

## **Japan's Energy Policy Challenges for 2013**

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The Liberal Democratic Party's overwhelming victory in the House of Representatives election in late 2012 led its president, Shinzo Abe, to form a new Japanese government. Under the new government, progress is expected to come in addressing and solving mounting challenges at home and abroad. As if celebrating the inauguration of the new government, the Nikkei stock average has soared remarkably. On the first trading day of 2013, the average closed at 10,688, exceeding the level just before the March 2011 Great East Japan Earthquake. Expectations have grown on full-fledged economic recovery and the end of deflation. But the stock market is now supported primarily by "expectations." Real efforts for economic recovery will have to be made from now on. In the same way, the new government is launching full-fledged efforts to address energy policy and other key challenges from the beginning of this year. In this regard, I would like to pay attention to the following energy policy challenges for Japan in 2013.

First, there is the problem of whether or how to restart nuclear power plants that have been mostly offline due to safety concerns. The new government gives top priority to economic measures and recovery and cannot ignore the problems of wealth outflow and rising energy costs that have emerged from the expansion of fossil fuels for electricity generation to cover the loss of nuclear power generation. How to address the nuclear plant restart problem on the basic premise of thoroughly enhanced safety may be one of the most important challenges for the new government. The Nuclear Regulation Authority is expected to establish new safety standards for nuclear plants by next summer and build on the standards to indicate whether each plant should be restarted. Later, the government will play a very important role in leading nuclear plant locations and their surrounding communities to accept the restart of plants. The alleged presence of active earthquake faults below some nuclear plant sites has led the nuclear plant restart problem to attract attention anew. I would like to closely watch how the government will simultaneously address the so-called three Es (energy security, environmental protection and economic efficiency) plus safety and the macro economy.

Second, the government must work out a policy on the "best energy mix". Discussions on the best energy mix continued from the second half of 2011 through late 2012 while failing to produce any final conclusion, being taken over by the new government. The LDP's manifesto for the election stated that the party would seek to establish the best mix within 10 years while refraining from delaying decisions. The government should recognize the absence of all-purpose or quick

remedies regarding the best energy mix and diversify energy sources while overcoming problems for each energy option.

The third challenge is the electricity (market) system reform. The previous government considered the challenge and came up with a basic policy guideline of pursuing a comprehensive reform in July 2012. But it didn't have sufficient time for detailed discussions on the basic policy guideline, which have also been taken over by the new government. It may be needless to say that it is important for Japan to promote an appropriate market system reform to pursue greater stability and efficiency of electricity supply as the premise for Japan's stable energy supply and economic activity. The new government must acknowledge this point and consider the reform coolly based on the present electricity supply/demand situation. In this respect, the government should fully consider specific countries experiencing advanced system reforms, and their pros and cons. Britain, which is known for its one of the most advanced deregulation and liberalization of the electricity market, is now trying to work out some specific institutional measures to secure appropriate buffer/surplus supply capacity and introduce renewable and nuclear energy. In this sense, Britain may be considered a case that is interesting and useful for Japan's consideration of the electricity system reform as well as the abovementioned best energy mix.

Fourth, the government must enhance efforts to secure stable procurement of fossil energy. All fossil energy sources from oil, coal and natural gas (LNG) will remain important for Japan over the short, medium and long term. The new government should enhance the strategy for stable procurement of fossil energy sources in consideration of the new global situation including the U.S. shale revolution. Particularly, the government will have to promote talks with and approaches to the United States on Japan's stable procurement of liquefied natural gas at competitive prices that is attracting attention. The government will also have to step up energy diplomacy with oil producing Middle Eastern countries, Russia and other resource-rich countries and pursue cooperation among Asian energy consuming countries. Growing geopolitical tensions have become a difficult problem involving Asian cooperation. In this sense, the new government's diplomatic steering will be put to the test.

The fifth challenge involves renewable energy and energy conservation policies. As specified in the LDP's manifesto, the new LDP-led government will enhance the promotion of renewable energy and energy conservation in 2013. Through such process, the government will try to find how far Japan could expand renewable energy use in its energy portfolio and deepen energy conservation efforts and what costs or burdens could be required to these ends. This point may also be closely linked to the abovementioned issue of the best energy mix. As for the renewable energy policy, the government may be required to analyze advanced renewable energy promotion cases in Europe, the United States and China, to learn lessons from the advantages and disadvantages in these cases and to reflect these lessons in Japan's policy. Meanwhile, Japan is known globally as being a "Top Runner" of energy conservation. In this respect, it may be important for the government to use Japan's energy conservation technology as an effective tool for its external energy strategy in dealing

with resource-rich countries and Asian energy-consuming nations.

The sixth challenge involves the relationship of energy measures with economic, infrastructure development and national land resilience strengthening measures. As noted above, economic stimulation, recovery and sustainable growth are the top priority for the new government. It has also been recognized that Japan should make economic and other infrastructure stronger and more resilient based on its earthquake disaster experiences. In this respect, how to develop energy infrastructure and related energy supply chains may become a major challenge in 2013.

Including global warming measures and policy targets under the new energy-economic situation in Japan, there are a large number of energy challenges for the new government. I hope that the new government will successfully surmount the first step to address energy challenges toward the revitalization and sustainable development of the Japanese economy.

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