

APEC LNG Trade Facilitation Initiative

I. Objective

Natural gas has the lowest greenhouse gas emissions of fossil fuels and is an energy source that is both economically and environmentally attractive. Among all fossil fuels, the demand for natural gas is strongest globally and within the APEC region. According to BP's energy outlook, by 2035, natural gas will account for 27% of the global energy mix, equal to oil and coal. LNG, with average growth rate of 3.9%, will account for 26% of the increased global demand for natural gas.

According to IEA's forecast, Asia is expected to be the second largest market of natural gas in the world by 2015. For LNG alone, currently Asia is the most prosperous region in terms of LNG trade, accounting for 70% of global LNG market. Trade in the APEC region has grown steadily in recent years, underpinned by the principles of free trade between buyers and sellers and the continued support of major investments. Besides, the unconventional gas revolution is having a significant impact on the shape of global energy market and energy development. To capitalize on LNG's enormous, untapped potential, and to respond to the new picture of energy supply/demand for the next 20 years, APEC economies should take proactive measures to facilitate the development of further LNG trade in the APEC region.

Asia's natural gas market is characterized by its complicated and scattered nature. In the APEC region, the main challenges for LNG development are the pricing mechanism and fluctuating demand. Oil-linked pricing has resulted in Asian Premium; in addition, since LNG demand in the APEC region faces seasonal fluctuation, market flexibility is crucial to LNG supply security. Moreover, currently the existing LNG

related infrastructure is insufficient to meet the increasing demand for LNG in the region, therefore, pressures on upstream gas source exploration and development and investment in necessary infrastructures remain high. Therefore, as LNG will have a greater impact on regional energy security and energy development in the foreseeable future, it is very crucial and necessary for APEC, a combination of the most important current and future LNG suppliers (Australia, Canada, Indonesia, Malaysia, Russia and the U.S.) and consumers (China, Japan, Korea and Chinese Taipei), to take further efforts to facilitate LNG trade in the region and to jointly pursue common benefits of LNG suppliers and consumers in the region.

Under the framework of Energy Security Initiative, APEC has long endeavored to promote energy trade and investment. APEC economies have reached consensus on the promotion of well-functioning energy markets progressively characterized by free and open trade, secure and transparent frameworks for investment, market-based price signals, market transparency, good governance and effective competition. Therefore, on the basis of the consensus, this Initiative aims to provide a dialogue framework to facilitate regional LNG development, encouraging APEC economies to establish a proper, transparent and flexible LNG trading system. The prices of LNG should be decided by buyers and sellers under the well-functioning market mechanism without undue interference of any government. In order to reduce LNG trading costs and improve LNG trading flexibility, this Initiative, by technology exchange and knowledge sharing, will also encourage the collection and dissemination of natural gas data and the exchange of non-confidential information among member economies (e.g. exports, imports, prices, supply, and demand), and share information on LNG-related regulations, standards and quality specifications (e.g. heating value) and seek ways to further their

harmonization. In addition, to strengthen the capacity building of regional LNG trade development, the Initiative also calls for the development of clear, transparent, non-discriminatory, coordinated and timely project approval processes for permitting LNG facilities to facilitate the construction of LNG facilities, and encourages multilateral financial institutions to support the development and expansion of LNG projects. The ultimate goal of this Initiative is to support prosperous LNG trade by consensus reached on the LNG development future in the region, and to help meet energy demand brought by economic growth to ensure regional energy security.

II. Background

1. The Fukui Declaration of 2010 acknowledged that “*natural gas production and trade, drawing upon new discoveries, can ease the transition to a low-carbon economy*” and instructed EWG to “*evaluate the potential of unconventional resources and to recommend cooperative actions which could increase natural gas output, boost natural gas trade and use, and moderate natural gas prices to the extent appropriate both for producers and consumers in the APEC region.*”

2. The St. Petersburg Declaration of 2012 acknowledged that “*it is important to evaluate the **production**, trade potential and environmental impact of **shale gas and other unconventional natural gas resources**, as well as promote steady investment in natural gas infrastructure, including liquefaction facilities, for increasing energy security and economic growth in the APEC region*” and instructed EWG to “*to review the current state and prospects of the energy markets of the APEC region, with emphasis on the role of natural gas in the total energy balance.*”

III. Task

By means of workshops, information platforms, and research on best practices, the Initiative shall be advanced by interested economies to exchange information on LNG trade systems of different APEC economies and experience gained using them to strengthen the capacity building of LNG trade facilitation. Planned activities are as follow:

1. Promotion of information sharing

- Workshop on APEC LNG trade facilitation to discuss LNG trading situation, barriers and cooperation potentials in the region.
- Establishment of an integrated LNG information platform to promote the information transparency of LNG-related regulations, standards and quality specifications.

2. Promotion of cross-cutting dialogue and cooperation

- Collaboration between APEC CTI and EGCFE on best practices of APEC LNG trade facilitation.
- Collaboration with Japan's Oil and Gas Security Initiative.

3. Promotion of Public-Private Partnerships

- Establishment of broader engagement and dialogue between the public and private sectors on investment and trade activities in the fields of conventional and unconventional gas.