

Significance of Resources Development and Procurement Strategy for Japan Based on International Situation

Ken Koyama, PhD
Chief Economist, Managing Director
The Institute of Energy Economics, Japan

On November 25, I had an opportunity to take part in a meeting that the Japanese Ministry of Economy, Trade and Industry held with natural resources and fuel policy experts. The meeting consists of two sessions -- one on stable oil and gas supply amid disasters/emergency and the other on the upstream development and procurement of natural resources and energy. I participated in the latter one, which met for the first time on November 25.

It is needless to say that this meeting was closely linked to Japan's energy policy reform discussions after the Great East Japan Earthquake and the Fukushima Daiichi nuclear plant accident. While the Cabinet Office's Energy and Environment Council and METI's Fundamental Problems Committee focus on the significant problem of Japan's future energy portfolio, the meeting plays a role in complementing discussions on the entire picture of Japan's energy policy by considering one important particular. Given that Japan depends on imports for most of its energy supply and will continue to do so for a medium to long term, however, even the said "complementary role" may be considered very important.

The session on the upstream development and procurement of natural resources and energy actually covers not only overseas upstream development but also a wide range of other important issues including the promotion of Japan's domestic energy development and stable energy resources procurement involving quantity and prices. Among energy sources, the session that I attended clearly gives a focus on natural gas. But it may also consider oil, coal and other fossil fuels, as well as geothermal energy as a domestic energy source. Furthermore, our session covers key mineral resources including rare earth metals that are indispensable for advanced strategic technologies such as those for next-generation automobiles. It comprehensively considers how best to secure stable supply of natural resources and energy.

At our session, in fact, many participants stated that discussions on the matter were very timely and indispensable for Japan's stable energy supply. I fully agree with such sentiment. This is because the domestic situation has turned around to require a drastic energy policy reform while the international situation has grown more severe for Japan with no optimism warranted. This means that the international environment involving Japan's stable energy supply has grown more severe

and uncertain.

Representing the severity and uncertainty of the international environment are fears about the immediate future of the world economy, global recession risks, medium to long-term growth in demand for energy and other resources in such emerging countries as China and India, enhanced resources security strategies of major countries facing growing dependence on energy imports, the government-led promotion of energy policy and diplomacy, the growing presence of powerful state-run companies linked to national resources and energy strategies, the emergence and deterioration of geopolitical risks including growing tensions over the destabilization of the Middle East and North Africa situation and Iran's nuclear weapons development problem, the growing uncertainties over international global warming negotiations, and the weakening or lack of international governance for considering and solving these global problems. We thus are now seeing a list of numerous serious problems.

Japan is now required to work out its international energy strategy to meet the severe international situation. Therefore, we must consider so many problems. But I would like this report to focus on the significance of Asia. This means that it is important to build and implement a strategy based on the context of the accelerating growth in the significance of Asia for natural resources and energy problems. Energy demand has been leveling off or falling in OECD Europe and the United States. Particularly, the United States has reduced import demand thanks to the development of unconventional oil and gas resources. Asia is thus growing more significant for resource-rich countries and is located in a strategically and geopolitically important position where national resource supply and security strategies are conflicting with each other. Located in Asia, Japan is required to develop its energy strategies for Asia and resource-rich countries (including the Middle East and Russia). At the same time, Japan must have a strategy based on Japan-U.S. relations as the world's most important bilateral ties in considering problems regarding Asia and resource-rich countries.

It is a hard fact that large Asian countries, where energy demand and imports have been increasing, are competing with Japan for securing natural resources and stable energy supply. At the same time, however, these countries and Japan, as energy consumers and importers, face some common challenges in securing stable energy supply. One such challenge may be the attention-attracting "Asian premium" problem for natural gas or LNG price, which means that LNG prices in Asia are substantially higher than those in Europe and the United States. Japan and these countries, though being conscious of their competitive relations, should avoid excessive competition nearing a "zero-sum game" between energy consumers, as much as possible, and pursue energy security and stable energy supply for the whole of Asia. In this respect, strategies and efforts for Northeast Asia may be particularly important. This is because the conflict between resource-rich countries' energy supply strategies and energy consuming countries' energy procurement strategies in the region, as mentioned above, is the most conspicuous in the world.

In tackling these problems, the Japanese government should cooperate with the industry sector to take full advantage of Japan's technological and industrial capacity that resource-rich countries view as valuable. But the government has a major role to play in the international arena where national strategies conflict with each other. Top government leaders may be required to implement an integrated approach demonstrating the nation's comprehensive power. In any case, Japan may have to mobilize all available resources to build and realize its energy strategy responding to the severe international situation.

Contact: report@tky.ieej.or.jp

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