

### **At the Pacific Energy Summit 2019**

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

On October 10, the Pacific Energy Summit (PES) 2019 took place at the Asian Development Bank Institute in Kasumigaseki, Tokyo. The annual PES conference has been sponsored by the U.S. National Bureau of Asian Research. The latest one was cosponsored by the NBR and the ADBI to mark the 10th anniversary of the first one held in Tokyo in 2009. In the 10-year history, the conference was held in such cities as Jakarta, Hanoi, Vancouver, Seoul, Beijing, Singapore and Washington to deepen discussions on the future and challenges of energy issues in the Asia Pacific region. Titled “Advancing Energy and Environmental Security in the Indo-Pacific: Translating Vision into Action,” the latest conference comprised four sessions for discussions under the Chatham House Rule. Participants in the gathering numbered some 60 including government officials, energy industry people and experts as well as NBR experts. In the following, I would like to summarize particularly impressive points of the discussions.

First, Indo-Pacific issues taken up for the first time at last year’s PES conference were the focus of discussions at the latest one. See “A Japanese Perspective on the International Energy Landscape (402)” for discussions at the previous PES conference. More than two years have passed since the United States and Japan came up with the strategic concept of the Indo-Pacific to launch discussions on bilateral cooperation in the region. As indicated by the title, participants in the latest Tokyo conference discussed how to translate vision into action to enhance Indo-Pacific energy and environment security under the current international energy situation.

In the first session, panel discussions came under the title “Vision for an Energy Secure Indo-Pacific.” Major Asian energy consuming countries in the region face the issue of rising dependence on energy imports and must tackle their high dependence on the Middle East and the challenge of energy security. In this regard, attacks on Saudi Arabia and subsequent large-scale disruptions to oil supply in September came as a shocking incident to these countries, leading them anew to grow conscious of the significance of energy security. Major energy-consuming countries in the region are also required to address environmental issues such as air pollution and climate change and make a transition to cleaner energy.

In this context, speakers in the session interestingly argued that the expansion of natural gas/LNG use in the Indo-Pacific would play a key role in enhancing energy security and environmental protection. Particularly, they noted that while hopes on LNG grow, the degree and speed of LNG expansion in Asian emerging countries expected to boost energy demand would depend on the affordability of LNG prices. Significant arguments were also made on how the government and private sectors should cooperate in addressing energy and environmental issues. Impressively, they cited specific cases in which the government sector provided politically desirable future visions as a key guideline for the private sector’s consideration of long-term investment.

The second session dealt with the theme “Bringing Quality Infrastructure in Scale.” Fundamentally, it is most desirable that quality infrastructure contributing to enhancing energy security and protecting the environment be developed in a business-as-usual manner. In fact, however, such infrastructure fails to be developed due to problems regarding certainties, institutions, social acceptability and economy in many countries and cases. Participants in the session discussed what would be required to improve the profitability and economic viability of infrastructure investment. There was an interesting discussion on an innovative idea of considering a mechanism in which not only direct profits from infrastructure investment but also additional local tax revenues from spillover effects of such investment for local economies would be distributed to investors. Importantly, it was pointed out that while the stability of policies and regulations is more important than any other factors for considering long-term infrastructure investment, the lack of confidence in such stability impedes investment.

In the third session titled “Energy, Trade and Trade Tensions,” discussions focused on the current U.S.-China trade war that has become the biggest risk factor for the present global economy. As a race for economic and technological supremacy is behind the U.S.-China trade war that has intensified through an exchange of retaliatory tariff hikes, no easy solution to the war can be expected. While some compromise could unexpectedly come due to various speculations over the U.S. presidential election and calls for domestic stability, many people views the clash between the United States and China as structural. Amid the escalating war, international energy trade has been affected by international energy price falls attributed to economic slowdown risks. However, discussions in the third session covered more direct issues including implications for U.S. LNG exports. The growing Chinese LNG market could have become a key U.S. LNG export destination without the trade war. The present conditions including the trade war and a subsequent Chinese economic slowdown affecting LNG demand growth are unfavorable for U.S. LNG exports, exerting negative effects on U.S. efforts to expand its share of the global LNG market. The trade war thus could impede U.S. energy dominance, according to some analysts. If U.S. LNG is sufficiently competitive and attractive, however, U.S. LNG export destinations other than China may be secured. As competition among LNG suppliers attracted attention, participants in the third session interestingly pointed to the importance of Russia’s LNG/natural gas export strategy.

The fourth session represented a panel discussion titled “What More is Needed to Ensure That Energy & Climate Policies are Implemented?” Talks there focused on the role of renewable energy. Solar photovoltaics, wind and other renewables are expanding their share of the global energy mix, taking advantage of their characterization as domestic energy sources free from CO<sub>2</sub> emissions and of their rapidly falling power generation costs. While renewables are destined to further expand, the potential extent of the expansion has become a focus of attention. In the panel discussion, participants warned that if solar PV and other renewables expand their share to the extent to which wholesale electricity prices decline substantially, their values would be lost, inviting the issue of cannibalism, and that enormous total costs for their expansion above a certain level could become a constraint on the expansion if renewables’ diffusion is left to market forces. Such warning indicates that there is no perfect energy source, as I and the Institute of Energy Economics, Japan, have argued. This leads to our conclusion that the most adequate combination or best mix of all energy sources would be significant. In this sense, talks in this session were impressive to me.

Contact: report@tky.ieej.or.jp

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