

The report for the energy cooperation among ASEAN+3 countries for 2003-2004¹

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The ASEAN countries and Japan, Korea, China, held the meetings to discuss concrete modalities for the implementation of energy cooperation in East Asia from Nov 2003 to April 2004. Those meetings were comprised of Energy Policy Governing group meeting and forums for individual area of energy issues such as Oil Market. The followings are the outline of each forum and the summary and the conclusion of the discussion.

1.1 Background

At the occasion of the 8th International Energy Forum held in Osaka in September 2002 for promoting cooperative dialogue between energy producing and consuming countries, a meeting was held among ministerial level senior energy officials representing the ASEAN countries plus Japan, Korea, and China, or ASEAN+3 countries. As a result of the meeting, five priority areas for Asian energy cooperation have been set out, comprised of: (i) energy security network; (ii) oil stockpiling; (iii) studies on the oil market (the “Asian Premium” issue); (iv) promotion of natural gas usage; and (v) renewable energy. Subsequently, forums related to the five areas above have been formed with meaningful discussions taking place in each of them. In addition, the Energy Policy Governing Group (SOME+3 EPGG) meetings were organized to monitor the progress in respective forums and also to discuss the way forward for them.

1.2 Highlights of forums and SOME + 3 EPGG meetings

Meetings held since November 2003 include Oil Market Forum (once), Oil Stockpiling Forum (twice), Energy Security Forum (once), Natural Gas Forum (once), and EPGG meetings (twice) with the highlights summarized as follows.

(a) Oil Market Forum

In the Oil Market Forum, presentations were made and views were exchanged mainly on the future outlook and challenges concerning Asian oil markets. The greatest matter of concern in this forum was the “Asian Premium” on the energy price. Intensive discussion on this particular topic has resulted in shared understanding that (i) the Asian Premium issue represents a matter of economic concern that is common to all Asia; (ii) the Premium has been continuously observed since early 1990s; (iii) Asian countries are paying the price of approximately one US dollar higher than their European or North American counterparts for a barrel of oil; and (iv) such price differentials stems from the lack of diversity in supply sources for Asia, which is highly dependent on Middle Eastern suppliers with insufficient flexibility. The forum confirmed the recognized importance of joint effort by ASEAN+3 countries in addressing various Asian oil market issues including the Asian Premium. The forum members further agreed on the

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next steps and countermeasures to be taken including: (i) development of alternative supply sources outside Middle East, such as Russia, etc.; (ii) strengthening of oil market functions; (iii) promotion of energy supply diversification; (iv) expansion in oil stockpiling; (v) improvements in exploration and production activities in ASEAN+3 countries; and (vi) enhanced dialogue between ASEAN+3 and oil producers in Middle East.

(b) Oil Stockpiling Forum

In the two sessions at the Oil Stockpiling Forum, presentations were provided and exchange of views were made on the governmental approaches and programs in Japan and Korea regarding oil stockpiling, the significance of oil stockpiling for ASEAN+3, and ways to facilitate cooperation and joint activities towards establishing an oil stockpiling program for ASEAN+3.

As a significant accomplishment of the forum, common understanding has been reached among the member countries on the need for reinforcing energy security corresponding to increases in future oil demand and import dependency of ASEAN+3 as a whole, as well as on the vital role to be played by oil stockpiling to that end.

Consensus has also been established on the importance of pursuing the possibility for establishing oil stockpiling programs for ASEAN+3 while making use of experiences earned by Japan and Korea.

It may also be considered as a significant achievement that the forum agreed on the recognized importance of promoting region-wide cooperation towards establishing and enhancing oil stockpiling for ASEAN+3 and also of seeking the best method for that purpose, thereby consolidating the foundation for the future cooperation.

However, since there are considerable differences among the ASEAN+3 countries with regard to the endowment of oil resources, supply and demand situations as well as the status of economic development, even though the member countries share the recognition of the importance itself of oil stockpiling, there are dissimilarities and nuances in such recognition. Disparities also exist in the economic capability in dealing with the cost burden for establishing oil stockpiling programs. In this context, it would be required that flexible region-wide cooperation be facilitated taking the individual conditions and circumstances of the member countries into consideration. It also appears essential to share the experiences earned by Japan, Korea, and other IEA nations in this regard. The international as well as intra-region cooperation is therefore expected to play a vital role in the joint oil stockpiling programs.

(c) Energy Security Forum

At the Energy Security Forum, presentations were provided and views exchanged concerning the measures for establishing the intra-region energy security as well as development of an energy security management system.

Six strategies below were proposed for establishing the energy security and were approved across the board: (i) promotion of oil stockpiling; (ii) development of infrastructure related to energy trading; (iii) improvements in oil data services; (iv) development and maintenance of intimate relationships with energy suppliers; (v) promotion of energy projects extending across the borders, such as construction of intra-region gas pipelines; and (vi) facilitation of changes in market structure i.e. a shift towards gas.

