

An Analysis on Global Energy Governance

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In the world of international politics, the international situation usually continues to change as various challenges and problems arise. Recently, however, the U.S. Trump administration has apparently made the international situation more fluid and uncertain. It is not strange for us to get concerned that powers or mechanisms to bring about global order or stability have declined or failed to work.

The presence of powers and mechanisms to bring about global order or stability, the realization of global order and stability through their functions and the working of these functions may be called “global governance”. Governance means the act or state of controlling/governing. As control and governance for order and stability are desirable for the world from the viewpoint of global interests, mechanisms to realize such control and governance have always been pursued.

In the world of energy as well, control and governance have been pursued from the same viewpoint in various phases. The term “global energy governance” may be interpreted as representing powers and mechanisms to control and govern the stability and sustainability of global energy system. More specifically, global energy governance may include mechanisms to (1) protect international energy security, (2) protect international energy market order and (3) address climate change and other energy-related global environmental problems. The three mechanisms are designed to conserve global interests related to energy. As indicated by the word “governance,” some power must be given to the leader of the control and governance mechanisms. In the following, I would like to analyze the first and second of the three mechanisms under a space constraint:

A review of the mechanism to protect or influence international energy security provides interesting historical changes. The most impressive and significant are changes in the mechanism for the international market for oil, which is the largest traded commodity, accounts for dominant share in total energy supply and has been involved in significant energy security problems. Before becoming a net oil importer in the 1960s, the United States had undertaken governance as the adjustor of global oil supply. The United States had been the last resort of oil supply, providing additional oil supply to allies in wartime, for example. After becoming a net oil importer, however, the United States no longer played a role as the adjustor of global oil supply by using domestically produced oil. Then, the Middle East and the Organization of the Petroleum Exporting Countries replaced the United States as the adjustor. In the 1970s including two oil crises, OPEC powers for influencing global order by production adjustment peaked.

Then, oil consuming countries formed the International Energy Agency to represent their powers and counter OPEC powers. The IEA urged its member countries to stockpile oil and diversify energy sources and developed a mechanism to stabilize the international oil market by releasing oil reserves in emergency. Since its foundation, the IEA has so far worked as one of the global energy governance centers.

As is well known, then U.S. State Secretary Henry Kissinger played a key role in founding the IEA. Through the IEA, the United States, even after becoming a net oil importer, has remained at the center of global energy governance as a superpower engaging closely in security of the Middle East and the protector of sea lanes for oil transportation. The first factor to change this situation is the shale revolution. The United States has rapidly lowered its dependence on oil imports by expanding shale oil production and shifted from an oil-short country to an oil-abundant country. Attracting attention now is whether the shift would give the United States more powers or influence incentives or motivations for control and governance. The second factor to change the situation is the rise of China. As China continues to expand oil imports and increase its presence in the international oil market, what role it would play in global energy governance is attracting global attention. China's One Belt, One Road plan could exert some influences on global energy governance. Future Chinese movements in this regard are attracting much attention.

Regarding the second mechanism to protect international energy market order, interesting historical changes have also been seen. The mechanism can be analyzed from the viewpoint of the history of control on surplus oil production capacity. The international oil market has always had surplus oil production capacity over meeting global oil demand. If the surplus capacity fails to be controlled adequately, crude oil prices lose stability and plunge. Such plunges have been repeated historically. Crude oil prices' destabilization and plunge are significant problems for international politics, the global economy and the oil industry. Therefore, the need has been recognized for a mechanism to control and govern the surplus capacity.

Famous specific mechanisms to protect international oil market order include Standard Oil's market control maintained until the beginning of the 20th century, the 1928 Achnacarry agreement for market adjustment among international oil majors, production adjustment by the Texas Railroad Commission leading to the OPEC founding scheme, international oil majors' joint control on Middle Eastern oil bringing about oil market stability through the 1960s, OPEC's country-by-country production adjustment since the first half of the 1980s and Saudi Arabia's role as a swing producer contributing to crude oil price stability in the first half of the 1980s.

The latest crude oil price plunge came as OPEC and its leader Saudi Arabia surprised dominant market expectations by vowing to leave the market to price crude oil (to make no production adjustment) under a loose supply-demand relationship in the second half of 2014. Crude oil prices rallied after Saudi Arabia took leadership in achieving a coordinated production cut agreement among OPEC and non-OPEC oil producing countries in the second half of 2017, indicating that control on surplus production capacity still exerts great influences on oil market order.

Surplus capacity control is indispensable for maintaining market stability and order. However, surplus capacity control produces a cost for keeping some operational production capacity unused. The leader of the surplus capacity control must bear most of the cost. Some cost is required for maintaining global energy governance. Instead, however, the leader of the governance is given powers to influence the market while being required to bear the cost.

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