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The Report of

the APA Secretary-General

on

Integrated Asian Energy Market

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1. Background

Pursuant to the establishment of the Sub-Committee on Energy as decided by APA Plenary under resolution APA/RES/2007/08 of 29 November 2008, and further to the APA resolution of 20 November 2008 which requested Secretary-General to set up an expert group to study the framework of the Integrated Energy Market in Asia and report to the meeting of the Sub-Committee in Moscow, Russian Federation May 2008, the following developments have taken place. The suggestions below are also based on the outcome of the meetings held and technical studies undertaken.

1-1) First meeting of the Sub-Committee

The first meeting of the Sub-Committee on Asian Integrated Energy Market (AIEM) was held in Moscow, Russian Federation, from 15-16 May 2008, the report of which is attached. The Sub-Committee considered the following issues during the meeting:

- a) Necessity of exploring ways and means for a balanced approach to and development of all carriers of energy by all Asian Member States, while undertaking necessary studies on the impact of high oil price on oil importing countries
- b) Expression of support for the Secretary-General's proposal for the establishment of a "body" to pursue the objectives of the Plan of Action for the promotion of Asian Integrated Energy Market. In this context, the resolution on the establishment of the "Advisory Council on Energy" was adopted, to report thereupon to the Executive Council and the Energy Standing Committee of the APA Plenary for further consideration.

1-2) Subsequent meetings of the Sub-Committee in Tehran and Jakarta also emphasized on the above-mentioned issue as well as the four main issues addressed in item 4 of the report of the Secretary-General to the Sub-Committee dated 10 May 2008.

2. Issues and Reports

The present report is submitted for the consideration of the Sub-Committee taking into account the above developments and the actions undertaken by the Secretariat in respect of the following areas:

- a) Coordination policies on supply demand security
- b) Stability of Energy Market
- c) Energy intensity
- d) Framework proposal for the Integrated Asian routes for gas transmission - Asian Gas Network (AGN)
- e) Main features of the Road Map for closer cooperation among Member States, inclusive of the role of Asian Parliaments towards better integration of Asian energy market

As recommended by the previous meetings, the Secretariat undertook to prepare expert reports on the above-mentioned areas, to be presented for consideration and appropriate decision-making in the upcoming Sub-Committee meeting of June 23-25, 2009 in Antalya, Turkey.

The present report, therefore, reflects the developments with regard to AGN since the previous meeting taking into account the findings of the expert studies carried out in the meantime. This report will also contain a preliminary assessment on energy intensity which has been prepared by the Acting Chairman of Iran Petroleum Institute (IPI). A similar preliminary report will also be presented on item (e) above, focusing on proposed further steps towards materialization of the idea of Asian Integrated Energy Market.

3. Energy and Asia

As indicated in items 8 and 9 of the first report of the Secretariat on the integration of Asian Energy Market, dated 10 May 2008, Asia, as the biggest, most populated continent and with huge, varied resources and economic potentials and fast expanding markets, underscores the viability and necessity of continent-wide integration of Energy Market. Such an integration will help the Asian countries to maximize the interests of both producers and consumers, as well as to minimize their risks and costs through implementation of inter-related programs in the field of energy.

As mentioned in item 7 of the said report, the following definition of "Integrated Energy Market" was suggested:

"Integrated Energy Market refers to an energy market in a geographic territory composed of a group of countries that agree on a set of Laws and Regulations concerning all activities relative to energy"

The proposed integration is meant to include, among others, exploration and development of energy resources, production of various products, transmission, conservation policies, trade, research and development, and technology transfer.

The following practical steps could contribute to the realization of the proposed integration:

3-1) The Member Parliament should encourage their respective governments to promote joint projects with the other Asian countries through the participation of both public and private sectors.

3-2) Integration on Energy Market will create huge markets in the areas of trade, services, transfer of know-how, etc., would reduce the costs incurred by relevant bodies, and would also maximize their common benefits when compared with conventional bilateral, small markets.

3-3) Market security, especially in the area of supply of energy to consumers, offers higher degrees of prediction in an integrated market, and at much lower costs of investment and financing.

3-4) Such an integration would also contribute to a much safer environment and cleaner planet.

In light of the above definition and the proposed practical steps, the Secretariat has undertaken to prepare plan of implementation for these steps also with a view to further promote cooperation among the members of the Sub-Committee.

4. Coordination of policies on supply-demand security

With a view to suggesting ways and means to speed up the process of maximizing coordinated policies among the members, the Secretariat has categorized the possible fields of collaboration on energy market integration among the member states at the following 3 levels. Such collaboration, which can commence forthwith and where practicable, politically and economically, is expected to provide the highest degree of security for supply of energy needed by consuming countries.