For the purpose of developing the energy security management system to establish the energy security, the forum agreed on the understanding that it is imperative to have a platform to share information and also to facilitate communication among the ASEAN+3 countries.

Because the participating countries differed in perception for the energy security, reflecting their individual domestic conditions, various views and opinions were presented before the group reached a certain level of consensus. However, since it was an obvious fact that vulnerability exists in Asian energy security, brought by vigorous oil demand in China and the resultant increase in dependency on Middle Eastern oil, common understanding was reached among the participants as to the necessity for ASEAN+3 to collectively deal with this issue in close coordination, rather than working out individual countermeasures. It is considered a significant accomplishment that the forum, based on the above results, helped ASEAN+3 make the first step towards establishment of an energy security management system.

(d) Natural Gas Forum

At the Natural Gas Forum, presentations were provided by each of ASEAN+3 countries, ASCOPE, ASEAN Centre for Energy (ACE), and the ASEAN Secretariat. The presentations dealt mainly with topics such as (i) exploration and development of natural gas; (ii) investment programs and opportunities for natural gas developments; (iii) natural gas consumption and usage including power generation; and (iv) pipeline transportation of natural gas and LNG. Based on these topics, intensive discussions were held concerning the present situation and associated challenges within the ASEAN+3 region.

As a result, the forum agreed to set up a project to organize a platform for dialogue involving government bodies and industry members, covering subjects such as promotion of natural gas utilization and usage development as well as facilitation of future resources development in the ASEAN+3 countries, including discussions with respect to a rational and transparent investment environment. The forum also agreed on making cooperative effort for the energy security and the expansion of natural gas utilization within the ASEAN+3 region, the areas for such effort being represented by two "I"s and two "T"s, as described below:

- Infrastructure: Development of infrastructure and pipelines for LNG and other associated supply facilities
- Investment: Promotion of investments for natural gas development and its utilization
- Trading: Facilitation of a flexible trade agreement that takes into account trends and characteristics of the country, region, and the wide spectrum of markets involved
- Technology: Development of technology for up-, mid-, and downstream applications

(e) Energy Policy Governing Group (EPGG) meetings

The EPGG endorsed the consensus and agreements reached at the forums for respective areas and reaffirmed the importance of facilitating and deepening of the energy cooperation undertaken by ASEAN+3 as a whole. The EPGG also discussed specific activities, such as forums, to carry out the future ASEAN+3 energy cooperation.

As a result, the following program has been approved by the EPGG for the near-term activity plans:

- The 1st Renewable Energy Forum (September 2004, in Korea)
- The 2nd Natural Gas Forum (September 2004, in Indonesia)
- The 2nd Energy Security Forum and the 4th EPGG (December 2004 or January 2005, venue undecided)
- The 2nd Oil Market Forum and the 3rd Oil Stockpiling Forum (1st Quarter 2005, venue undecided)

1.3 Summary

It is worthy of note that, through discussions in the aforementioned forums, the parties concerned have come to share the understanding that the energy cooperation in the region will in future play a vital role in fortifying the Asian energy security. However, it should also be noted that additional efforts will be required in advancing this type of multi-national cooperation since the member countries of ASEAN+3 are divergent in terms of economy, energy supply and demand situation, etc., resulting in a number of occasions where mutual interests are not necessarily shared. It also appears important to learn from the precedent cases and examples in multi-national cooperation in IEA, EU and the like bodies.

In summary, the following points and arguments have been confirmed through the relevant forums for the areas of future energy cooperation:

- Oil market issues: The Asian Premium is recognized as a matter of common concern to Asian consuming countries; a joint effort in addressing the issue is important; strengthening of oil market functions, notably of reasonable and fair price announcing function in the Asian market is essential as is reduced dependency on Middle Eastern supplies.
- Energy security issues: Information sharing provided on a timely basis is crucial; further studies to be expedited towards establishing a system to attain such quality.
- Oil stockpiling issues: The importance of oil stockpiling as measures against oil security is reconfirmed; the Chinese stockpiling program is welcomed and encouraged; the possibility of improved emergency coping capability enabled by the amendment of the ASEAN oil security agreement is welcomed; technical support and other assistance provided by Japan and Korea are welcomed and encouraged.
- Natural gas issues: The importance of natural gas development as well as use expansion is recognized; investments, infrastructure development, and expanded flexibility in natural gas trading among others identified as critical factors to that end.

Japan has been playing a significant role in the area of energy cooperation within the ASEAN+3 region. This appears to have been appreciated by the member countries who seem to expect continued contribution from Japan in the future. It is therefore likely to remain necessary for Japan to play a key role in realization of energy security for Asia with ever expanding energy demand, particularly for East Asia including ASEAN+3, while placing an emphasis on the Asia-wide energy partnerships.

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