

Participating in Int'l Energy Symposium Featuring IEA Chief Birol's Lecture

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

On September 27, the Institute of Energy Economics, Japan, sponsored an international energy symposium featuring a lecture by Dr. Fatih Birol, Executive Director of International Energy Agency, who was visiting Japan. The hybrid symposium combined a face-to-face conference at the Keidanren Hall with online participation. Some 90 people attended the Keidanren Hall conference, with online participants numbering about 350, indicating robust interest in the symposium, which also included a panel discussion attended by three panelists: Jun Arima, project professor, Graduate School of Public Policy, University of Tokyo; Keisuke Sadamori, director, Office for Energy Markets and Security, IEA; and Jun Nishizawa, executive vice president and group CEO, Natural Gas Group, Mitsubishi Corp. I moderated the panel discussion. At a time when the world was required to strike a balance between energy security and decarbonization in the international energy situation shaken by the Ukraine crisis, the symposium with the lecture by Dr. Birol was a timely one. In the following, I would like to summarize my personal comments on the symposium including the lecture.

First, it was impressive that Dr. Birol indicated an extremely serious view of the current energy situation. He emphasized the current crisis as the first ever global-level energy crisis. This means that the energy situation under the Ukraine crisis, which is often compared with the first oil crisis, represents a grave global crisis covering all energy sources from oil to gas/LNG, coal and electricity. The first oil crisis was an extremely grave event that became a turning point in the international energy situation, but the current crisis is likely to have even greater impacts. Dr. Birol also emphasized that while energy security has become a top priority challenge under the crisis, climate change is in critical condition and should be tackled as a grave issue.

Dr. Birol impressively pointed out that the following three points should not be misunderstood. The first point is that the Russian energy sector has plunged into a critical condition as seen from various viewpoints, although Russia's oil revenue has been expanding due to crude oil price spikes and increasing Russian oil exports to China and India even under Western economic sanctions. This is because Russia has been losing the European market as its key sales channel and is expected to see stagnant oil and gas production over a medium to long term. The second point is that the most important factor behind the crisis is insecurity about or an actual decline in Russian energy supply, rather than decarbonization initiatives. The third point is that the current crisis, like the first oil crisis, may become a turning point for energy transition that could accelerate decarbonization.

Dr. Birol pointed out that efforts and initiatives to accelerate energy transition are emerging in Japan, North America and Europe. As is well known, the European Union has come up with the REPowerEU Plan to phase out dependence on Russian energy and is working to implement it. In the United States, the Inflation Reduction Act has been enacted under the Biden administration to promote clean energy under massive funding. Japan has adopted the Green Growth Strategy as a priority policy to promote innovation and other initiatives mainly in the energy sector.

Dr. Birol also pointed out that key moves towards innovation in various energy areas are emerging in the market under these policy initiatives. They include the further spread of renewable energy including wind power and solar photovoltaics, the accelerating diffusion of electric vehicles and growing momentum for promoting nuclear energy as a recent key change. Moves towards the utilization of nuclear energy emerged amid international energy price spikes since the second half of 2021. The significance of nuclear energy as a stable baseload, zero-emission electricity source was reaffirmed then. France and the United Kingdom announced plans to build new nuclear reactors. Belgium decided to extend the life-time of nuclear plant operations. Germany came up with a plan to maintain two nuclear reactors that had been planned to be decommissioned. Moves to promote the development of small modular reactors also emerged. Recently, China has clarified its policy of promoting nuclear energy. Earlier, it had temporarily decelerated its nuclear energy promotion.

Dr. Birol's following analysis and findings regarding these moves were also interesting. His conclusion is that the first most important driver of the abovementioned clean energy promotion initiatives is the enhancement of energy security in response to the current crisis, followed by the enhancement of climate change countermeasures as the second most important driver. Another important driver is a kind of industrial policy or growth strategy approach, meaning that countries in the world are taking industrial policy or growth strategy measures to catch up with or survive the global energy transition trend.

As a matter of fact, energy price spikes and economic deterioration feature regressivity, exerting greater adverse effects on lower-income groups or countries. Therefore, it is uncertain whether transition to clean energy would make quick or easy progress in the world including developing and emerging countries. Amid the geopolitical chaos and deepening divides in the world and society, the world may grow interested in steady and pragmatic decarbonization, rather than quick and difficult decarbonization, and in the appropriate utilization of fossil fuels. However, we may have to pay attention to the possibility that both energy security and decarbonization could promote energy transition.

Recently, news about serious damage to the Nord Stream 1 and 2 pipelines, a mainstay gas supply channel from Russia to Europe, swept the world, providing a new matter of concern in the international energy market. Irrespective of any cause or reasons for the incident, the serious damage to the pipelines is destined to severely tighten the gas supply-demand balance in Europe in the coming winter. The situation may differ depending on whether the coming winter is warmer or colder. If the serious damage is coupled with accidents or troubles at non-Russian gas/LNG supply sources, or with malfunctions or accidents at variable renewable energy and other major electricity sources, however, gas prices may shoot up far beyond record levels seen last summer, with the supply-demand balance tightening further. Even if Europe tides over the coming winter thanks to higher temperatures, gas supply may depend heavily on inventories. In early next spring, European gas inventories may be depleted. As the year 2023 starts with extremely low gas inventories, the European gas market may remain in an extremely tight situation. European gas price spikes could invite not only Asian LNG spot prices but also prices of oil and coal as alternatives to gas to shoot up. The future international energy situation will remain subject to close attention. How to strike a balance between energy security and decarbonization will remain an extremely important but difficult challenge.

Contact: report@tky.ieej.or.jp

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