



Briefing Note for the APEC Energy Working Group

THE KEY ROLE OF LNG IN THE CLIMATE CHANGE DEBATE

The Uniqueness of LNG

LNG is a unique fuel with both stationary energy and transportation applications. It is a major source of safe, clean energy, offering the lowest GHG emissions of any fossil fuel. It is the only major energy export that has the potential to both reduce the pace of growth of global GHG emissions and alleviate energy security concerns. It does not require any new technology – it is available now – and it has clear and well-established pricing mechanisms in place. It is not a commodity, but it is tradeable and can be arbitrated.

It is therefore a key part of the climate change solution.

The Potential of Sectoral Approaches

The major focus of the international climate negotiations to date has been to seek the commitment of developed country parties to economy-wide emission reduction targets ("country caps"). From the time that the UNFCCC entered into force in 1994, however, sectoral approaches to the reduction of GHG emissions have also been on the agenda, but their unfulfilled potential is only now becoming fully appreciated.

The merits of a sectoral approach to GHG reductions have been recently canvassed at UNFCCC meetings, referred to below, and in a number of studies.¹

As APGAS noted in its paper delivered to the APEC Energy Trade and Investment Roundtable in Cairns on 1 October 2008:

"The imposition of a carbon cost in one economy is likely to further dampen investment in that economy and distort the global playing field for affected industries that are trade-exposed. Nowhere is this more obvious than in the LNG sector. Given the global nature of the climate change problem, the Roundtable might wish to consider the merits of a sector-specific approach to the reduction of emissions in the LNG sector. This would provide an alternative pathway for economies that are not prepared to accept binding economy-wide emission reduction targets and could speed up the global response to climate change. Sectoral commitments are

¹ See, for example, Richard Baron et al, "Sectoral Approaches to Greenhouse Gas Mitigation: Exploring Issues for Heavy Industry", IEA Information Paper, International Energy Agency, Paris, France, November 2007.

especially suited to industry sectors such as LNG and metal production that compete on global markets".

The Bali Action Plan

At the UNFCCC Conference of Parties held in Bali in December 2007 (COP13), the Conference launched the Bali Action Plan, a comprehensive negotiation road map aimed at reaching a secure climate future.

The Bali Action Plan involved the establishment of an Ad Hoc Working Group on Long-term Cooperative Action (AWG-LCA). The purpose of the Working Group was:

*"to enable the full, effective and sustained implementation of the Convention through long-term cooperative action now, up to and beyond 2012 ... by addressing, inter alia ... cooperative sectoral approaches and sector-specific actions, in order to enhance implementation of Article 4, paragraph 1 (c) of the Convention ... "*²

Commitments of All Parties under the UNFCCC

Article 4, paragraph 1(c) of the UNFCCC refers to the commitments of Parties in the following terms:

"All Parties, taking into account their common but differentiated responsibilities and their specific national and regional development priorities, objectives and circumstances, shall:

... (c) promote and cooperate in the development, application and diffusion, including transfer, of technologies, practices and processes that control, reduce or prevent anthropogenic emissions of greenhouse gases not controlled by the Montreal Protocol in all relevant sectors, including the energy, transport, industry, agriculture, forestry and waste management sectors ..."

Workshop on Cooperative Sectoral Approaches and Sector-specific Actions

The report of the UNFCCC workshop held by the AWG-LCA in Accra, Ghana in August 2008 stated that:

"... cooperative sectoral approaches and sector-specific actions would involve cooperation and action at the sector level, as opposed to action that is defined for the national level. It was generally agreed that these approaches and actions should not replace emission reduction targets of developed countries nor form the basis of proposals for sectoral mitigation commitments or international technology benchmarks."³

² Document reference FCCC/CP/2007/6/Add 1.

³ Document reference FCCC/AWGLCA/2008/CRP.4



The workshop report also stated that "...*these approaches and actions could be used as offset mechanisms ...*"

Natural gas and LNG are the key fuels in a world in transition from a carbon-profligate past to a carbon-minimalist future. APGAS therefore believes that the merits of offset mechanisms and sectoral crediting mechanisms in LNG trade warrant further study. APGAS also believes that the application and value of cooperative development mechanisms (JI and CDM) to LNG developments and to the ultimate end-use of gas derived from LNG – that is, across the entire value chain of the industry - should be energetically explored.

Need for Coordination with Trade Policies

The international climate negotiations in Copenhagen will hopefully bring an optimal outcome. Irrespective of what happens in Copenhagen, there will be an urgent, practical need to go beyond the complex politics of climate change and to coordinate climate and trade policies to prevent future trade disruptions over climate issues. Sectoral agreements can facilitate this:

*"Sectoral climate-trade agreements may offer opportunities to coordinate climate and trade policies, or perhaps even to integrate them institutionally. ... Such product-based and industry-based structuring could bode well from attempts to develop sectoral climate agreements as part of the post-2012 multilateral climate regime. If interest in globally-applicable, industry-specific sectoral climate agreements continues to spread, it is inevitable that those discussions will involve international trade and investment issues; for international competitive concerns have become integral to the international dialogue about the future of the international climate regime."*⁴

Conclusion

Climate change is a global environmental problem that transcends political boundaries. Most economies, both individually and collectively, are struggling to come to terms with the issue, and to propose equitable solutions that do not unfairly benefit or handicap particular countries, groups of countries or industry sectors, since inequitable solutions will fail.

As with any problem involving an economic "commons", a cross-border element to any successful mitigation is clear and inescapable. Political solutions based on domestic regulatory measures have obvious limitations, not the least of which is that they can cause collateral damage to particular industries, such as LNG - which may in turn perpetuate or aggravate problems in other areas, such as energy security.

Energy officials and energy industry representatives have a responsibility to play a positive role in responding to the challenge of climate change. This task should not be left to

⁴ Thomas Brewer, *"The Trade and Climate Change Joint Agenda"*, CEPS Working Document No 295, Centre for European Policy Studies, Brussels, June 2008.

4.

climate change officials, NGOs, traders and the insurance industry (the dominant participants at COP meetings) alone. APGAS is willing to provide input to an APEC Energy and Climate Task Force if one is established for this purpose.

Robert Pritchard
Technical Director
APGAS

24 November 2008