4-1) Bilateral Agreement

Member countries could explore the best potential fields for cooperation with other members, especially with their neighbors, as priorities. This would help them share their strengths and weaknesses with each other, and would also promote closer friendly relations and strengthen mutual and collective security in various fields and areas. Such cooperation could include the following:

- a) Joint investments in exploration, development and production of energy resources.
- b) Connection of energy networks including oil and gas, products pipelines, electric power transmission lines, roads and railroads for transportation of energy products, etc.
- c) Joint development of requisite infrastructure in the field of energy use such as export/import ports facilities for oil and gas, inclusive of LNG transport.
- d) Deregulation and/or simplification of the rules and regulations pertaining to all such operations, including adoption of preferential tariffs, tax holidays for investment, custom duties exemptions or discounts.
- e) Swaps of crude oil, oil products and natural gas, including facilitating trade with land-locked producers, with preference for those in Asia.
- f) Human resources: exchange of expertise, education and training in various fields of the energy industry.

4-2) Multilateral Agreements

There exist enormous potentials for exchange within Asian countries, recognition of which could be considered an important aspect of the work of the Sub-Committee. The following includes some of such potential areas:

- a) Joint investment in energy-related industries, including the E&P in energy resources by more than one country (mostly consumers and industrial countries) in a producer country.
- b) Connection of oil and gas pipelines, power transmission lines, and swaps of energy resources between producers and consumers.
- c) Technical cooperation and transfer of know how, including through EPC contracts, education and training of experts in various fields of energy.

d) Promotion of cooperation in these fields by Parliaments in their respective countries, including through promulgation of requisite rules and regulations.

4-3) Continental Scale Projects

"Asian Gas Network" (AGN), a huge, long-term project, can indeed be considered a pioneer and symbol of such continental scale cooperation among all Asian countries. Promotion of such projects on an Asian scale requires the active involvement of all member Parliaments, and in close collaboration with their governments. The Sub-Committee and its expert groups can and should play an important role in this regard. Some of the areas of cooperation are as follows:

a) Improvement in the environmental policies and projects throughout the continent, with both short- and long-term objectives, inclusive of the overarching objective of saving a safer planet for the future generations. "Energy Intensity", as an example, is already being studied by the Secretariat. Other areas of cooperation could include energy conservation policies and standards, CO₂ emissions trades, R&D on higher efficiency, as well as promotion of renewable sources of energy.

b) Deregulation and/or simplification of the relevant rules and regulations to help create a conducive environment for cooperation, especially for mega size continental scale projects and policies. This requires the active engagement of member Parliaments – the APA and its subsidiary bodies, inclusive of the Sub-Committee.

5. Stability of Energy Market

As decided in Moscow, Tehran and Jakarta, the Secretariat, in collaboration with AACE, was tasked to study the issue of "Stability of Energy Market" and its various aspects and dimensions, inclusive of the following:

5-1) Rationalization of demand in order to minimize dependence on fossil fuels in a medium- to long-term period.

5-2) Maximization of exploration and production of energy resources through intensive use of advanced technology, inclusive of recovery from the existing resources.

5-3) Investment in E&P operations throughout the continent.

5-4) Promotion of common energy conservation policies and standards.

In light of lack of adequate progress in this respect thus far, the Secretariat should intensify its efforts to engage members of the Sub-Committee towards completing the agreed studies. Given the critical importance of energy conservation and its organic link with market stability, the Secretariat is of the view that item 4 above, as part and parcel of the Road Map, deserves to be taken up by the Sub-Committee as a matter of priority

Energy Intensity (EI)

The Secretariat, through the Iranian Parliament, has asked Iran Petroleum Institute (IPI) to study the issue of energy intensity in Asia, including its impact on environment and future patterns of supply and demand, and prepare a report for submission to the Sub-Committee meeting in Antalya, Turkey (23-25 June 2009).

Parliaments can play a critical role in this regard, including through the promulgation of comprehensive legislation and setting overall policy frameworks, and assisting governments to plan and execute plans for energy intensity reduction at all levels - consumer, business and community.

In this respect, the Secretariat urges member Parliaments to communicate their views and observations on the wide range of issues involved as a matter of priority, and where feasible, also prepare reports for the consideration of the APA Plenary.

6. Integrated Asian Routes for Gas Transmission

An expert study, commissioned by the Secretariat, has assessed this project, inclusive of exploring possible routes for Asian gas transmission, parameters of the use of existing infrastructures, existing gaps, and also possible scenarios for the future. This study has taken into account the preliminary reports submitted to the previous meetings of the Sub-Committee as well as the views and observations received from the members in the meantime.

The scope of this study is limited to the presentation and assessment of two possible scenarios for an Asian gas ring, including through utilization of existing and planned facilities and the level of coverage of such a gas route throughout the continent. While the idea of the proposed gas ring might appear as far-fetched at the first glance, findings of expert studies point in the direction of its desirability from the vantage point of long-term environmental protection and easier and cheaper access to natural gas across the continent.

7. Road Map

1. A preliminary study carried out by a group of experts, commissioned by the Secretariat, and prepared for submission to the Sub-Committee meeting in Antalya, suggests a Road Map for plans of action along with an alternative organizational structure for the Secretariat. The study has also addressed the issues of the energy

policies of the APA and its Energy Standing Committee, the ways and means for a successful integration of Energy Market, as well as the members' closer cooperation for long-term sustainable development of the continent. In-depth discussion of the report in the Antalya meeting would allow the expert group and the Secretariat to further refine the parameters of the Road Map.