

## “Japan’s Strategy for NEA Energy Cooperation” ♦

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It is a great honor for me to have this opportunity to deliver a keynote speech on the subject of “Japan’s Strategy for NEA Energy Cooperation”. First of all, I would like to congratulate the Korean Energy Economic Institute on its 20<sup>th</sup> anniversary, and to express my great respect for its contributions not only to Korean energy policy making, but also to North East Asia energy cooperation.

### New Risks Affecting Energy Security

I would like first to emphasize that the world today faces new threats and risks to the international energy security system. These include the following issues.

- (1) The depletion of oil and gas resources in developed regions such as the US and Europe.
- (2) Rapid increases in the demand for energy, and national strategies in countries such as China and India geared to obtaining resources.
- (3) Growing geopolitical risks in the Middle East, which has the world’s largest oil reserves.
- (4) Concerns about the security of energy transportation and sea- lanes.
- (5) Moves to tighten international regulations on nuclear fuel cycle policies.
- (6) International obligations to reduce CO<sub>2</sub> emissions as a countermeasure to global warming.

Japan’s poverty of energy resources means that these new risks and threats have a crucial bearing on its existence as a state. Despite this, however, some aspects of Japan’s overall approach to the energy problem still fail to keep up with changes taking place in the world. In particular, we need to be mindful of the fact that the paradigm shift that emphasizes the

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strategic importance of energy has far greater significance than is generally appreciated in Japan.

The first manifestation of this significance is that the paradigm shift has caused a conflict of national interests in the international energy market and that countries are now applying strategic thinking to energy issues.

Its second manifestation is that disputes between countries or players in the international energy market are now complicated by the fact that matters such as diplomacy, defense, economic and trade policies, environment and education, are intricately intertwined with energy problems. Bearing this in mind, we must ensure that policies are not excessively influenced by short-term economic considerations.

### Japan's New National Energy Strategy

In this context, it is of critical importance that a comprehensive national energy strategy be established immediately in order to deal effectively with the new circumstances surrounding energy issues, and that we avoid taking a narrow-minded approach based solely on considerations of the energy sector. This national strategy should be conceived on the basis of current and future global trends and must have a clearly defined grand design that matches our national interests.

To this end, a comprehensive approach that takes into account such factors as diplomacy, defense, the economy, trade and the environment is essential, and it is imperative that issues are clearly prioritized. Based on our perception of international relations, we need to create short-, medium- and long-term action plans that delineate the roles and responsibilities of the nation, local governments and the private sector, and we must then take measures to strengthen our national commitment to such action plans.

Under these circumstances, the Energy Committee of the Ministry for Economy, Trade and Industry (METI) announced a New National Energy Strategy in June of this year, and decided to implement a policy of maximum effort with close partnership between the government and private sectors. The strategy sets forth five specific numerical targets for Japan to achieve by 2030.

- (1) The energy consumption per unit of GDP should be improved by 30%.
- (2) Dependence on oil as a percentage of the total primary energy supply should be reduced to

40% or less from the present level of slightly less than 50%.

- (3) The percentage of oil in the total energy consumption of the transport sector should be reduced to about 80% from the present level of almost 100%.
- (4) The percentage of equity oil secured by Japanese companies in total crude oil imports should be increased to 40% from the present level of 15%.
- (5) The percentage of electricity generated by nuclear power in the total generated electricity should be increased to 30-40% or more from the present level of 30%.

All these targets are major challenges for Japan, but the levels of difficulty involved in their achievement appear to differ greatly from target to target. On the basis of a recent study conducted by our Institute (IEEJ), I can say that the first two numerical targets are achievable with relative ease.. The most difficult tasks appear to be reduction in the ratio of dependence on oil by the transport sector and increasing the percentage of equity oil.

