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Changes in Asian Developing Countries in Response to Rising Energy Prices

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Energy prices remain high. Crude oil prices started to fall after June 2022 due to signs of an economic slowdown caused by inflation and other factors. However, recently prices started to rise again after OPEC Plus decided to cut production by 2 mb/d on October 5, 2022. LNG prices remain at historically high levels, raising concerns about future price movements as the northern hemisphere enters winter and turns on the heating. These rising fossil energy prices are spreading around the world and having a tremendous impact on developing countries in Asia.

In 2011, the International Energy Agency presented a vision for a “golden age of gas” in which natural gas would play a key role as a transitional energy source. In developing Asian countries, the decline of domestically produced natural gas is becoming more apparent and climate change efforts are being stepped up. In recent years, natural gas and LNG have attracted attention as realistic low-carbon energy sources, and various investment plans, including LNG import projects, are under way. Amid this momentum, the unprecedented surge in LNG prices may disappoint developing countries and make them hesitate to move forward with their plans. In fact, some countries are now running out of foreign currency and unable to buy expensive LNG.

The greatest concern is a return to coal. The rising price of fossil fuels has spread to coal, but it remains cheaper than natural gas and LNG. In addition, some Asian developing countries have large coal reserves and are looking to increase their use of cheap domestic coal. Few openly express support for coal because the politically correct move is to decarbonize, but in private many confess they want to increase the use of cheap coal. Of course, opinions vary widely, but we should not ignore the fact that, for a large proportion, improving people’s standard of living and developing industry are top priorities, and climate change measures are merely side issues. European policies to end dependency on Russia have strengthened this view. Some European countries have changed their previous arguments and have given the go-ahead to coal-fired power to replace or to reduce natural gas consumption, which is in short supply. Developing countries see this as duplicity on the part of Europe, considering that if Europe is going to use coal, then poor countries should be allowed to do the same.

On the other hand, soaring energy prices are surely an opportunity for boosting the use of clean

energy technologies. Cost performance is increasing not only for supply-side technologies such as photovoltaic power generation, whose costs have plunged dramatically, but also all forms of energy conservation. Whether or not the current price surge can be grasped as an opportunity to reform the energy structure will have a significant impact on the future of Asian developing countries. This is evident from Japan's experience after the oil crises of the 1970s.

How can Japan help developing countries in Asia make this happen? The answer is assistance for clean technology. For example, if Asian developing countries are building coal-fired power plants, they should be ammonia-ready facilities that are not only highly efficient but also ready for decarbonization in the future. In addition, Japan should take the lead in establishing a global ammonia supply chain. In addition, needless to say, the deployment of energy-saving technologies is critical in all areas of industry, transportation, and the residential and commercial sectors.

This kind of support will also benefit Japan in the long run. Japan aims to become carbon neutral by 2050, and attaining carbon neutrality throughout the supply chain will be essential to achieving this goal. Since Japan depends on Asian developing countries for much of its supply chain, decarbonization of those countries is necessary for Japan's carbon neutrality as well. In this regard, the global supply chain has a clear North-South structure. Northeast Asia, including Japan, has its major supply chains in Southeast and South Asia; Europe in Africa; North America in Latin America. Decarbonizing Asian developing countries ahead of Africa and Latin America will make Japan more carbon competitive than Europe and North America.

The outcome of the war between Russia and Ukraine is unclear. Given this unavoidable external factor, we should consider how best to increase future profits and competitiveness amid the given environment.

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