

Importance of Japan's Energy Security Cooperation with Australia and Canada

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Energy market destabilization has been accelerating as energy prices have shot up under the Ukraine crisis. As a result, the enhancement of energy security has become a global top priority challenge. As the current market destabilization is closely linked to dependence on Russia, one of the key energy security enhancement measures is to phase out dependence on Russia by diversifying energy sources and supply sources.

In such situation, it has become even more important for Japan to strengthen relations with the Middle East, the most important import source for oil as the biggest energy supply source for Japan, and secure stable oil supply from the region. It has also become extremely important to beef up relations with the United States that has rapidly increased its significance under the crisis and can be expected to further expand oil and liquefied natural gas production. Japan's relations with the United States should be enhanced in all areas including energy because the two countries have formed an alliance. Japan should strengthen relations with other Asian energy-consuming countries as well as oil-producing and other resource-rich countries in the world. Japan should also beef up cooperation with Europe that has great interest in energy security under the Ukraine crisis.

Cooperation with the abovementioned countries is of great significance for enhancing Japan's energy security. Given the current geopolitical situation and energy market realities, the enhancement of cooperation with Australia and Canada as well as the abovementioned countries is of strategic significance for Japan for the following reasons:

First, I would like to point out the political and social stability, democracy, rule of law and other principles in Australia and Canada and the two countries' long, stable friendly relations with Japan. At a time when the international situation is growing uncertain, with geopolitical tensions rising, it is the most important thing for Japan to enhance strategic cooperative relations with stable, reliable partners. As a matter of course, political and economic situations and other environments surrounding Japan and the two countries have been changing continuously. For Japan, however, Australia and Canada with stable democratic social basis and universal values shared by Japan are given priority as partners in tackling the important challenge of energy security enhancement.

Second, Australia and Canada are growing more important for Japan in the tough geopolitical environment where the escalating U.S.-China confrontation and the Ukraine crisis are dividing the world. Australia is a member of the Japan-U.S.-Australia-India Quadrilateral Security Dialogue that is important for the Free and Open Indo-Pacific initiative to which Japan gives priority. It is significant for Japan to enhance and expand cooperation with Australia in energy and other areas. The strategic value of the Quad group is expected to increase further in the new situation where the Western bloc's confrontation with China and Russia is deepening the divide in the world as Russia, confronting Western countries amid the escalating Ukraine crisis, is beefing up relations with China

as its strategic partner. As Japan seeks to promote cooperation with the AUKUS security partnership comprising Australia, the United Kingdom and the United States, Japan's enhanced relations with Australia has become even more significant. Canada, though remaining outside the two frameworks, is one of the Group of Seven industrial democracies and an Asia-Pacific country. As Japan and Canada share the same position in facing geopolitical tensions and confrontation with China and Russia, their enhancement of economic and energy security relations may serve their national interests.

Third, I would like to point out the significance of Japan's energy cooperation with Australia and Canada. Japan and Australia have already developed important, close and reciprocal relations regarding coal and LNG investment and trade. Although the future of coal is growing uncertain amid the enhancement of decarbonization initiatives, Australian coal is well expected to remain important for Japan and the rest of Asia. Regarding LNG that has rapidly grown important under the Ukraine crisis, Australia is likely to retain its presence as an extremely important supplier over a long term. It also has potential to expand LNG supply in the future. Japan, and Australia and Canada have great potential to promote mutual cooperation in the energy area beyond the maintenance and enhancement of their existing relations.

For instance, Canada is expected to increase its presence as an LNG supplier. Canada has traditionally consumed some part of its domestic gas output and exported the other part to the United States. However, it has become important for Canada to export its rich natural gas resources to the Asian market including Japan to diversify its export destinations and enhance its Asian business. For Japan, Canada as a new LNG supplier will be useful for diversifying LNG import sources. If a project is launched to export LNG from Canada's West Coast to Japan, Canadian LNG may be competitive in terms of transportation costs and strategically more advantageous for Japan than U.S. LNG passing through the Panama Canal and Middle Eastern LNG passing through the Malacca Straits and the South China Sea.

However, Japan's energy relations with Australia and Canada may expand even further. For instance, Japan may promote cooperation with the two countries in developing CO₂-free hydrogen and ammonia that would play a key role in Japan's decarbonization and in formulating relevant supply chains. CO₂-free hydrogen and ammonia may be produced from renewable energy or from natural gas and other fossil fuels with CO₂ emissions captured and utilized/stored. Australia and Canada are greatly interested in developing supply chains for such new clean fuels and in cooperating with Japan that has taken leadership in developing the new fuels. Cooperation in the new fuel area will be beneficial for Japan and the two countries.

Japan's cooperation with Australia and Canada will also be important in developing rare earths and other critical minerals that are indispensable for energy transition. If energy transition is accelerated, demand for critical minerals will increase dramatically and their stable supply will become a key issue. China's dominant presence in the upstream sector (development and production) and the midstream sector (processing and refining) for critical minerals has become an attention-attracting economic security issue. Australia, Canada and the United States have recognized the significance of the issue, attempting to enhance their respective critical minerals development strategies. Australia is the world's largest lithium producer. In terms of reserves, it ranks second in the world in lithium and cobalt and sixth in rare earths. In Canada, the government in March 2021 designated 31 critical minerals and vowed to promote relevant investment and development. For Japan, it is important to secure stable critical mineral supply for promoting energy transition. Cooperation with Australia and Canada in this area will contribute to enhancing energy security. Australia and Canada are also major uranium resource holders. Canada ranks third in the world in uranium reserves

and Australia fourth. However, Russia accounts for more than 40% of uranium enrichment for nuclear fuel production, indicating that the diversification of uranium supply and nuclear fuel supply chains and cooperation with Australia and Canada in the diversification are important issues. On the other hand, Canada has attracted attention regarding the development of a small modular reactor project with Japanese involvement.

As indicated above, Japan's energy cooperation with Australia and Canada has the potential to become extremely significant from a comprehensive perspective. It is hoped that Japan and the two countries will further enhance their existing mutual relations and their respective economic and energy security. To this end, they may have to overcome various political, economic, social and technological issues. However, it will become even more important for Japan and the two countries to beef up their relations from a strategic perspective in consideration of the tough international situation and geopolitical environment.

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