**5th Asian Ministerial Energy Roundtable**
Seoul | 12 September | 2013

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**Remarks by Aldo Flores-Quiroga**
**Secretary General**
**International Energy Forum**

Thank you Mr Chairman,

Excellencies,

1. Good morning. It is a true honour to address you today.

2. Let me thank again His Excellencies, Ministers Yoon Sang-jick, and Mohammed Bin Saleh-al-Sada, of Korea and Qatar, for taking the leadership in hosting and co-hosting this magnificent Roundtable.

3. And let me thank **you**, the Ministers of Asia, a vast and diverse region, for seizing the day to talk about the region's energy opportunities and challenges.

4. I will focus my remarks on the key drivers of the energy conversation in Asia. These drivers are likely to influence how you think about policy and promote your country's energy security.

5. At the IEF we participate in many high-level conversations on energy. I want to provide you with our sense of the direction of these conversations. I hope this helps you look at the region's energy opportunities and challenges from the point of view of both producers and consumers—, or rather from the point of view producers, consumers and transit States. In a region where much energy trade takes place by tankers and increasingly through pipelines electrical interconnections that cross more than one country, it makes sense to take into account all points of view.

6. Five subjects seem to dominate the region's energy conversation and are likely to remain important in the foreseeable future:

   a. First, the potential effects of the increase of unconventional production of oil and gas from North America on Asia's energy mix and trade patterns.
   b. Second, the prospect for greater LNG trade and its associated process of price formation.
   c. Third, the role that policies and technological advancements will play in the behaviour of the region's energy demand.
   d. Fourth, Asia's influence on the world's oil supply-demand balance and its implication for the management of strategic reserves.
   e. And fifth, the development of sustainable and clean energy systems across the whole region.

7. On the impact of production of unconventionals from North America, much attention is placed on the effect they will have on Asia's intra and inter-regional trade. Will North America "decouple" in such a way that trade inside Asia, from the Middle East to Japan, intensifies? Will it increase to such a degree that a new and more active exchange will take place in the Pacific Rim? Or will we see a combination of both effects?

8. It is difficult to provide a satisfactory answer at this stage, as this depends on the ever-evolving economics of the complex oil and gas industry. It also depends on whether an environmental accident can stop production on its tracks or slow it down. But one can guess that, should this North American oil and gas output continue to increase, adjustments in the energy mix in Asia are likely to follow – just as they have done in Europe.

9. Turning to the second question, since trade in liquefied natural gas is expected to be prominent regardless of the scenario observed, and considering the large price differential between North America and Asia, a greater focus is now placed on the pricing mechanism for LNG.

10. For consumers, who would like to see lower prices, this mechanism should be more flexible and must incorporate more short- to medium-term market signals, such as those provided by hubs. For producers, who would like to see prices that justify the costly and capital-intensive investments they must make, resorting to hubs is a poor substitute for contracts indexed to oil prices.

11. Somewhere in between both positions there is much discussion about the extent to which the price-

formation mechanism for LNG needs fixing, or where should an Asian hub be located.

12. The lack of answers to these questions is already motivating consumers to seek control of upstream assets or to think about joint purchasing schemes, among others. More work between producers and consumers is needed to find a mechanism that, in acknowledging their interdependence, meets their joint needs.

13. With respect to energy demand, questions remain about the path of policies and technology in the region. Asia is expected to continue representing more than 70% of global energy demand growth, and much of it is expected to come form transportation, power and industry. How will policies affect demand behaviour? Will more efficient technologies reduce the region's fuel consumption?

14. Turning to Asia's impact on the world's demand-supply balance –the fourth question-- understanding oil stocks data from non-OECD countries such as China, India and the Mideast Gulf nations is becoming more important for oil markets –more so than understanding OECD stocks data. Non-OECD demand is expected to increase, while OECD demand is expected to remain approximately the same.

15. This issue of stocks, combined with the rise in unconventionals production, raises the subject of <u>strategic reserves</u> or <u>spare capacity</u> levels. Surely a rise in supply will not mean an end to either of these crucial supply cushions, but 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.

16. On the topic of renewables and clean energy technologies, despite impressive investment levels and falling costs for some categories of renewables --mostly solar and wind-- in many cases the economics still do not work and traditional fuels still play a dominant role. In many countries investments in renewables are seen in tandem with back up capacity from electrical power generated with natural gas. That said, renewables do represent a promising avenue of green growth and green cooperation.

17. As I have highlighted these questions I have not sought to be exhaustive in my enumeration of significant subjects, but I do think that a conversation of Asia's energy prospects must at least touch on these that I just mentioned.

18. Before closing, I do want to underscore yet again the importance of data transparency and your collaboration in JODI. JODI is not just a database, it is a commitment to transparency and cooperation. More and

better market data leads to better decisions and sound policymaking. As the JODI database expands to cover both oil and gas, your support will be more important than ever.

19. I look forward to listening to your conversation in order to bring your important regional perspective onto the global stage at the next full IEF Ministerial, which will be held in Russia.

20. Thank you.