

G7 Energy Ministers Release Energy Measures in Joint Statement

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On May 1-2, energy ministers of the Group of Seven industrial countries met in Kitakyushu. In a run-up to the G7 Ise-Shima Summit on May 26-27, the ministerial meeting focused on energy problems. Japanese Economy, Industry and Trade Minister Motoo Hayashi chaired the meeting to deal with global energy challenges and relevant measures for the G7 countries. To sum up discussions there, the ministers issued a joint statement covering 34 items.

The Ise-Shima Summit will discuss various important challenges including how to maintain the world economy's sustainable development. In this context, the G7 energy ministers discussed how or whether energy and environmental problems would affect the world's sustainable development. The discussions were based on a new situation after the crude oil price plunge and the Paris Agreement at the 21st Conference of Parties to the United Nations Framework Convention on Climate Change, or COP21.

As indicated by the joint statement, therefore, the G7 energy ministers discussed a wide range of topics from how best to secure energy investment and natural gas/LNG market development to high-quality energy infrastructure development, cyber security and energy, and renewable energy and energy conservation promotion. The topics also included support for Ukraine, nuclear safety and energy cooperation with developing countries. In this way, the energy ministers discussed a comprehensive list of energy challenges and measures that the G7 nations should tackle. Among the wide range of topics, however, the meeting particularly highlighted energy sector investment under low oil prices and Asian gas/LNG market development.

The G7 energy ministers acknowledged positive effects of low oil prices on the world economy and the G7 countries but indicated their concern that the continuation of low oil prices would discourage upstream oil development investment to cause a future price hike (to the disadvantage of the world economy). So, they pointed to the significance of appropriate investment. In fact, international oil companies have substantially reduced upstream investment in 2015 and 2016, indicating that such investment cuts would have negative impacts on future supply capacity expansion. Weak prices for crude oil and other fossil fuels in general could become a disincentive for investment not only in upstream oil development but also in energy conservation and in non-fossil

energy sources (including renewable energy and nuclear power). At a time when countries in the world are required to enhance initiatives to develop the energy supply and demand structure and go in the direction of a low-carbon society after the Paris Agreement, weak oil prices have made it uncertain to make investment decisions. So, the energy ministers concluded that it is important for the sustainable development of the world to promote investment in clean energy sources and infrastructure contributing to environmental and energy security measures even under low oil prices. “We will play a leading role in facilitating investments for secure and sustainable energy,” the joint statement said.

The emphasis on the gas/LNG problems reflected the problem consciousness of Japan as the G7 chair that led the meeting to take up the importance of gas/LNG problems in Asia as a large topic. Although the G7 meeting needed to deal with gas security problems for European G7 members as well as the importance of U.S. LNG, discussions there focused on the viewpoint of Asia facing with the great challenge of gas/LNG market development. In the Asian LNG market on which Japan heavily depends, prices are linked to crude oil prices and fail to reflect the LNG supply-demand balance in a timely, direct manner. The Asian gas/LNG market has fallen short of well-functioning as a liquid, free and transparent market.

Discussions at the ministerial meeting emphasized that the development of gas/LNG market functions would contribute to enhancing gas supply security and the further sound development of the market. In this respect, the G7 welcomed an LNG market strategy that was released by the Japanese Ministry of Economy, Trade and Industry in line with the meeting and called for building a highly liquid LNG market and making Japan an LNG trading and pricing hub by the first half of the 2020s. It was pointed out that key specific measures to enhance LNG market functions include the removal of such conditions (including the destination clause) as those limiting free, highly liquid trading, and the enhancement of LNG and gas market information and data collection and classification.

In the future, it will be important to implement more specific initiatives in this respect. It was significant for the G7 joint statement to have presented desirable policy directions as the seven countries’ common acknowledgement. However, those that will implement energy investment and form and develop the LNG market will be private companies. After presenting policy directions, governments should prepare or develop systems, support and incentives for private companies to go ahead. To this end, governments first should grasp actual private sector needs and market realities accurately. In the future, the policy side and market players will be required to have necessary and sufficient dialogue and implement practical initiatives based on the talks.

As noted above, the latest G7 energy ministers discussed a wide range of topics toward energy measures that could contribute to the world’s sustainable development. The topics included cyber security and energy security and others for which further sufficient global initiatives should be

taken, although this limited report fails to cover them. The G7 will have to address global problems not only from the viewpoint of short term emergency but also from the medium to long-term necessity.

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