

Growing Asian Interest in Japan's Energy Market Reform

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On June 8 through 11, I visited Malaysia and had an opportunity to exchange opinions with Malaysian government officials and those in energy industry and academic circles. As I have served as international adviser to the Energy Commission of Malaysia's Tenaga National University, I delivered a public lecture and had intensive discussions with those in interested parties during the visit.

Impressing me through the discussions was Malaysia's great interest in Japan's ongoing electricity and gas market reform. The market reform was the theme for my 90-minute public lecture. In the subsequent question and answer session that lasted for a little more than 30 minutes, I received many questions from Malaysian government officials and other attendants about the present situation, outlook and challenges regarding the Japanese electricity and gas market reform. While many questions were related to details of the reform, their basic questions included why Japan is implementing the market reform now, how the market reform will be implemented in the future, what challenges will emerge in the reform process, how the market reform is positioned in Japan's overall energy policy and how Japan's electricity and gas industries are responding to the market reform. These questions indicated that they were trying to find implications of the Japanese reform for Malaysia.

There are some reasons for Malaysia's great interest in the Japanese market reform. The first reason is that the reform has been making great progress and will make Japan the most advanced country in Asia in deregulating the electricity and gas markets through the network sector's legal unbundling in electric utilities in 2020 and for three major gas utilities in 2022. The United Kingdom and some states of the United States are well-known for their advanced stage of deregulating electricity and gas markets. Now attracting attention from Malaysia is the fact that Japan, as the third largest economy in the world and a major developed country in Asia, is making a great innovative change with the energy market reform. Since the Fukushima nuclear power plant accident, Japan's overall energy policy has attracted global and Asian attention. As a matter of course, Asian countries have great interest in Japan's energy and nuclear policies. As electricity retail was fully deregulated in April, with the reform attracting great media coverage, however, the focus of attention has shift to the market deregulation.

Second, Malaysia, which is observing the Japanese reform, is also considering its own energy market reform. For Malaysia, therefore, relevant Japanese problems are not those of someone else. In Malaysia where state-run companies play a leading role in the energy market, moves to reform electricity and gas price systems including subsidies are seen. In contrast to Japan, Malaysia is basically a resource-rich country known as a major exporter of natural gas (particularly liquefied natural gas). In the face of the market reform initiative, however, Malaysia is inevitably interested in Japan that is reforming its electricity and gas systems earlier than any other Asian country.

Through my discussions with Malaysian counterparts, I felt that they were strongly interested in the results and challenges of earlier energy market reform cases in the United Kingdom, other European countries and some states of the United States. They made various arguments about whether electricity and gas prices have declined (as planned or expected initially) as a result of the reform, how consumers have assessed energy price trends and what utilities have done or are about to do for their survival in the face of market competition. They made such questions with their future challenges in mind.

From the policy-related viewpoint, Malaysian counterparts asked many questions about how market deregulation progress has conflicted with energy security and environmental policies. Specifically, they discussed how electricity market investment should be secured amid progress in deregulation and what the capacity mechanism should be like in responding to investment problems. They also discussed the massive dissemination of renewable energy under policy support, wholesale electricity price falls, their impact on natural gas power generation, deregulation's impacts on the realization of government-planned energy mix targets and responses to the impacts. They are important issues for earlier deregulation initiatives in such countries as Japan and the United Kingdom. Complete solutions to these issues have not necessarily been found. However, Malaysia is interested in what problems these forerunners have faced and how they are trying to find solutions to these problems.

These issues are not limited to Malaysia that I visited for the exchange of opinions. As noted frequently in some of my earlier reports, high interests in the Japanese market reform and relevant lessons was seen at Japan-China-South Korea energy policy discussions, talks in Taiwan where a new administration has just been inaugurated and meetings in other Southeast Asian countries (including Thailand). As with Malaysia, government and industry officials in these countries are expecting their energy market initiatives and watching what has happened and will happen in Japan.

In my public lecture and discussions in Malaysia, I clearly pointed out that any energy market reform should be promoted in harmony with other policy pillars such as energy security, and climate change and other environmental measures, while emphasizing that the Japanese energy

market reform is viewed and promoted as a pillar of Japan's basic energy policy guideline of "3Es+S" -- energy security, environmental protection, economic efficiency and safety. I also argued that any country should take adequate policies on such significant "externalities" as energy security and environmental protection while fully utilizing market principles. I urged that attention be paid to moves that are taken for "reforming the market reform" itself in countries that have taken leadership in reforming energy markets. As Japan continues to reform its energy markets, problems emerging from the reform and responses to them will surely attract attention in Asia and even in the rest of the world.

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