

TOWARDS A PAN-NORTHEAST ASIAN ENERGY PARTNERSHIP

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ABSTRACT

Asia will become the center of global economic growth in the 21st century. No one would dispute the fact that the economies in Asia as a whole possess the greatest potential for economic growth in the world. Taking into account the demand and supply condition of energy in Northeast Asia, the role of energy will assume greater importance for this region in the 21st century.

Three years have elapsed since the terrorist attack on September 11 in 2001, the aftereffects of the event still have a major impact on the situation in the Middle East, and they may trigger a change in the political structure in this region

The world relies on the Middle East for some 30 percent of its crude oil production. Moreover, some two-thirds of the world confirmed oil reserves are found in this region. Although crude oil production in Asia and Oceania accounts for around 10 percent of the global total, their confirmed oil reserves account for no more than 4 percent.

In the 21st century, when the risk for energy security becomes more urgent and important than at any time in the past, it is not possible for any single country to respond alone to the challenging issues surrounding energy and electricity, and there is thus a need for close international cooperation in and effective responses to projects concerning the development of new energy resources and so forth.

The second challenging issue is environment. Whilst environmental issues encompass both local and global problems, international cooperation is critical if all the issues are to be surmounted.

How to deregulate energy and power market in the region is also an important issue. It is important to bear in mind that deregulation is ultimately only a means to an end and that it is not the goal in itself.

COMMENT

I am very honored to have been invited to make a commentary in this session.

I am very much confident that Asia will become the center of global economic growth in the 21st century. Although, regretfully, I am unable to assert with any confidence that Japanese economy will recover in the near future, no one would dispute the fact that the economies in Asia as a whole possess the greatest potential for growth in the world. Having said that, inexpensive and stable supplies of energy and power are critical, when this powerful growth potential can be realized. In this context, the role of energy will assume a great importance for the Asia Pacific region in the 21st century.

Ensuring cheap and stable supplies of energy is an eternal objective in energy and power policies in modern world. However, as all of you gathered here today are well aware, attaining this objective is by no means as simple as it sounds.

For the first instance, it is necessary to mention the issue of energy security. The terrorist attack on the US on September 11, 2001 and the ensuing conflict in Afghanistan and Iraq radically altered the world's perceptions of security in relation to energy supplies. While two years and three months have elapsed since the attack, the after-effects of the event still have a major impact on the situation in the Middle East, and they may trigger a change in the political structure in this region

The world relies on the Middle East for some 30 percent of its crude oil production. Moreover, some two-thirds of the world's confirmed oil reserves are found in this region. Although crude oil production in Asia and Oceania accounts for around 10 percent of the global total, their confirmed oil reserves account for no more than 4 percent. There are expectations for natural gas, but the share of confirmed usable deposits in the region is less than 7 percent. Accordingly, since Asia's dependency on extraterritorial energy supplies is increasing, measures to ensure energy security will inevitably become a high-priority policy assignment. Threats to stability in major oil producing nations are also a matter of primary concern for the countries in Asia. (Especially in North East Asia, including China, economies depend on the Middle East for the majority of its crude oil supplies, and their dependency have become increasing in recent years. Thus, precariousness in the supply of crude oil would directly lead to economic instability.

The Northeast Asian region will be faced with both overall shortage and geographically problematic distribution of energy resources, as energy demand is predicted to increase steadily due to continued overall economic growth of the region. In particular, since oil supply in Northeast Asia is highly dependent on external sources, especially the Middle East, energy security risks and concerns in the region would likely increase. Consequently, the imbalance between energy supply and demand is likely to be long lasting.

In the 21st century, when the risk for energy security becomes more urgent and important than at any time in the past, it is not possible for any single country to respond alone to the challenging issues surrounding energy and electricity, and there is thus a need for close international cooperation in and effective responses to projects concerning the development of new energy resources and so forth.

The second challenging issue on energy and power, which cannot be ignored, is the environment. Environmental restriction on fossil fuel consumption will be imposed to attenuate the effects of acid rain and global warming in 21st century. Especially, the expected increase of energy consumption to accommodate the economic growth of China will have major effects on the balance of energy supply and environmental issues. Indeed, China will shape the new dynamics of political and economic interaction with the large Middle East/Central Asian suppliers.

Whilst environmental issues encompass both local and global problems, international cooperation is critical if all the issues are to be surmounted. Moreover, in the midst of an increasingly environment-conscious world, the search is on for a new lifestyle. The new lifestyle will replace the American-style consumption culture that symbolized the affluence of the 20th century, with the aim of creating an oil-free society. Efforts are already being made to develop new energy-related technologies including liquefaction of coal and fuel cells. In order for these new technologies to diffuse into the market, it is necessary to develop a supply infrastructure for the comparatively clean natural gas. I am sure that everyone will easily find the importance of global cooperation in this task also.

The last but most pressing issue is how to promote the deregulation of energy market, in particular gas and power market. Given that deregulations of energy sector is necessary to ensure cheap supplies of energy, privatization and deregulation in the gas and electricity markets have been promoted in many countries in the Asia Pacific region following the western countries. When we introduce liberalization in energy market, in particular electricity market, we must be careful about the effects on investment. Although I, as an economist, would like believe that functioning competitive markets should stimulate investments where needed through price-signals, most western countries have stopped building new nuclear power stations which take long to build. I also would like to point out that US and European electricity industries dramatically have cut not only number of employees but also R&D investments to reduce production costs since the introduction of deregulation. Furthermore, it is well understood that deregulation and liberalization of energy market has environment impact. It is important to bear in mind that deregulation is ultimately only a means to an end and that it is not the goal in itself.

In considering the economic and energy situation of Northeast Asia, the importance of a stable growth in electricity supply and mitigation of its environmental impact will be among the key challenges facing the Northeast Asian Region in the 21st century. Sound electricity policies can bring together various issues on international cooperation, economic growth and energy security leading to long-run prosperity in the region. The inter-fuel substitution in the electricity sector is one of such key policy determinants. Under these circumstances, the Northeast Asian electric utilities have reached a momentous historical milestone: They need to plan on how to meet effectively the energy and electricity challenges in Northeast Asia in the 21st century through international cooperation in energy resource development projects and electricity industry productivity improvement strategies.

All these facts and issues mentioned above lead to the conclusion that international cooperation is and will be very important to solve the problems we are face with. And I believe that this kind of cooperation in the energy sector will be a great step to create the new energy community in Northeast Asia.