

Reviewing Japan's Energy Policy History (2): Market Liberalization and Responses to Environmental Issues

Ken Koyama, PhD
Chief Economist, Senior Managing Director
The Institute of Energy Economics, Japan

Following on from the previous issue of "A Japanese Perspective on the International Energy Landscape," this essay reviews Japan's energy policy history in order to provide a perspective that will contribute to discussions toward the formulation of the next Strategic Energy Plan. In the second installment of the series, I would like to discuss "Market Liberalization and Responses to Environmental Issues."

Japan recognized the oil crises in the 1970s as the most serious problem that threatened Japan's survival, positioned energy security policy as the most important challenge, and launched maximum efforts and endeavors to respond to and overcome the crises. For Japan, a huge energy consumer with a remarkably low energy self-sufficiency rate, securing a stable supply of energy was the top energy policy priority. This situation has basically remained unchanged so far. Initiatives to place the top priority on energy security continued in the 1980s and beyond.

In the 1980s, however, new important energy policy issues emerged. The first was the start of market liberalization and deregulation. Originally, energy has been often placed under government regulation as a special case. This is because there has been a belief that it is not appropriate to fully leave energy to market forces since energy is a strategic commodity and has an importance that can have a decisive influence on people's lives and national management. The belief became a real issue in the 1970s due to the oil crises, which underpinned the need for strong government regulation and intervention.

Another reason for the need for regulation in energy market is the problem related to natural monopolies. Economies of scale have often played an important role in the formation of energy-related supply chains and infrastructure, paving the way for natural monopolies to arise. Under these circumstances, there has been a basic idea that the government should regulate and manage the energy industry, which gains a huge presence while pursuing economies of scale, to avoid the harmful effects of monopolies on the national economy and secure national economic benefits. As a result, the energy industry has tended to be put under strong government regulation. The oil crises strengthened the tendency.

In the 1980s, however, the idea that it was important to liberalize the market as much as possible, introduce competition, and pursue efficiency in economic policy became widespread worldwide. The impetus for this is thought to have been the neoliberal economic policies pursued under the Reagan administration in the United States and the Thatcher administration in the United Kingdom. As this trend spread to the energy market, calls grew globally for promoting competition as much as possible to improve efficiency in the energy market, which had been considered to be special. In Japan under the influence of such calls, liberalization and deregulation of the oil market began in

earnest in the late 1980s, with a five-year action plan for deregulation implemented to abolish company-by-company crude oil refining and gasoline production quotas. Following the liberalization of petroleum products imports in the 1990s, the Petroleum Business Act was abolished in 2002 to complete the liberalization of the oil market.

The liberalization of the electricity and gas markets in Japan began to make progress in the 1990s. Deregulation proceeded in steps, including the liberalization of the power generation sector and the gradual liberalization of the retail market. In the 2000s, this trend seemed to have come to a halt. After the Great East Japan Earthquake and the Fukushima nuclear power plant accident in 2011, however, an energy policy overhaul was implemented. Then, the electricity and gas market reform was thoroughly implemented, leading the liberalization and deregulation of the electricity and gas markets to make significant progress, including the full liberalization of the retail market. All of these policies aimed to reduce and rationalize costs by promoting competition and thoroughly pursuing efficiency, bringing about significant changes in Japan's energy market through market restructuring and market players' behavioral reform. At the same time, however, these policies led to challenges such as the increased vulnerability of the energy market amid the reduction of spare capacity and surpluses through rationalization and how to secure supply capacity amid the increased difficulties regarding long-term investment and fuel purchase contracts.

As a new energy policy challenge that emerged in the latter half of the 1980s, we must not forget global environmental issues. Interest in the issue of global warming increased rapidly in the latter half of the 1980s due to the frequent occurrence of abnormal weather, especially in Europe and the United States. Following the Earth Summit in Rio de Janeiro in 1990, the United Nations Framework Convention on Climate Change was established, leading the Conference of the Parties to the UNFCCC began to be held. At COP3 in 1997, the Kyoto Protocol was adopted, imposing legally binding obligations on a limited range of countries such as Japan and European Union members to reduce greenhouse gas emissions.

Since energy-related CO² emissions occupy an extremely important part of GHG emissions, GHG emission reduction targets have an extremely large impact on the energy supply and demand structure of these countries. They were required to change their energy mixes according to their emission reduction targets. In order to reduce GHG emissions, Japan was required to enhance energy efficiency and conservation, promote nuclear power, and accelerate the introduction of liquefied natural gas. The promotion of clean coal use emerged as an important policy issue. Comprehensive initiatives for these measures were positioned as an indispensable challenge.

Efforts to address the global environmental issues from the 1990s can be positioned as “low-carbonization initiatives”. The initiatives to reduce GHG emissions by some target years were an ambitious challenge for promoting energy transition. However, the ambitious challenge changed dramatically when the carbon neutrality goal was decided on. Then, the world launched “decarbonization initiatives”. Policy initiatives to transform the energy supply and demand structure into a compatible one with the ambitious GHG emission reduction targets to achieve decarbonization have become more difficult to develop and implement.

As global environmental issues emerge and become increasingly important, another issue that has emerged from the perspective of energy policy is the importance of international negotiations. In addition to the importance of negotiations to set GHG emission reduction targets, the issues of how to proceed with international cooperation to promote the global interest of preventing climate change

and how to protect and maximize Japan's national interests through such cooperation have arisen. The growing importance of international negotiations has created a situation in which Japan must exert more power than ever before in the world of rulemaking. How to develop and implement a new international strategy while promoting Japan's domestic GHG emission reduction measures has become an extremely important challenge for Japan.

Global environmental and climate change issues have become a new factor that has led to the emergence and aggravation of the North-South confrontation. Developing countries hold developed countries responsible for global warming and perceive that it is unfair for developed countries to request developing countries to enhance GHG emission cuts, considering that developed countries become affluent through massive fossil fuel consumption before developing countries. To overcome this issue, the principle of "common but differentiated responsibilities" has been agreed on. The more emission reduction targets have been enhanced, however, the more intense the confrontation between developing and developed countries has become. In this context, how to achieve cooperation and collaboration with developing and emerging countries in Asia in particular has become an important policy challenge for Japan. As a new externality, environmental issues have exerted massive and diverse impacts on Japan's energy policy.

Contact: report@tky.ieej.or.jp

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