

11th APEC Energy Ministerial Meeting
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Remarks by Aldo Flores-Quiroga
Secretary General
International Energy Forum

**Your Excellency Xionxiong Wu, Vice-Chairman of NDRC, and
Administrator of NEA of the of People's Republic of China**

**Your Excellency Mr. Baodong Lo, Vice-Minister of Foreign Affairs of the
People's Republic of China**

**Your Excellency Mr. Alan Bollard, Executive Director of the APEC
Secretariat**

Excellencies,

Distinguished Guests,

Ladies and Gentlemen,

Good morning. It is a true honour to address you today as Secretary General of the [International Energy Forum](#) --the IEF--, also known as the producer-consumer dialogue. The IEF has 76 [member countries](#) from 6 continents and represents close to 90% of the world's oil and gas market. Over two thirds of APEC members are also active members of the IEF.

Excellencies, as you are aware, much of the energy dialogue under the IEF concerns the challenges and opportunities associated with interdependence. A large and growing share of world energy trade links producers to consumers through long supply routes that cross multiple national borders. Cooperation among diverse countries with an uneven distribution of energy resources, as in [the APEC space](#), makes it possible for energy trade to flourish and thereby to strengthen energy security.

Taking into account this interdependence as the backdrop, I would like to single-out four items in the energy dialogue that are likely to remain high on the global agenda and will be important for the further development of energy markets in the Pacific Rim:

- First, the increase in output of unconventional oil and gas.
- Second, the process of price formation for natural gas.
- Third, the influence of Asia on the world's oil supply-demand balance.

- And fourth, the prospects for greater deployment of cleaner energies.

On the impact of the larger production of unconventional oil and gas, the key questions constantly raised by analysts all over the world are whether North America can sustain its current momentum, and if other countries will begin production from shale deposits in the near future.

We have reasons to believe that higher North American production will indeed be sustained, but the degree to which this will be linked to gas exports is still unclear. If they remain constrained, energy integration inside APEC is likely to progress at a slow pace. We may witness instead greater energy integration between East Asia and the Middle East and Central Asia.

If, on the other hand, greater gas abundance from North America does reach East Asia, while Asia's production of unconvensionals does not increase or does so at a slow pace –and the reasons can be many--, greater intercontinental trade will facilitate price convergence, transforming the structure of energy prices in the Pacific Rim. A new

energy mix may follow and, to the extent that it is more diversified, it will contribute to the region's energy security.

Turning to gas pricing, we are already observing how relatively low gas-trade integration in the Pacific affects perceptions about the current process of price formation. For consumers, who would like to see lower prices, LNG pricing formulas must be more flexible and incorporate short-to medium-term market signals, like those provided by spot markets. For producers, who would like to see prices that justify the capital-intensive investments they must make, resorting to spot markets is a poor substitute for long-term contracts indexed to oil prices. This is a sensitive issue and we have little indication that it will be settled any time soon. More dialogue and more creative policies might be needed to bring closer the perspectives of producers and consumers.

With respect to Asia-Pacific's impact on the world's demand-supply balance, getting better information on oil stocks data from non-OECD countries, most notably China and India, is becoming increasingly important for the stability of the world oil market. Uncertainty about stocks and oil price volatility go hand-in-hand. The Joint Organisations

Data Initiative has made considerable strides in reducing this uncertainty --in no small part because of the support provided by the APEC Secretariat--, but more progress is still required on this front. While we have witnessed in recent years unprecedented market stability, there is no space for complacency when it comes to data transparency. The first thing analysts and decision-makers observe when markets move is the supply-demand balance. If this information is hard to come by, it opens the space for speculation. I respectfully request, your Excellencies, your on-going support to increase market transparency.

This issue of stocks is closely linked to discussions about the appropriate level of strategic reserves or spare capacity. While a rise in North American supplies will not mean an end to either of these crucial supply cushions, many wonder if this might mean a rationalization of these costly undertakings. Few suggest that strategic reserves should disappear, but many ask how large should they be, and this cannot be answered in the absence of reliable information on stocks for the APEC region.

Turning to cleaner energies, considerable focus is now placed on the regional policy outlook and pace of technological innovation. Despite

impressive investment levels and falling costs for some categories of renewables --mostly solar and wind—overall the economics do not seem to work just yet for this sector in the absence of sizable government support. Moreover, in many countries investments in renewables require back up capacity from electrical power generated with natural gas. A better solution is still needed in this area if the world is to progress faster on climate change.

In sum, significant effort is being placed in the global energy dialogue to better understand the links between greater oil and gas supplies, intercontinental trade, the price formation process, stock management, and sustainable energy. Global energy markets are moving at a pace essentially set by the APEC member countries. Your understanding of these issues and the policies you adopt will have a considerable impact on global energy security.

Excellencies, the IEF is ready to support you and will take the findings of today's conversation to the coming IEF-IGU Ministerial Gas Forum hosted by the Mexican government this November. I look forward to seeing you

there and to continue working with you to strengthen the global energy dialogue.

Thank you.