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Revisiting Global Energy Governance

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On June 1, the Institute of Energy Economics, Japan (IEEJ), and Asia Pacific Energy Research Center (APERC) cosponsored the third IEEJ/APERC international energy symposium at Tokyo Prince Hotel. Under the theme "Revisiting Global Energy Governance," which is also the title of this bulletin, intellectuals and experts in the world discussed key issues involving global energy governance in three sessions. A total of 300 people participated in the symposium on a registration basis for significant discussions through panelists' presentations, moderator-led panel sessions and questions from the audience.

Global energy governance can be defined as a mechanism or system to keep global energy market stability, order and sustainability. It can also be interpreted as a mechanism to conserve energy-related international public goods such as energy security and global warming prevention. The symposium aimed to analyze the fates and challenges of present great changes and grave events involving the important global energy governance and clarify how to respond to them. In the following, I would like to summarize my comments based on the most impressive points of the discussions for me.

I moderated Session 1 under the theme "Perspectives on Energy Geopolitics; Who will be the leader?" that matches the entire symposium's theme. Panelists for the session were Amy Jaffe from the U.S. Council on Foreign Relations, Paul Stevens from the British Chatham House and IEEJ Board Member Koichiro Tanaka who serves as a professor at a Keio University Graduate School.

The history of the international energy market clearly shows that the United States has remained the center or leader in global governance and global energy governance since the middle of the 20th century. The past international energy market order has been an order led by the United States. However, the global situation has seen great changes such as the rise of China that is shaking the position of the United States. Under the present U.S. Trump administration, the international situation has seen destabilization rather than order or stability. A symbolic development is the confusion or fluidization of the Middle Eastern situation that has heightened geopolitical risks and shaken the international energy market.

The panelists discussed the impact of the United States' withdrawal from the Iran nuclear deal on crude oil prices and growing geopolitical risks in the Middle East as great matters of concern. Given that the Middle East plagued with numerous complex and difficult problems has been an energy supply center for the world, adequate governance must be established to maintain and enhance regional stability. However, recent developments indicate destabilization, leading to questions including what would be required for regional stabilization and what roles each actor should play. While increasing tensions in the Middle East by US withdrawal from the nuclear deal, the United States is pursuing "energy dominance" by accelerating shale development to substantially

expand energy exports. China is further increasing its presence with global strategies such as the Belt and Road Initiative, while Russia is enhancing diplomatic presence in the Middle East by playing its own role in Iranian and Syrian affairs. How these powers outside the Middle East as well as regional powers would change the regional governance and how such change would influence the energy market are key issues for the future international energy market. Japan for its part should strategically consider what position it should keep and what roles it should play.

Session 2 was titled "What is the outlook for paths toward a 50% reduction in GHG emissions by 2050?" and moderated by Wall Street Journal reporter Mayumi Negishi. Panelists were University of Colorado Prof. Roger Pielke, Whim Thomas from Shell International and Dadi Zhou from the Energy Research Institute of China's National Development and Reform Commission.

Under the Paris Agreement, most countries in the world are launching initiatives to reduce greenhouse gas emissions under their respective voluntary targets. They are expected to deepen their submitted GHG emission reduction targets and enhance the reduction under the agreement. As indicated by various analyses, however, these voluntary GHG reduction initiatives have a great gap with the target of halving GHG emissions by 2050. The panel discussions focused on whether the 50% reduction by 2050 would be feasible technologically, economically and politically through climate change policy realities, implications of future scenario analyses and initiatives by the world's largest GHG emitter China. It is difficult to conclude that the panel discussions led to any consensus. However, the discussions implied that there are great hurdles to halving GHG emissions by 2050 from technological, economical and political viewpoints and that the realization of the target would not be easy. Technological advancement or innovative technology development is expected to play a great role in filling the great gap. In a sense, however, those who depend only on technological advancement or innovative technologies may be taken as refusing to face the problem. The discussions led me to feel that society and its members must be prepared to shoulder costs to resolve difficult challenges.

Session 3 was titled "Can the electricity market liberalization be compatible with energy security and climate change concerns?" and moderated by Robin Harding from the Financial Times, with U.S. Rice University Prof. Peter Hartley, former U.S. Assistant Secretary of Energy Peter Lyons and International Energy Agency Chief Economist Laszlo Varro as panelists.

The main objective of electricity or energy market liberalization is to introduce competition to improve market efficiency, reduce costs and increase consumer benefits. Pursuing the objective, numerous countries including developed ones have promoted the liberalization. However, market liberalization's conflict with externalities such as energy security and environmental conservation would be a permanent challenge. Liberalization also represents social experiments and may have to be revised or reformed in response to specific problems. In such process, new strong government involvement or intervention may be required and implemented, as indicated by some specific cases. The panelists discussed mainly what a system for introducing low-carbon electricity sources into the market should be like in pursuit of the liberalization effects and how specific implemented systems would be assessed. Given that energy and electricity environments differ from country to country, it is difficult to simply generalize answers to these questions. For countries in the midst of liberalization and those planning future liberalization, however, it is significant to take advantage of lessons learned from past social experiments for managing a tradeoff between the so-called 3E's – economic efficiency, energy security and environmental conservation – in a balanced manner. This is a key point emerging anew from the discussions.