

Reviewing Japanese and International Energy Situations in 2023

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There are only six days left in 2023. While the Ukraine war, which started in 2022, remains deadlocked, a surprise attack on Israel by Hamas last October has worsened the Gaza crisis. This year, which marks the 50th anniversary of the first oil crisis, has become a year in which grave developments arose for the Middle East situation and global geopolitics. In the following, I would like to summarize and review the highlights of the energy situations in Japan and the world in 2023 from my personal perspective.

In 2023, international energy prices fell significantly from the previous year. So far this year, crude oil prices have averaged \$82 per barrel for Brent and \$78/bbl for West Texas Intermediate, declining by nearly \$20/bbl from the respective 2022 averages of \$99/bbl and \$94/bbl. Dutch Title Transfer Facility gas prices have averaged \$13 per million British thermal units so far this year, dropping from the 2022 average at \$41/MMBtu, or faster than crude oil prices. Steam and coking coal prices in the international coal market have also declined markedly so far this year.

These energy price decreases came as the tightening of the supply-demand balance and supply insecurity were basically phased out this year after leading to unusually high prices in 2022. A global economic slowdown this year was a key contributor to the declines in international energy prices. Despite the decreases, however, crude oil prices at \$80/bbl are by no means low. Although energy prices fell from 2022, the world remained plagued with high energy prices in 2023. Trends of crude oil and European natural gas prices indicate that gas prices were overwhelmingly higher than crude oil prices in 2022 in terms of calorific equivalent before becoming slightly lower in 2023. The relative price changes might have reflected price support actions by the OPEC-plus group of oil-producing countries in the international oil market and the lack of such price support actions in the gas market.

Energy prices, though declining from 2022, continued to plague consumers in the world this year. Although gasoline subsidies were planned to be eliminated at the end of September in Japan, crude oil price hikes then led the subsidies to be extended beyond the month. Europe continued to face a difficult economic situation due to high energy prices and inflation. As a result, cautious political attitudes emerged against policies that could lead to further energy price hikes. For instance, the United Kingdom announced the postponement of planned bans on the sale of new internal combustion engine vehicles and on the construction of petroleum-based boilers. This year, it thus became clear that the impact of rising energy prices and costs on society and the economy is not insignificant but is an important consideration for the implementation of future policies to promote energy transition.

While nearly 22 months have passed since Russia's invasion of Ukraine in February 2022, the Ukraine war has increasingly been expected to last long. Last June, Prigozhin's rebellion occurred in Russia, with Ukraine launching a counteroffensive. However, Ukraine has failed to make any

decisive achievements, leaving the war in a stalemate. Under such circumstances, it has been pointed out that there are signs of "fatigue in supporting Ukraine" in Western countries. Hamas's large-scale surprise attack on Israel on October 7 and Israel's subsequent counterattack escalated the Gaza crisis. While Israel has suffered heavy human casualties, the humanitarian crisis in Gaza has only worsened, with the death toll surpassing 20,000. The destabilization of the Middle East has diverted the world's attention from the Ukraine crisis, exerting various effects on both Ukraine and Russia. Western countries have been forced into a "two-front operation" in which they have no choice but to respond to both the Ukraine and Gaza crises. As the Gaza crisis has deepened, discontent with the United States has increased at the grassroots level in the Arab world, creating a new complex and difficult geopolitical situation in 2023.

As the global economy has slowed down gradually due to rapid, substantial interest rate hikes in Europe and the United States since the beginning of 2022, global economic growth is expected to decline to 3.0% in 2023 from 3.5% in the previous year, according to the World Economic Outlook of the International Monetary Fund. In particular, a Chinese economic slump has attracted the world's attention, contributing to the easing of the supply-demand balance and price falls in the international energy market. In response to this situation, the OPEC-plus group enhanced production cuts, with Saudi Arabia and some other group members adding to voluntary cuts, continuing efforts to support crude oil prices.

Since 2020, when the trend toward carbon neutrality began to accelerate, a grim view about the future of fossil fuels has spread rapidly around the world. Although the view is still grim, the Ukraine crisis and soaring energy prices have led the world this year to reaffirm the importance of securing a stable supply of fossil fuels and recognize the possibility that the energy transition may take a considerable amount of time. Under such circumstances, the presence of the OPEC-plus group and Saudi Arabia increased significantly. At the same time, international oil majors' acquisition of large natural gas assets and their enhancement of LNG business have attracted global attention.

This year also featured a remarkably widening gap between the ideal and reality of the energy transition. While greenhouse gas emissions were required to be reduced substantially to prevent climate change, politics, society, and the economy have become sensitive to the impact of rising costs for enhancing GHG emission cuts, indicating that how to control potential cost hikes will become the most important challenge regarding energy transition. Furthermore, the year saw the growing importance of the Global South amidst the deepening division of the world. The United States and China, or the Western bloc and the China-Russia group, fought a tug of war to step up cooperation with the Global South. India, Southeast Asia, the Middle East, Brazil and other Latin American countries, and Africa increased their presence and influence, complicating the global geopolitical situation.

Under such circumstances, Japan hosted the Group of Seven Hiroshima Summit in May 2023. At the summit, energy and climate change issues occupied a crucial position among the key global issues such as the response to the Ukraine crisis, enhancing climate action, strengthening energy security, the division of the world, and the Global South. Under Japan's leadership, the G7 agreed to admit "various pathways" to achieving common goals such as enhancing energy security and promoting decarbonization. The recognition of "various pathways" rather than "a single pathway" under a top-down approach was the most important achievement of the summit, which allowed the G7 to strengthen cooperation with the Global South and limit the rising costs of energy transition for all countries. This concept was basically carried over to the Group of 20 summit in India. To promote energy transition based on its own national conditions, Japan implemented the GX (Green

Transformation) Promotion Act and the GX Decarbonized Power Source Act in May 2023.

In 2023, a series of extreme weather events around the world gave rise to terms such as "global boiling," with calls intensified for further strengthening GHG emission reduction measures. The 28th Conference of the Parties to the United Nations Framework Convention on Climate Change, known as COP28, in the United Arab Emirates called for reducing global GHG emissions in 2030 by 43% from 2019 and those in 2035 by 60% to achieve the goal of limiting global warming to 1.5°C. It set out the goals of tripling renewable energy power generation capacity and doubling energy efficiency by 2030. The COP28 also agreed on "a just, orderly, and equitable transition away from fossil fuels." Nevertheless, it is important that the concept of "various pathways" remained in the COP28 agreement, emphasizing inclusive efforts for the respective countries in the world.

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