

Ukraine Crisis and International Energy Situation

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On March 24, one month after Russia's military invasion into Ukraine, I had an opportunity to make a one-hour report on the Ukraine crisis and the international energy situation and hold a 40-minute question-and-answer session at the Japan National Press Club in Tokyo. The most important issue that exerts the most decisive influence on international politics, security and the global economy is the ongoing Ukraine crisis, under which energy security is a great matter of concern to the world. In the briefing, I discussed global energy policy challenges based on a comprehensive review of international energy market changes since 2020, such as the emergence of the COVID-19 pandemic, the inauguration of the U.S. Biden administration and the acceleration of the decarbonization trend, while focusing on rapid changes in the international energy situation one month after the Russian invasion. In the following, I would like to summarize key challenges and issues indicated in the question-and-answer session, based on key points of my report.

First, I would like to point out that the remarkable market destabilization under the current Ukraine crisis is particularly serious in the history of international energy markets. The current destabilization of international energy markets following simultaneous energy price hikes since the second half of last year has resulted from United Nations Security Council member Russia's military invasion into Ukraine, an attempt to change the status quo by force. As Russian attacks and Ukrainian resistance continue now, the situation is extremely serious, with many citizens being killed. The international community, including Europe, North America and Japan, has concluded the outrageous Russian act as unforgivable, implementing and enhancing extremely tough sanctions on Russia. In such situation, energy market players are conscious of potential disruptions to energy exports from Russia that accounts for 11% of global oil exports and 25% of global gas exports, triggering price spikes for crude oil, gas and liquefied natural gas. As the world is increasingly concerned that large-scale disruptions to Russian energy supply could lead to physical energy shortages, stable energy supply in the world, including Europe that is heavily dependent on Russian energy supply, is exposed to serious risks. As a military conflict or war has been combined with sanctions including an embargo under the tight energy supply-demand balance and energy-consuming countries' heavy dependence on specific supply sources seen since before the crisis, the current Ukraine crisis has similarity to the first oil crisis.

Second, I would like to point out that while the geopolitical situation representing the Ukraine crisis has destabilized energy markets, energy market destabilization has exerted grave influence on international politics and the global economy. This means that energy issues have been interacting with the international situation and geopolitical issues. As energy is indispensable for civic life and economic activities, energy price hikes and potential physical energy shortages are shaking international politics and the global economy. Although Western countries are enhancing tough economic sanctions to stop Russia's military invasion, they have fallen short of cutting deeply into the Russian energy sector. Although the United States, Canada and the United Kingdom have subjected

Russia to an energy embargo, the three countries depend little on Russian energy. As a matter of course, crude oil price hikes affect the entire world including the three countries. Given that the three countries are free from dependence on Russia or imports, however, they do not have to worry about potential physical shortages. Meanwhile, countries that depend heavily on energy imports from Russia must consider potential physical shortages as well as price hikes and have no choice but to be cautious of sanctions that would cut into the Russian energy sector. In this sense, industrial countries including the Group of Seven members have been put into different positions. While they are making maximum efforts to overcome such differences and unite, the presence of different vulnerabilities regarding energy has become a challenge in international politics. At the time of the first oil crisis, similar vulnerability gaps led to the collapse of cooperation among industrial countries. Energy market destabilization including price hikes as well as physical supply shortages could deal a serious blow to the global economy. The energy market instability that could contribute to inflation that is becoming a matter of grave concern has loomed as a serious risk factor for the global economy. Energy price hikes could affect domestic politics through increasing burdens on citizens and economic deceleration. In this way, energy market destabilization is shaking politics and economic activities.

Third, we must consider that in such situation, stable energy supply has attracted attention as an urgent challenge, paving the way for stable energy supply measures to be implemented strongly. Particularly, economies plagued with vulnerabilities regarding stable energy supply have come to promote policies that are far stronger than ever before. The European Union has come up with the REPowerEU plan to modify its energy mix to reduce demand for Russian oil and gas by promoting renewable energy and energy efficiency. Moves to review nuclear energy as a stable baseload power source have also emerged. For instance, France has revived and promoted new nuclear power plant construction plans. At the same time, the EU is promoting initiatives to secure alternative gas supply, including liquefied natural gas from the United States and Qatar, to diversify gas and oil supply sources and reduce dependence on Russia. Germany has launched initiatives to develop LNG import terminals and relevant pipelines to enhance the flexibility and resilience of gas supply arrangements. Such strong policies cost much effort and money and are difficult to accept or implement in normal times. The current crisis is so serious that strong policies can be accepted and realized. This leads us to remember that industrial countries embarked on strong energy security policies after the first and second oil crises.

Fourth, I would like to note that initiatives to retain and enhance international cooperation in anticipation of emergencies are indispensable for energy security policies. At the time of the first oil crisis that destabilized the oil market, cooperation among major oil-consuming countries collapsed under Arab countries' oil embargo pressure. The International Energy Agency was created to restore cooperation among oil-consuming countries. In preparation for potential energy supply disruptions through the Ukraine crisis, Western industrial countries should overcome their differences in vulnerabilities regarding stable energy supply, cooperate in addressing any crisis and deter exclusive or panicky actions in a zero-sum game. Ingenious attempts and leadership are required to enhance international cooperation to defend international energy governance.

Fifth, I would like to point out that how to harmonize the enhancement of energy security with decarbonization is a key long-term challenge. As a matter of course, stable energy supply is a top priority in an emergency. Medium to long-term structural initiatives to accelerate energy efficiency improvements and promote non-fossil energy, such as renewable energy and nuclear attracting attention anew, would basically contribute to decarbonization. Electrification and hydrogen promotion to reduce dependence on Russia would also be effective for decarbonization. On the other hand, the current crisis has highlighted how important the securement of stable fossil fuel supply is during a long transition to decarbonization. For stable fossil fuel supply, sufficient supply capacity including

surplus capacity should be secured, with supply sources being diversified. Relevant investment will be required to stabilize international energy markets. It is also important that the current crisis has led us to recognize that costs for energy transition for decarbonization and energy security should be suppressed and minimized.

In response to the new situation under the Ukraine crisis, Japan should recognize the significance of energy security and enforce domestic and foreign policies and strategies to simultaneously achieve the so-called S plus 3Es – Safety plus energy security, economic efficiency and environmental protection.

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