. Customers consider that the lack of standardisation is an impediment to supply flexibility.
6. Customers suggest that APGAS should establish a cooperative link with the Society of International Gas Tankers and Terminal Operators (SIGTTO) and with the International Group of Liquefied Natural Gas Importers (GIIGNL).

The Taylor-DeJongh / ResourcesLaw report will be a reference tool for policymakers in APEC developing economies who are considering, or wishing to expand, natural gas as a clean energy fuel to meet their growing energy needs. Some of the key points arising from the report are:

### 1. APEC Is the Heart of the LNG Market

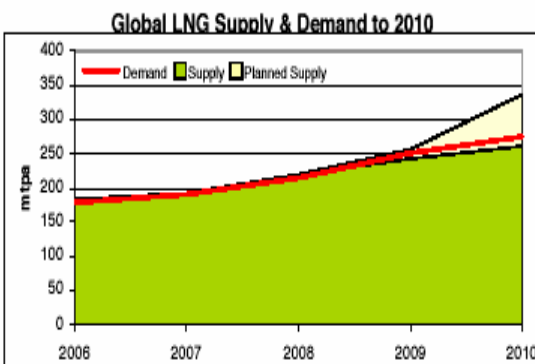
The APEC region remains the heart of the global LNG market with half of the world's exports and 70% of imports. Many of APEC's developing economies, especially China, can significantly increase their usage of natural gas as a clean fuel for power generation, for industrial purposes and for retail consumers.

### 2. Competitiveness of Natural Gas versus Coal

Prices of both natural gas and coal have recently appreciated in line with strong growth in power generation. However, if environmental costs are factored into investment decisions, combined cycle gas-fired power plants offer advantages over traditional coal-fired plants in most cases.

### 3. When Will LNG Supply Constraints Ease?

LNG supply is expected to remain constrained through the end of the decade. However, as more liquefaction capacity is installed, supply constraints are projected to ease at the beginning of the next decade, as shown in the table below.



Source: Deutsche Bank and Taylor-DeJongh estimates

The question nonetheless remains: will future demand growth outpace the installation of new liquefaction capacity?

### 4. Economic and Environmental Conditions for Natural Gas to Become a Viable Energy Source

For natural gas to fill the energy gap in developing APEC economies, a number of issues must be addressed, including:

- inter-fuel competition
- the lack of gas infrastructure
- the lack of recognition of the environmental value of gas
- the regulatory framework.

Competition in a lightly-regulated framework ultimately ensures the most efficient allocation of resources and is beneficial to end consumers. A sound regulatory framework is also critical to attract financing and investment, both domestic and foreign. There is no one-size-fits-all solution to these issues. However, a checklist of recommendations for APEC policymakers is provided in Chapter 6 of the report.

#### What's Coming Up?

A number of milestones in the development of natural gas trade are coming up in the next 12 months:

**November 2006:** The Asia Pacific Partnership on Clean Development and Climate (AP6) will consider a proposal to develop a "Regional Gas Master Plan".

**February 2007:** The Taylor-DeJongh / ResourcesLaw report on APEC developing economies will be the subject of an APEC workshop to be held in Guangzhou, China.

**April 2007:** The next triennial international LNG conference, LNG 15, will be held in Barcelona, Spain.

**May 2007:** The recommendations from APGAS 2006 will be presented to APEC Energy Ministers in Darwin, Australia.

**September 2007:** The next APEC Gas Forum (APGAS 2007) is scheduled for this month at a venue to be announced.

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