

2023 Global and Japanese Energy Outlook

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The New Year 2023 opened after a historically turbulent 2022 due to the impact of the Ukraine crisis. In the following, I would like to share my views on the outlook for the global and Japanese energy situations in 2023 while referring to my overview energy outlook for 2023, as well as nine energy market forecasts published by the Institute of Energy Economics, Japan, on December 27, 2022.

First, I would like to note that the international energy market will remain unstable in 2023, plagued with the risk of serious price hikes and tighter supply-demand balances. This is common to all energy sources, ranging from oil and natural gas to liquefied natural gas, coal and electricity. The biggest focus of attention is the possibility that the European gas and global LNG markets could see a tighter supply-demand balance, price hikes, and physical gas shortages in the worst case. European gas inventories will substantially decrease by the early spring of 2023. While inventory build-ups remains difficult, the tightening of the supply-demand balance may lead to a fierce race to procure LNG as an alternative to reduced gas supplies. Crude oil and coal market prices have the potential to rise depending on unexpected supply disruptions, demand for oil or coal as an alternative to gas amid gas price spikes, and oil production policy decisions by the OPEC-plus group of oil producing countries. Meanwhile, global economic risks are serious. If the global economy decelerates greatly, energy demand may slow down or decline, exerting downside pressure on energy prices. On the demand side, China's economic trends attract attention. At a time when COVID-19 infections are increasing explosively on the reversal of zero-COVID policies in China, Chinese energy demand changes are expected to have great influence on the international energy supply-demand balance in 2023. If the Chinese economy picks up to boost energy demand, energy prices may be pushed up. There are numerous destabilizing factors that could move international energy prices in 2023.

Second, energy security will remain a focus of global attention in 2023 under the abovementioned international situation. Particularly, energy security enhancement initiatives in Europe on the energy crisis front line will attract attention. As well as the European promotion of non-fossil energy sources like renewable and nuclear energy to phase out dependence on Russian energy supply, European moves to secure non-Russian energy supply such as LNG will exert great influence on the international energy situation. In addition, energy security policies in developing and emerging countries plagued with high energy prices and the U.S. Biden administration's energy security strategy after the midterm congressional elections will attract attention. Governments will step up measures to enhance energy security and counter high energy prices. While market forces remain important, governments may enhance engagement with, control on, and intervention in international and domestic energy markets in 2023.

Third, nations around the world will continue to emphasize responses to climate change, focusing on decarbonization initiatives. Amid the current high energy prices and market destabilization, however, a global trend to give priority to stable energy supply may run counter to decarbonization. Such trend may be conspicuous in Europe, which is facing concern about a serious energy crisis, and in developing countries plagued with high energy prices. Amid the trend, international climate change negotiations like the 28th Conference of Parties to the United Nations Framework Convention on Climate Change may see the escalation of north-south confrontation, plunging debates on how to maximize global interests into a deeper chaos. Meanwhile, some energy security enhancement measures feature initiatives to promote the phaseout from fossil fuels, including the European Union's REPowerEU plan. Developed countries may intensify such initiatives. Given high energy prices and worse economic conditions, however, whether such initiatives would make smooth progress in 2023 is uncertain.

Fourth, geopolitical tensions are expected to remain high in 2023, deepening the division of the world. U.S.-China confrontation, which has been a serious issue regarding international politics and security since before the Ukraine crisis, has developed into confrontation between the Western bloc and the China-Russia axis through the crisis, prompting the two sides to launch and escalate a tug-of-war to attract third-pole countries. The division of the world has thus deepened. As noted above, the north-south confrontation over climate change has also become serious, demonstrating a different division of the world. Such geopolitical tensions and the division of the world are unlikely to ease in 2023. Rather, they are feared to take root or escalate. While Russian issues have become a matter of grave concern to the world regarding geopolitical tensions, issues over the Middle East as the gravity center of supply in the international energy market are too important to ignore in 2023, which marks the 50th anniversary of the first oil crisis. We must pay attention to the future of special relations between the United States and Saudi Arabia and to the Iranian situation. The geopolitical situation for Asia as the leading energy consumer and importer is also important. Furthermore, we must closely watch trends in China amid explosive COVID-19 infections after the reversal of zero-COVID policies and in India and the Association of Southeast Asian Nations as the next driver of global energy demand growth.

Fifth, Japan's leadership will be important for the Group of Seven Hiroshima Summit in 2023, which is set to debate how to stabilize the world and pursue global interests under the international situation described above. The escalation of the Ukraine crisis has led some countries to focus on their own energy security without considering international market stability. Given such situation, the G7 Hiroshima Summit will have to discuss how to stabilize the international energy market and maintain its order for global stability. It is important for the seven industrial democracies to promote investment required for market stabilization and reaffirm the significance of international cooperation in avoiding any zero-sum game competition for energy sources. As the only Asian member of the G7, Japan should represent Asian voices to reflect Asian realities regarding energy security and decarbonization in G7 talks. Japan should also promote talks between energy producing and consuming countries and emphasize the significance of inclusive decarbonization initiatives.

Sixth, it must be noted that 2023 will become an extremely important year for Japan's consideration of a comprehensive energy policy. To achieve the 2030 energy mix goal, Japan should accelerate all relevant efforts. In 2023, it is questioned how Japan should materialize basic policies given at the Green Transformation Implementation Council in late 2022. Among them, the nuclear energy policy, including the restart of more nuclear reactors, the reform of a system for extending

nuclear reactors' service life, and the replacement of nuclear power plants with next-generation reactors, will be important for achieving the 2030 goal and significant for a longer term. As talks are likely to start in 2023 on the next revision of the Strategic Energy Plan, Japan will be required to fully consider a comprehensive energy policy to simultaneously pursue energy security and decarbonization in view of new domestic and global situations, including the emphasis on energy security, geopolitical tensions and the division of the world.

Considering how the global and Japanese energy situations, including the abovementioned points, will develop, I would like to follow relevant developments through this essay in 2023 as well.

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