

Pacific Energy Summit in Beijing

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

On May 27-29, the sixth Pacific Energy Summit took place in Beijing, hosted jointly by the U.S. National Bureau of Asian Research (NBR) and the China Energy Research Society (CERS). The annual meeting has been held in Asia-Pacific countries since the first one in Tokyo in 2009. About 180 government officials, experts and industry representatives from China and other Asia-Pacific countries and international organizations participated in the conference on a registration basis. These participants conducted active discussions at the Davos-style panel discussions and others.

As the conference took place in China that boasts a dominant presence in the world energy market, key topics there included China's energy market and policy and their implications. Due to its sustained double-digit economic growth since the 2000s, China has substantially expanded energy demand and replaced the United States as the world's largest energy consumer, with its global energy market share standing at 22% in 2013. As the demand expansion centered on fossil fuels including coal and outpaced the supply expansion, China has become a net importer of primary energy resources.

China's net import dependence for the whole of primary energy supply in 2013 stood at 15%. But dependence on imports varies between energy sources. Particularly, China depends on imports for 60% of domestic oil demand. The dependence is the highest among energy sources. China depends on the Middle East for some 50% of its total oil imports, while the region has been destabilizing. There is a sea lane security problem in regard to oil imports from the Middle East. Given these points, oil supply security is the biggest energy security challenge for China. China's dependence on imports for natural gas supply has also risen to around 30% due to recent demand growth, indicating an emerging supply security problem for natural gas. Under the situation, interests are globally growing in how China would implement various energy security measures including the diversification of energy sources and energy import sources, overseas energy resources development and the expansion of oil stockpiling.

At the same time, massive fossil fuel consumption including coal combustion has made China's environmental deterioration very serious. The environmental deterioration has developed into not only a key domestic policy problem but also a regional or global problem. China was the world's largest CO₂ emitter in 2013, accounting for 27% of global CO₂ emissions. Ahead of the 21st conference of parties to the United Nations Framework Convention on Climate Change late this year,

what measures China would take to hold down or reduce CO₂ or greenhouse gas emissions has become the world's greatest attraction-attracting topic regarding climate change. Serious air pollution symbolized by the PM (particulate matter) 2.5 problem has also become an urgent problem for the Chinese government. China is now urgently required to accelerate the diffusion of non-fossil energy (including renewable and nuclear energy) and the promotion of cleaner fossil fuel use (including the utilization of clean coal technologies, improvement of auto fuel quality specifications and expansion of natural gas consumption). The Pacific Energy Summit in Beijing included multiple sessions where this problem was discussed, leading me to recognize growing interests in the problem.

As well as the abovementioned problems, new and important changes or trends in China became interesting topics at the Summit. An important point in this regard is that China has shifted to the "new normal" situation for an economic growth target of 7% in 2015 after the end of double-digit growth. In order to maintain sustainable economic growth based on new economic realities while promoting energy security and environmental measures, China is now required to implement an energy transition to simultaneously attain the three E's -- economic efficiency, energy security and environmental protection. The discussions on these topics indicated a desired goal of a long term transition of China's energy future, some of which is reflected in the official goals in the China's 13th Five-Year Plan energy policy targets including coal's share of energy consumption at 62% or less and a non-fossil energy share of 15% for 2020.

Another interesting point for me was that Pacific Energy Summit participants made various arguments on Chinese energy market and policy trends' implications on the international energy market. First, arguments on gas supply relations between China and Russia attracted global attentions, where two countries have strategically deepened relations in view of the international situation after the Ukraine crisis. China's policies on Russia as well as on the Middle East under its energy strategy are the key to analyzing the future international energy situation. The fate of China-Russia gas supply relations will influence not only the two countries' and Eurasian geopolitics but also the supply-demand balance and negotiations between gas sellers and buyers in the European gas market and the Asian liquefied natural gas market. While placing great hopes on China-Russia gas supply relations, Pacific Energy Summit participants interestingly pointed out that uncertainties exist with regard to actual infrastructure development and that progress in the relations has not necessarily been fast.

Second, the impacts of downside risks emerging in China on the international energy market were also a matter of interest at the conference. This is because the concerns were growing on an economic downside risks in China while there is a widely shared view that China's economic growth will drive global energy demand in the long run. On this point, I introduced the IEEJ's analysis on the negative impacts on the Middle East in the oil market and on former Soviet republics in the gas market as indicated in our "Asia/World Energy Outlook 2014," which attracted high interests from other participants.

Third, Pacific Energy Summit participants indicated various interests in the future course of China's "One Road, One Belt" policy and the roles and influences of the planned Asian Infrastructure Investment Bank as a major tool for implementing the policy. China and other emerging countries in Asia are still continuing economic growth accompanied by energy demand expansion, although the growth is decelerating. The scale of energy infrastructure investment to meet the growing energy demand is very great. If the scope of infrastructure investment is expanded to cover Asian developing countries and others for the "One Road, One Belt" policy, energy and other infrastructure investment may require huge amount of capital. How China will tackle such investment requirement under its international energy strategy has become a great matter of interest to the world. This is because the China's strategy will have great implications on not only energy problems but also international relations including China's challenge to the international order which was built under the U.S. leadership. We will have to closely watch how China's energy transition would develop and what international influences China's policies and strategies would exert amid the development.

Contact: report@tky.ieej.or.jp

The back issues are available at the following URL

http://eneken.ieej.or.jp/en/special_bulletin.html