



15 August 2005

**Hon. Lee Hee-Beom**

Minister of Commerce, Industry and Energy  
Chair, APEC Energy Ministers' Meeting  
Republic of Korea

Dear Minister Lee:

The APEC Business Advisory Council (ABAC) applauds the excellent foundation of best practices on the wide range of energy issues developed by the Energy Business Network and the Energy Working Group of APEC. Last May in Beijing, the ABAC agreed in its Interim Report that unless prompt action is taken to implement the best practices agreed to by APEC's Energy Working Group, the growing pressure on energy sources and volatile prices could severely impede APEC's ability to achieve the Bogor Goals. Access to reliable and sustainable energy sources is fundamental to all economic development. The Global Energy Equation has changed as diminishing "easy" supply coupled with rapidly growing demand has increased the cost of energy. Large amounts of capital investment are required to meet the infrastructure and power generation needs of the next twenty years and beyond. ABAC urges all APEC economies to give higher priority to long-term planning to increase energy supplies, diversify their sources, exploit alternative and renewable options, and encourage conservation and responsible energy use as amplified in the attached ABAC Energy Statement 2005.

As the business advisors to the APEC process, we urge APEC Energy Ministers to agree at your next meeting in Korea to implement – in a clearly measurable way - the best practices already agreed to by the APEC Energy Working Group. The APEC Individual Action Plans are the mechanism by which APEC economies measure their progress toward their Bogor Goal commitments; a good start for implementing the energy best practices would be for each economy to include an "Energy Chapter" in its annual Individual Action Plan for APEC to detail their implementation program.

As the representatives of the business community, we want to stress that the work you are undertaking to address the region's long term energy needs is of the utmost importance to the overall APEC endeavor and is a critical underpinning of all of the trade liberalization, facilitation, security and capacity building work being pursued throughout the APEC process.

Sincerely,

A handwritten signature in black ink, appearing to read "Jae H. Hyun".

**Jae-Hyun Hyun**  
ABAC Chair 2005

CC: *Mr. John Ryan, EWG Lead Shepherd*

## ABAC ENERGY STATEMENT 2005

The current high oil price and growing energy usage to support rapid modernization of developing economies in the region, are again focusing attention on energy security. All of APEC's critical Bogor Goals require a safe, reliable, affordable, efficient and stable supply of energy. The new energy environment requires economies to consider a variety of ways to increase energy supply, diversify sources of supply, and encourage its responsible use. Adopting this three-pronged approach can help APEC create strategic policies to prepare for the future. The rise of oil prices in recent months underscores the need for action and presents an opportunity to develop public understanding and support for the needed policy changes.

In the medium to long-term, energy security is achieved by ensuring that supply and demand for energy are fundamentally in balance, with no unsatisfied demand caused by persistent shortages.

Business requires a transparent stable legal and regulatory framework for financial, industry and environmental policy, and a physically secure environment, in which it can work to meet the region's emerging energy requirements, by matching technically feasible sources of energy with the wide range of evolving industry and consumer demands for energy, in the most efficient way, and financing the massive investments needed across the region to achieve this.

This requires a market environment for energy with four broad features which we ask APEC to work towards:

1. *The regional energy market must be efficient so that relative prices are appropriate.* All economies must aim to have tax and regulatory policies which are in harmony with this objective of efficient markets. There are such large economic externalities in the energy sector based on differing historic and legacy regulations and distribution systems, in some cases governments may need intervene to ensure a properly functioning market. Governments also must avoid creating persistent distortions in pricing through politically-driven energy subsidies.
2. *All economies should seek to diversify their energy resource bases and seek ways to expedite the commercial development of those resources underutilized in the past.*

This entails for example:

- a. addressing the challenges of making nuclear power safer and more cost-effective, and therefore more politically viable – with all its current environmental, security and efficiency concerns this remains a major potential source of large-scale base load electricity to meet the demands of modern economies,
- b. through APEC-wide standards that promote economies of scale, increasing the use of renewables including solar, wind, wave, geothermal and biofuels to a point of sustainable competitiveness,
- c. promoting the development of clean coal and innovative technologies such as carbon sequestration to mitigate the environmental impact of coal use, and
- d. maximizing the benefit of regional energy strengths e.g. cross border trade in pipeline gas and LNG through harmonizing policies that ease trade and encourage investment to develop a regional infrastructure.

3. *Modes of production in the economy must be able to adapt flexibly to changing energy supply and prices.*

Once again, this is a major technology challenge for all industries. It involves being able to shift between energy sources for industrial purposes (and, of course, conserving premium energy sources for inherently energy-inflexible needs like most transport).

4. *Energy conservation strategies are needed to manage overall energy demand, based on better technology and less-wasteful habits amongst consumers and industry.* Economies must put in place innovation policies and tax/regulatory settings to ensure that the necessary technological developments and changes of habits take place before they become overdue. This is, again, a joint challenge for government and business.

Within this broad approach we urge all APEC governments to consider the following specific actions in the near-term:

#### **Policy and Regulatory Action:**

1. Conservation policy that includes tax and fiscal incentives for efficient energy technologies.
2. Creation of a market environment conducive to FDI.
3. Tax incentives for highly energy-efficient products.
4. Periodic reports to leaders on the progress and remaining challenges of APEC economies in adopting and implementing Policy Best Practices adopted by the Energy Ministers in (a) facilitating cross border trade in pipeline gas and LNG, (b) accelerating investment in natural gas infrastructure, and (c) financing energy projects

#### **APEC Energy Planning**

6. Inclusion of energy planning in APEC-wide and Individual Action Plans with specific policy direction, resource goals, timelines and measurements.
7. Investigation of new energy sources, alternatives and transition strategies.
8. Stimulation of new technology development by imposing specific efficiency targets for new consumer products.

#### **Ongoing APEC Energy Work Program**

9. Regularization of a vigorous Energy Ministers process to provide guidance on this critical issue to the APEC Leaders through established SOM mechanisms.
10. Dissemination of energy-saving technologies, manufacturing techniques and R&D in renewable energy technology through capacity building initiatives.
11. Continued outreach activities with economies on a voluntary basis to disseminate information about Policy Best Practices developed by the EBN and EWG to help APEC achieve the energy basis needed to support the Bogor Goals.