New Outlooks for Asian Energy Security

Changing Global Dynamics and Regional Responses

Workshop Report
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Surging Asian energy demand and soaring North American shale gas, tight oil, and oil sands production have transformed global energy markets. Already one of the world's largest energy consumers, the United States is now expected to also become a significant energy exporter. Meanwhile, Japan's already high dependence on imported oil and gas supplies has skyrocketed after the country's nuclear reactors were taken offline following the Fukushima Daiichi nuclear disaster. Japan's greater reliance on liquefied natural gas (LNG) to offset the deficit in nuclear power has reshaped outlooks for LNG markets. Similar stories of rising oil and gas imports are trending across Asia, in particular as China surpasses the United States as the world's largest importer of crude oil. With the United States' direct dependence on Middle East oil declining rapidly, Asian importers are now the largest beneficiaries of Middle East and Persian Gulf supplies and U.S. strategic guarantees to the region. This introduces new considerations for the United States' role in the Middle East and raises the question of how Washington should respond to shifting energy and strategic priorities.

To explore the policy adjustments necessary for the United States, Japan, China, and other countries in the Asia-Pacific to adapt to this new energy era, The National Bureau of Asian Research (NBR) convened a full-day workshop in Washington, D.C. Discussants were asked to assess the shifting fulcrum of energy trade between North America, Asia, and the Middle East; draw implications for U.S. and Asian energy diplomacy; and make recommendations for how the United States, Japan, and others might lead the Asia-Pacific toward greater levels of energy security. This report outlines the major points of this discussion.

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The Changing Flow of Global Energy Supplies

In dramatic contrast with market projections from less than ten years ago, the decline in U.S. oil production has been sharply reversed, and U.S. natural gas production has soared. Participant Mikkal Herberg put this increase in perspective: "In oil production, in five years [the United States has] added the equivalent of a new Kuwait to global oil production, 2.5 mbd [million barrels per day]. Shale gas production has increased more than ten-fold in the last five years from 2.5 bcf [billion cubic feet] a day to nearly 30 bcf a day, with U.S. annual output equivalent to more than two times Japan's annual natural gas consumption."

The United States' dependence on oil imports has already declined from a peak of 60% in 2006 to 40% in 2012, [1] and discussants highlighted that this figure is likely to move below 20% beyond 2020 and toward zero net imports in 2030. A similarly dramatic story can be told about natural gas, with the U.S. Energy Information Administration (EIA) predicting that the United States will be a net exporter by 2016. [2] As noted by workshop participants, the benefits to the United States of these shifts in energy trade are numerous—an increase in economic growth and trade, a reduction in the trade deficit, a surge in job creation, and an increase in government revenue.

Yet as mentioned throughout the day, for most countries in the Asia-Pacific, the energy narrative is one of perceived scarcity. Japan's dependence on energy imports has dramatically increased post-Fukushima and led to the country's first trade deficits in more than a decade. One Japanese participant noted that Japan's already low rate of domestic energy production declined by more than two-thirds in 2012 and that the country remains 100% reliant on imported oil and natural gas supplies. Other participants agreed that even though Japan's Basic Energy Plan seeks to address concerns about import dependence, energy security challenges will linger. [3]

Looking around the region, participants noted similar trends in rising import dependence. In the aftermath of the Fukushima disaster, South Korea recently revised downward its plans for

Through a range of activities—including field research, commissioned papers, workshops, and dialogues with key stakeholders—the project "Adapting to a New Energy Era" aims to provide in-depth and academically rigorous research into how the United States, Japan, South Korea, China, and other countries can craft stronger diplomatic, strategic, and economic tools to support common energy security interests. **Learn more**.

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expanding its own nuclear power sector, which will have a negative impact on its plans to diversify supply. Southeast Asia is also going through a period of transition in which traditional exporters such as Indonesia and Malaysia are emerging as importers of oil and gas. Finally, although China is the fourth-largest producer of oil and third-largest producer of natural gas, its dramatic growth in demand will significantly increase Chinese import dependence to 80% for oil and 40% for gas by 2035. [4] Assessing the region as a whole, Tom Cutler and other participants noted that rising Asian demand, spurred by growth in the ASEAN countries, will be a critical driver of increases in global energy demand for the foreseeable future. Other studies have suggested that Asia will also increasingly look to extraregional sources to satisfy its needs, a finding with which roundtable participants agreed. [5] Without a dramatic shift in assessments of the region's potential to harness indigenous resources, energy insecurity will remain a visceral issue in Asia.

