

Importance of U.S. in Global Energy Situation under the Next Administration (5)

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

In the four previous reports, I discussed the significance and importance of the next U.S. administration's energy and environment policies from viewpoints such as climate change, shale resource development, and the policy towards the Middle East including Iran. In this report, I would like to discuss the impacts of the next U.S. administration's energy and environmental policies on U.S. and global energy markets from a panoramic, comprehensive viewpoint to conclude the series.

The incoming Biden administration is attracting global attention as it is expected to give greater priority to climate change initiatives than the Trump administration, toughen regulations on shale oil and gas development from the viewpoint of environmental conservation, transform the Iran policy, and demonstrate significant U.S. policy changes in some other areas. The next administration will domestically and externally send strong "messages" emphasizing priority policies and changes. Given the importance of the United States for international energy markets, major changes in U.S. policy messages will exert great influence on the international energy situation. Then, we will have to pay attention to what specific changes would actually emerge from U.S. policy "message" changes. I made these points in the four previous reports.

In any country, it is important for any administration to have sufficient political resources and secure solid base for public support to effectively carry out strong policies. In this regard, the Biden administration apparently has various challenges. In the latest presidential election, Democrat Joe Biden won more than 81 million votes, a first in U.S. history. At the same time, Republican Donald Trump gained the second largest ever number of votes above 74 million. It is important that almost a half of U.S. voters support President Trump and his policies. The election not only brought about an unprecedented number of votes but also demonstrated the division of the United States to an unprecedented extent. The Biden administration will have to implement policies in consideration of the divided American society and pro-Trump citizens accounting for almost a half of U.S. voters.

In congressional and gubernatorial elections that coincided with the presidential election, Republicans gained greater support than expected earlier. In the House of Representatives, the Democratic Party won more than half of the seats, but its gap with the Republican Party narrowed. Although two Senate seats are left for runoffs in Georgia in January, Republicans have won 50 of the 100 Senate seats, indicating their potential majority control of the chamber. Through gubernatorial elections, Republicans enhanced their greater strength over Democrats. Despite Democrat Biden's victory in the presidential election, overall election results indicate that Democrats and Republicans have equal strengths. In such situation, the Biden administration will have to get "help" from some of the Republicans and secure the unity of the Democratic Party to implement key policies. Within the Democratic Party, policy disputes could arise due to the party's sluggish congressional election performance. The U.S. political situation would not necessarily be favorable for the Biden administration. Therefore, we may have to take note of the possibility that Biden administration

policies could become more moderate than indicated by initial messages.

Regarding how to view the effects of the next administration's policies, we must pay attention to the balance of power between policies and markets. The president can exert influence on energy markets by carrying out policies based on executive powers or backed by law or budgets passed by Congress. However, the United States is basically a free-market country where private-sector players, corporate initiatives and market mechanisms work powerfully to demonstrate their effects. Even strong policies have had difficulties in resisting market forces or trends, as shown by history.

In the face of the 1973 oil crisis, then U.S. President Richard Nixon came up with the Project Independence initiative to reduce the United States' dependence on oil imports and thoroughly enhance U.S. energy security. U.S. administrations have traditionally and basically given energy policy priority to the reduction of dependence on oil imports and the enhancement of energy security. Despite such policy priority, however, the United States' dependence on (net) oil imports continued rising. Imports' share of U.S. oil consumption increased from 37% in 1973 to 66% in 2006. Within the period, the U.S. dependence on oil imports temporarily declined thanks to the Prudhoe Bay oil development project in Alaska in the early 1980s. Basically, however, the U.S. dependence on oil imports continued increasing. U.S. oil demand kept on growing, while domestic oil production retained a downtrend. However, the rate of U.S. dependence on oil imports peaked at 66% in 2006 and declined to a half-century low of 12% in 2019. This change is attributable not to U.S. energy policy effects but to the shale revolution and oil and gas companies' operations to support the revolution.

The Obama administration initially advocated the so-called Green New Deal policy to take advantage of renewable energy expansion and other measures to support the U.S. economy's recovery from the global financial crisis. Eventually, however, the abovementioned shale revolution came to support U.S. economic prosperity. The Trump administration for its part gave priority to the revival of coal to win support from coal-mining states and coal industry stakeholders but has seen coal consumption continuing to decline. Coal has been replaced by natural gas as the largest power generation fuel. These events indicate that presidential and federal policy effects and influence are occasionally limited in the deep market where market principles work, with private sector activities having greater influence on market directions.

The limited effects of the president and the federal government also reflect powerful state government policies and initiatives. State governments in the United States have originally been given great powers. This is the same case with energy and environment policies and regulations. State government initiatives have frequently exerted great influence on local energy markets. In a symbolic case, California has proactively tackled environmental problems by toughening vehicle fuel efficiency regulations and introducing a requirement for zero-emission vehicles to be sold, attracting global attention in recent years. As state government policies have occasionally conflicted with federal policies, some state government initiatives have served as the driver of changes in the United States.

As explained above, the United States with a vast market features various attention-attracting factors such as market forces and state government initiatives that we should consider in analyzing future energy and environmental issues. While considering these factors, we must watch what initiatives the president or the federal government would take and what effects they

would produce. After the Biden administration is inaugurated, we will have to pay attention to how U.S. energy and environmental policies would be implemented, how they would change the United States, and how their effects would change the world.

Contact: report@tky.ieej.or.jp

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