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Energy Transition Debate Shaken by Reality and the Role of Fossil Fuels

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Few would disagree that the most important factor in today's international energy landscape is the impact of Trump 2.0. U.S. President Donald Trump's initiatives, which have shaken up international politics, the global economy, and security one after another and affected the international energy situation. The world is watching the unfolding Trump Theater with bated breath.

As an initiative directly related to the energy sector under Trump 2.0, another withdrawal from the Paris Agreement to clarify a backward stance on climate change issues has demonstrated a major U.S. policy shift away from the previous Biden administration's approach on climate change, exerting a significant impact on the global climate change debate and its momentum. The shift to the pursuit of "energy dominance" under the "Drill, Baby, Drill" slogan to increase domestic U.S. oil and gas production has become the most important U.S. energy policy component.

These energy initiatives can be seen as key building blocks for realizing and embodying Trump 2.0's "Make America Great Again" and "America First" slogans. These movements and changes in the United States, which has been the world's most influential player in the fields of international politics, the global economy, and security and has occupied a central role in the global energy governance, will inevitably have a significant impact on the global energy transition and discussions on the matter. It is necessary to continue to pay attention to U.S. energy policy developments and their impact.

It is important not only to pay attention to the impact of the unfolding Trump Theater but also to consider the energy transition from a more holistic perspective and a longer time horizon. In this regard, I see the 2020s as a tumultuous period in which the pendulum of the global debate on the energy transition has significantly swung one way and then the other. A change from the energy transition focusing on low-carbon initiatives seems to have begun in 2019, a little before 2020. Then, young environmental activist Greta Thunberg caught the world's attention, leading the dramatic enhancement of climate change measures to emerge as a key energy issue amid the frequent occurrence of extreme weather events around the world. As the COVID-19 pandemic shook the world in 2020, the world came under the strong influence of the so-called Green Deal approach, which promoted clean energy investment for decarbonization as contributing not only to long-term economic growth but also to short-term economic recovery and growth. Then, countries around the world vowed to achieve carbon neutrality by 2050 or later, accelerating the trend towards decarbonization.

As this trend made further progress in 2021, the International Energy Agency published a Net Zero Emissions scenario analysis that had a significant impact on subsequent discussions on the energy transition by indicating how the world as a whole would have to change energy supply and demand in order to achieve Net Zero Emissions by 2050. This trend seemingly peaked at the 26th Conference of Parties to the U.N. Framework Convention on Climate Change in 2021, which produced the Glasgow Climate Pact. Of course, decarbonization later remained a crucial factor in the energy

transition discussion. Then, however, the pendulum began to swing the other way.

General energy price hikes began in the second half of 2021 and accelerated due to the outbreak of the Ukraine crisis in 2022. Amid the destabilization of the international energy market, securing a stable supply of energy has been revived as the top energy policy priority. In this way, how to secure a stable supply of fossil fuels as the dominant energy source has become an urgent and important issue. While the emphasis has been put on the energy transition to achieve both decarbonization and energy security, there has been widespread concern that society would not be able to easily accept the rising energy costs associated with the transition. Rising energy costs have become an economic and social issue that affects politics and elections.

As a result, there has been a growing awareness that the energy transition to achieve both decarbonization and energy security is an increasingly difficult challenge that will take place over a long period of time, during which energy cost hikes should be limited and minimized as much as possible. In this context, there seems to be a growing view that fossil fuels, especially natural gas and LNG, will continue to play an important role in the energy transition. The debate over the energy transition, which had once seemed dominated by decarbonization, has gradually changed in the face of reality.

The return of U.S. President Trump, the implementation of Trump 2.0 policies, and their impact have come as an extremely influential event to extend this trend. As mentioned at the beginning of this essay, U.S. energy and climate change policies under Trump 2.0 will have a significant impact on the international energy situation for at least the next four years. If the United States under Trump 2.0 retains a backward stance on climate change and decarbonization and clarifies its policy of emphasizing fossil fuels, it will have a significant impact on the global debate over the energy transition.

Undoubtedly, decarbonization efforts will continue as a long-term priority. However, it is becoming clear that the emphasis will be placed on appropriate initiatives for fossil fuels, which are expected to continue to play an important role in the long-term energy transition. After indicating plans to curb investment in fossil fuels and focus on investment in clean energy sources such as renewable energy, some international oil majors are revising their business portfolios and strategies to put the emphasis on natural gas and LNG investment.

During the period when the trend towards decarbonization was accelerating, there were efforts by the financial sector to curb financing related to fossil fuel investment. In 2021, the Net Zero Banking Alliance (NZBA) was established as an international financial sector framework aimed at decarbonization and joined by many banks from major countries. In a very interesting development following the Trump 2.0 inauguration, however, major U.S. financial institutions announced their withdrawal from the NZBA one after another. Japanese banks are following suit. The development indicates the direction of easing constraints on necessary fossil fuel investment. Under these circumstances, there is a possibility that long-term energy supply and demand outlooks by various institutions and companies will be affected. Future global discussions and business operations regarding the energy transition, including the development and its consequences, are attracting a great deal of attention.

At the same time, however, it is impossible to predict whether the various events and phenomena that are occurring right now will continue over the long term with their momentum maintained. Depending on the global political and economic situation, the intensification of climate

change damage, and technological advances, especially innovation, the pendulum of the global debate on the energy transition could swing sharply again. While taking into account the possibility that such major changes will come again, we should steadily implement what needs to be done without being overwhelmed by the changes at hand. It is crucial to implement and strengthen strategic initiatives while understanding that entities that successfully acquire innovative technologies leading to a successful energy transition can have an advantage in international competition in the 21st century.

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