

Special Bulletin

A Japanese Perspective on the International Energy Landscape (272)

May 19, 2016

At the “Global Energy Summit 2016”

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

On May 17, I had an opportunity to participate in an international conference titled “Global Energy Summit 2016” in London. Participants in the conference sponsored by global law firm Dentons numbered more than 200 including many energy lawyers. In the conference, experts made presentations and panel discussions on present and future energy and environmental problems. I made a presentation on China’s energy and environment strategy in the final session on COP21 (Conference of Parties to the United Nations Framework Convention on Climate Change) and China, cosponsored by Dentons and the Atlantic Council, a U.S. think tank.

The conference led me to reaffirm that the range of energy problems is very wide. Usually, I deal mainly with oil, gas and electricity industry people, energy policy makers and energy experts. However, a very wide range of people engage in the energy industry, involving a wide range of technologies and laws. When enterprises implement contracts and transactions in the energy market, legal procedures are required. Government-to-government negotiations and arrangements also involve legal aspects. This is the same case with international and domestic deals. In this sense, energy problems cannot be separated from legal measures. The conference gave me an interesting opportunity to infer what legal experts’ matters of interest are in regard to energy problems for present and future business chances. In the following, I would like to summarize impressive points of discussions for me in this respect at the conference.

The first interesting point was that energy lawyers were greatly interested in climate change and the Paris Agreement at the COP21. In an address to the opening session of the conference, Professor Sir David King, the British foreign secretary’s special representative for climate change, emphasized the importance of the climate change problem, the significance of the Paris Agreement and the importance of future climate change initiatives including energy measures. Participants in the conference indicated great interest in how the future of energy would change or be transformed through the enhancement of climate change initiatives and how such change or transformation would lead to great business chances.

A key topic regarding the transformation was renewable energy. Citing the International Energy Agency’s the latest “World Energy Outlook” and other reports, participants noted that renewable energy investment was commanding the largest share of the power generation sector’s

investment last year and that renewable energy would become the most important electricity source in the future electricity mix. Given these points, these participants discussed great expectations on renewable energy and relevant business chances. Although there were discussions on the great expectations, technological development supporting the expectations and the reduction of power generation costs of renewable energy, the participants did not take much time to discuss actual challenges for renewable energy such as how to overcome the problem related to renewable energy's supply intermittency and how to cope with total renewable energy costs including those for measures to deal with the intermittency. In this respect, I felt that an optimistic tone was too dominant for the discussion on renewable energy.

Second, interesting arguments were seen on present energy market challenges and relevant business chances while energy market transformation attracted interests as a long-term issue. In a session on Middle East problems, participants took up problems regarding economic sanctions on Iran and Saudi Arabia-Iran relations. As Iranian crude oil comes back to the international market in the wake of an end to the sanctions, upstream development and other business chances in Iran are surely attracting attention. While the sanctions have yet to be lifted completely with various uncertainties seen, Iran's presence has been steadily increasing. Given new developments in Saudi Arabia concerned about Iran's growing presence, including the announcement of the Vision 2030 initiative for reducing dependence on oil and diversifying the economic structure, arguments were seen about new expanding business chances. This may mean that business chances are abundant even in the Middle East plagued with geopolitical volatility.

Third, participants made arguments about the great presence of China. In the final session, four panelists including me made presentations on China's climate change and energy strategy and its implications from various angles, followed by active questions and answers. As energy demand growth has slowed down amid economic deceleration under the so-called "New Normal," China cannot be expected to restore high growth in the past. If China with one of the largest energy markets in the world transforms the energy market under a strategy to reduce carbon emissions, tackles air pollution and enhances energy security, it would exert great influences on the whole of the world. Such large-scale transformation can be expected to include great opportunities.

Participants in the conference also made arguments indicating their strong interest in the implications of China's foreign strategy symbolized by the so-called "One Belt and One Road" initiative, as well as the transformation of the giant market. An analysis at our institute shows that global energy sector investment through 2040 will total \$52 trillion in a scenario where environmental and energy security measures would be enhanced. Of the total, China will account for \$10.6 trillion, India for \$4.8 trillion and other Asian countries for \$6.4 trillion. Asian investment will total about \$22 trillion. The sum will expand further if investment in the Middle East, Africa and Europe subject to the "One Belt and One Road" initiative is added. I felt that participants in the conference were highly interested in what foreign investment China would implement under the initiative.

To understand energy problems covering very-wide-range and interdisciplinary aspects, we must deepen expertise and expand the range of our knowledge and understanding. My participation in the conference was very significant for leading me to become conscious of this point.

Contact: report@tky.ieej.or.jp

The back issues are available at the following URL

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