

Dramatically Changing State-Market Relationship (2) - Implications from G7 Hiroshima Summit -

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This report represents the second serial story on the changing state-market relationship as a perspective to overview the recent international energy situation and discusses implications from the Group of Seven Hiroshima summit in May. First, I would like to outline the G7 Hiroshima summit.

The annual G7 summit is a forum for leaders from the G7 industrial democracies – Japan, the United States, the United Kingdom, France, Germany, Italy and Canada – and the European Union to discuss the most important current global issues and their solutions. Participants in the May 19-21 G7 Hiroshima summit chaired by Japan included not only the G7 and EU leaders but also leaders from eight other countries such as Australia, India, Brazil and Indonesia, as well as seven international organizations including the United Nations and the International Energy Agency. In addition, the Ukrainian leader attended the G7 summit. The G7 leaders compiled and issued the G7 Hiroshima Leaders' Communique and standalone statements on Ukraine, nuclear disarmament, economic security and clean energy.

The G7 Hiroshima summit attracted global attention amid the extremely complicated, difficult international situation following the emergence of the Ukraine crisis. Under the leadership of Japan as this year's G7 chair, the leaders seriously discussed important world-shaking issues such as the Ukraine crisis and nuclear disarmament and compiled the abovementioned documents demonstrating their consciousness of the world's division, enhanced G7 cooperation to counter China and Russia, and the G7's cooperation with the Global South. The documents indicate a comprehensive strategy that emphasizes economic security amid the world's division and responds to urgent issues.

The G7 Hiroshima summit positioned energy and climate change as important issues. This is because the world's division and the G7's cooperation with the Global South are closely related to energy and climate change issues at a time when the need for energy security has grown in response to the destabilization of the energy situation following the Ukraine crisis, with carbon neutrality and other decarbonization initiatives becoming urgent. Energy and climate change issues accounted for a major part of the leaders' communique, with a standalone statement on clean energy issued, indicating the significance of energy and climate change issues at the G7 summit.

Regarding energy and climate change issues, it is important that the leaders' communique clarified their commitment "to holistically addressing energy security, the climate crisis and geopolitical risks" and confirmed "various pathways" for doing so. The "various pathways" represented an extremely important agreement at an earlier meeting of the G7 climate, energy and environment ministers and were reaffirmed at the summit. Why was it important for the G7 leaders to recognize the "various pathways?" Because these and other countries' adoption of their respective

optimum pathways for energy transition commensurate with their respective national circumstances will contribute to minimizing costs for energy transition. As far as even developed countries have been found socially and economically vulnerable to energy price spikes, all countries' exploration of their respective pathways for minimizing energy transition costs in line with their respective circumstances is the key to a successful energy transition. More importantly, the rich G7 countries' recognition of "various pathways," rather than their condescending imposition of a single pathway on low-income Global South countries, can contribute to enhancing their cooperation with the Global South amid the world's division.

The recognition of the "various pathways" helps us understand the importance of various points cited in the communique, including (1) international standards for hydrogen based on carbon intensity rather than how hydrogen is produced, (2) the utilization of ammonia as well as hydrogen for the electricity sector, (3) the utilization of synthetic fuels for the decarbonization of the road sector and (4) the significance of nuclear energy for countries that choose a nuclear option.

It is important that the communique not only recognized the "various pathways" but also conditionally confirmed the appropriateness of investment in the gas sector as the focal point of energy security and clarified the significance of stable supply and supply chains for critical minerals and clean energy technologies regarding economic security as a matter of serious concern. This indicates the G7 leaders' consciousness of cooperation with the Global South and the world's division

How is the state-market relationship as the theme of this report related to the G7 Hiroshima summit that made such important achievements? First, the summit indicates the G7 countries' attempt to implement strong national strategies in response to the current global issues and crises. The details and backgrounds of current global issues and crises demonstrate extremely great impacts of the world's division and growing geopolitical risks on the world. The world's division leads to the prioritization of national security and deviation from the pursuit of optimization and cost minimization through free trade and the international division of labor. This means that the government sector controls and intervenes in the market with a strong consciousness of national security, instead of giving top priority to market functions to leave the market to distribute resources and choose economic options. The G7 summit's initiative to enhance cooperation among the G7 countries and with the Global South represents the G7 countries' and the group's strategy to respond to the world's division.

National strategies conscious of national security give priority to supply chains based on economic security, as symbolized by the clarification of enhanced initiatives to secure stable supply and supply chains for critical minerals and clean energy technologies in the energy and climate change field. On the other hand, it is understood that even if supply chains are given priority amid the world's division, market realities indicate that the complete decoupling of the world economy is extremely difficult and costly. In such circumstances, a growing view is that the G7 leaders at their summit pursued de-risking to avoid, eliminate or reduce risks, instead of decoupling. Given China's importance for the world economy and the availability and endowment of important strategic materials, de-risking can become a mainstream approach. This apparently indicates that the state and market have made a compromise with each other in consideration of realities.

How the G7 summit agreement as a political one would be realized in the future is attracting attention. There are two perspectives regarding the realization of the political agreement. From a political perspective, (1) the maintenance and enhancement of G7 cooperation, (2) Chinese

and Russian reactions and responses to the G7 summit agreement, (3) the Global South's reactions and responses to the G7 agreement and (4) each G7 member's domestic stability and policy implementation will exert influence on the world. From a market perspective, an issue is how political agreement would be realized. Even though there was political agreement in the energy and climate change field, the issue is how agreement would be realized or materialized around the world or in each G7 country. Regarding various energy transition options, competition for the development and diffusion of technologies and negotiations on domestic and international rulemaking for each technological option will exert influence on their social implementation. In that process, the state will use regulations, guidance and market forces to comprehensively enhance relevant initiatives. As indicated by the U.S. Inflation Reduction Act, the government sector may implement energy and climate policies while attempting to enhance industrial policies. We must pay attention to the impact of such moves on international competition and cooperation. As national strategies grow important, the impacts of the G7 summit agreement on the future world will attract attention.

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