

What Lessons Should Be Learned from the Oil Crisis 50 Years Ago?

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On October 30, the Institute of Energy Economics, Japan, held an energy symposium titled “Energy Security -- 50 years after 1973 Oil Crisis” at the Keidanren Hall in Tokyo. The symposium took a face-to-face and online hybrid format, attracting a total of more than 700 participants.

At the symposium, keynote speeches by Yoshifumi Murase, Commissioner of the Japanese Agency for Natural Resources and Energy, and William Martin, former U.S. Deputy Secretary of Energy and current Chairman of Washington Policy Analysis, were followed by speeches on lessons and initiatives for the energy industry by industry representatives -- Shunichi Kito, President, Petroleum Association of Japan; Kazuhiro Ikebe, Chairman, Federation of Electric Power Companies of Japan (online participation); Takehiro Honjo, Chairman, Japan Gas Association (online participation); and Ichiro Takahara, Chairman, JOGMEC. After a break, speeches on energy security in Japan were given by Hirofumi Matsuo, a senior staff writer for the Nikkei Shimbun newspaper; Keisuke Sadamori, Director, Energy Markets and Security, International Energy Agency (online participation); Jun Nishizawa, Senior Vice President & Group CEO of Natural Gas Group, Mitsubishi Corporation; and me. Then, I moderated a panel discussion joined by Matsuo, Sadamori, Nishizawa, and Martin.

The oil crisis 50 years ago was the first international energy crisis to rattle the world. At the mercy of soaring crude oil prices and threats to cut supply through the Arab oil embargo, Japan and other developed economies were hit hard, with oil-consuming countries’ cooperation collapsing. Plagued with a fear that the Japanese economy would be forced to end high growth and sink further, Japan had no choice but to implement a desperate survival strategy. At the center of the strategy was the enhancement of energy security measures, including the improvement of energy efficiency, the diversification of energy and import sources, the promotion of relations with oil-producing countries, and the expansion of oil stockpiles. Thanks to all-out public and private sector efforts, Japan overcame the crisis and laid the foundation for later prosperity.

Last year, however, the world again faced an international energy crisis and had no choice but to give top priority to energy security. Due to Russia's invasion of Ukraine, energy supply from Russia, known as the world’s largest energy exporter, became a risk factor, exposing the international energy market to unprecedentedly high prices and supply insecurity. It has become essential for Western countries to phase out their dependence on Russia and strike a balance between energy security and decarbonization, another important challenge. At the same time, however, society has been reminded of the importance of energy and deepened its recognition that the political, economic, and social impacts of rising energy prices and costs are enormous.

In light of this situation, energy policy planners, industry representatives, high-level experts, and other participants in the symposium discussed lessons learned from the oil crisis. Coincidentally,

the largest Middle Eastern military clash or war since the Fourth Middle East War, which triggered the first oil crisis, began on October 7 in Palestine. The world has become aware of the great risk factor regarding Middle Eastern oil supply, which has grown even more important as a result of initiatives to phase out dependence on Russia. Based on the extremely important discussions that took place in this context, I would like to comment on issues that I felt were particularly important, especially those that pose challenges for Japan.

First, from past crises, we must learn that excessive dependence on specific sources for the supply of critical strategic goods, such as energy, can pose a potentially serious threat, even if it is not a problem in peacetime. Excessive dependence on Middle Eastern oil was one of the root causes of the first oil crisis. By the same token, excessive dependence on Russian energy was one of such causes of the Ukraine crisis. Given the world's future energy transition, we must consider how to secure the supply of critical minerals that are indispensable strategic materials for the transition. Based on the experiences with the two crises, the world needs to strengthen its preparedness to prevent a third crisis from occurring or limit the impact of a third crisis to as minor a level as possible. This means that we learn lessons from past crises. However, what complicates the issue of excessive dependence on specific supply sources is the fact that these sources are the most low-cost or competitive suppliers. If we were to resist excessive dependence on competitive suppliers, we would have to be prepared to bear additional costs. How to implement a strategic response based on this possibility will be the key to preparing for future crises.

Second, I would like to emphasize the importance of the Middle East and fossil fuels, which has come to the fore once again. At one point, there was a view that the importance and presence of the Middle East, which depends on fossil fuels such as oil for national management, would decline as decarbonization is strongly promoted. Then, Middle Eastern oil-producing countries themselves were enveloped in insecurity. As the Ukraine crisis has brought the importance of fossil fuels into the spotlight, however, there is a growing view that fossil fuels will play an important role in the long energy transition process as indicated by present realities in the world. Middle Eastern oil-producing countries for their part are increasing their influence on the energy market and regaining their self-confidence. Furthermore, the recent situation in Palestine has made it increasingly important to stabilize the Middle East and ensure a stable energy supply from the region. As mentioned above, amid the growing recognition that fossil fuels will not easily exit the market, the international energy industry has seen strategic efforts such as large-scale corporate acquisitions and the development and enhancement of new business models mainly for oil, gas, and LNG.

In this regard, Japan faces serious challenges. While promoting an energy transition that aims to achieve both decarbonization and energy security, Japan is required to ensure a stable fossil fuel supply. In order to strengthen relations with the Middle East on which Japan now depends for 94% of its crude oil supply, Japan must rethink and strengthen its strategy for the region once again through the combined all-out efforts of the public and private sectors, as is the case with the oil crisis. As Japan proceeds with talks on the next Strategic Energy Plan, it should go back to the basics and have full-fledged talks on what is required to secure stable oil and LNG supply. While pursuing ideal goals regarding decarbonization, Japan should fully consider what is likely to happen and a strategy for responding to any occurrences. With regard to how to secure long-term LNG contracts that have come into the spotlight again due to the Ukraine crisis, Japan may be required to consider revising its strategy boldly as necessary from the perspectives of policies, systems, and market design.

Third, the promotion of non-fossil energy sources and the decarbonization of fossil fuels are indispensable for achieving both decarbonization and enhanced energy security. With regard to the

former, it is extremely important to thoroughly improve energy efficiency, maximize the use of renewable energy, and make effective use of nuclear power. At the symposium, many people called for the promotion of the restart of idled nuclear power plants and the effective use of existing nuclear power plants to achieve the so-called 3E's – economic efficiency, energy security, and environmental protection. In addition to pressurized-water reactors of which the restart has made progress, Japan should promote to restart boiling-water reactors in the future. Japan should play a leading role in the decarbonization of fossil fuels by promoting international cooperation with Middle Eastern and other resource-rich countries, as well as Asian and other countries, to build international supply chains and develop institutions and rules for their utilization. Japan is required to develop a comprehensive strategy for the next 50 years.

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