As far as equity oil is concerned, the present level is about 0.6 million B/D, which is roughly 15% of the total crude oil import of about 4 million B/D. Since the volume of crude oil imported by Japan is expected to fall to a level of about 3 million B/D by 2030, 40% of the total imported amount will be roughly 1.2 million B/D. The target, therefore, is to double the absolute volume of equity oil secured by Japanese companies by 2030.

As a follow-up to the New National Energy Strategy, METI has decided on a policy of reinforcing the supply of risk money for oil/gas exploration overseas conducted by Japanese oil companies and has started preparing by making specific arrangements. Against the backdrop of the rise of crude oil prices in recent years, the private sector has begun to actively seek opportunities for exploration and development as well as asset acquisition activities in overseas oil and gas resources. To support such activities by private companies, the government has adopted a policy of reinforcing diplomatic activities in the area of energy resources with, for example, the strategic use of Official Development Assistance (ODA) .

### Key Issues for NEA Energy Cooperation

Finally I would like to touch on the issues facing NEA energy cooperation from a Japanese viewpoint. As emphasized in the New National Energy Strategy, we need to reinforce the mechanisms of international cooperation to strengthen Japan's energy security. The various frameworks that currently exist for international cooperation include the following: partnerships between OECD countries through the IEA; producer-consumer dialogues through the IEF; regional cooperation among APEC and ASEAN+3, and bilateral

cooperation among major countries. It is particularly important for Japan to build up multi-layered international cooperation mechanisms that can serve different purposes.

Most importantly, Asian countries that share the same interests as energy consuming countries must work together to create a cooperative and joint approach within the region, taking advantage of frameworks such as the East Asia Summit. Important programs that can be pursued in this manner include thorough implementation of energy conservation measures in Asia, where efficiency of energy utilization is still low, by methods such as establishing appropriate benchmarks. It is also essential that the energy consuming countries of NEA collaborate in restraining the suppliers' market power and in eliminating restrictions on flexible energy trading (such as restriction on destinations of LNG).

In particular, the NEA countries need to make all possible efforts to diversify their supply sources, because this region is going to face increasingly serious energy shortages both in the short run and the long run. Robust economic growth and rapid motorization are going to push up the demand for oil and gas in this region, but the supply capability of oil and gas is very limited owing to relatively poor reserve bases. In this respect, developing the oil and gas resources of Sakhalin and East Siberia in Russia can help the NEA countries reduce their high dependence on Middle East oil.

The key issue is how to encourage oil companies to invest in the development of oil and gas resources in Russia. In the "Action Plan for Global Energy Security" agreed at the G8 summit in St. Petersburg in July of this year, emphasis is placed on strengthening and expanding the rule of law as well as on establishing and empowering predictable, efficient fiscal and regulatory regimes. It seems to me that this is a very important implication for the foreign investment in oil and gas resources in Russia.

On the other hand, it should be pointed out that major investment in infrastructure, such as pipelines, is unlikely to happen if it is left entirely to decision-making by individual companies. For this reason, it is important that the energy infrastructure should be improved on the basis of a comprehensive national strategy developed with a long-term vision and perspective for the future.

Particularly regarding the matter of development of energy resources in East Siberia and Sakhalin, we should examine the idea of constructing a pipeline for the whole of the NEA region, including a plan for a transportation infrastructure to Japan. I think that this would

help Japan strengthen its energy security and improve the domestic energy market through diversification of supply sources. In addition, such infrastructure improvement would serve an important function in promoting links with Asian countries and integration of the Asian energy market. From a strategic point of view, therefore, we should identify obstacles and constraints to its realization and then take appropriate measures.

I would like to close my brief talk by emphasizing the importance of mutual trust among the NEA countries of Japan, Korea, China and Russia. To put it bluntly, the unfortunate reality is that we still have to deal with many political difficulties such as territorial disputes and historical issues. But in order to promote peace and prosperity in the NEA region, we need to make every possible effort in the cause of regional cooperation based on common interests and a future-oriented approach. In this respect, I believe that the energy sector is one of the most promising areas in which to seek mutual benefits through regional cooperation.

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