Still as participants were quick to note, Asian energy security is not a zero-sum game. The United States' improving energy outlook presents potential opportunities for developing new and stronger partnerships with stakeholders in Asia. One discussant deemed the surge in the U.S. supply of natural gas "a potential game changer," not only in how we think about total global supply, but in terms of how U.S. exports could increase competition among traditional suppliers and advance efforts to develop transparent gas-pricing systems delinked from the cost of oil. Moreover, even if no U.S. production goes to Asia directly, Herberg and others noted that greater North American supply effectively eliminates the United States' direct demand for Middle East energy supplies and thus frees up supplies of oil and natural gas for export to Asia. Nonetheless, many in Asia remain concerned about the stability of Middle East and Persian Gulf suppliers.

Strategic Engagement in the Middle East

With these changes to the global energy supply in mind, participants turned to the question of how U.S. energy abundance and rising Asian demand might shape the dynamics of two major geopolitical issues: the outlook for U.S. energy diplomacy and engagement in the Middle East and Persian Gulf, and the role of key Asian allies and consumer nations in securing the reliable flow of Gulf oil and gas to world markets. More specifically, one Japanese participant noted that some Asian observers fear that the United States' declining need for Middle East supplies could lead to weakened U.S. engagement in that region, increasing the likelihood of greater regional instability and supply disruptions. Given Japan's expanding reliance on the Middle East, such a scenario could have a serious and direct impact on Japanese energy security and raises a critical question for policymakers across the region.

Overall, most participants agreed that the United States would retain a firm strategic commitment to the Middle East, regardless of direct energy imports. There was general consensus that the United States' commitment would endure in part because U.S. and global economic health will continue to rely on the Middle East's role as a linchpin supplier of global oil markets and in part because of strategic and security considerations that go well beyond energy policy. Nonetheless, many participants agreed that although the United States' high-level resolve may remain firm, its strategic and tactical ability to shape events in the region will likely be diminished in the future. As noted by Roy Kamphausen, several key factors—including recent defense budget reductions, a decreasing level of support on the part of the U.S. public for overseas military engagements, and a requirement to fund and field forces to support the ongoing U.S. pivot to Asia—will together strain Washington's ability to carry through on its strategic intent in the Middle East and Persian Gulf. Nonetheless, even as U.S. forces draw down with the end of the war in Iraq and planned conclusion of combat commitments in Afghanistan by the end of 2014, troop levels may still remain above pre-war levels, even as other adjustments are made (including the removal of an aircraft carrier strike group, among other assets). In thinking through alternative security arrangements, participants reviewed the likely appetite for greater U.S.-Japan, China-led, or greater trans-Pacific strategic collaborations and noted several challenges. While Japan has a long history of political and economic engagement in the Middle East, and a strong foundation exists for enhancing U.S.-Japan ties, Article 9 of the Japanese constitution imposes significant limitations on strategic forces and resources that could be used to protect critical energy sea lanes. [6] Such limitations would likely need to be revisited first, and Japanese public opinion is deeply divided on this matter. Anti-revisionist arguments range from opposition to remilitarization specifically to a broader desire to promote peaceful conflict resolution. [7] With respect to Chinese-led collaboration, participants argued that despite China's expanding energy ties and relations with key powers in the Persian Gulf, a corresponding uptick in its involvement in regional security arrangements was not guaranteed. Bernard Cole remarked that the country is unlikely to replace the U.S. as a security guarantor in the Middle East, given its lack of power-projection capabilities and its focus on domestic development and protecting its interests in areas such as Taiwan and the East and South China Seas. Other discussants raised the questions of whether China should be encouraged to play a more active role in Middle East security, given the country's potential weight in energy geopolitics, and whether this could be coordinated with enhanced U.S.-Japan collaboration.

Participants also raised the question of how Qatar, Saudi Arabia, and other oil- and gas-producing countries are factoring market shifts into their own diplomacy and relationships in Asia and with the United States. In response, Ambassador Richard LeBaron argued that, in looking outward, many countries in the Middle East are less concerned with the direct security implications of a U.S. drawdown in Afghanistan and elsewhere and more immediately worried about the rhetoric surrounding energy independence and their perception of growing U.S. disengagement from the Middle East. Thus, securing the stable flow of Gulf oil supplies to world markets and strengthening the policy tools needed to address regional crises are not solely military problems. They also concern how we collaborate globally to address political, economic, and energy infrastructure issues.

At the same time, efforts to increase cooperation in Asia on energy security also face serious challenges. Participants noted that tensions across the region related to historical, military, and political debates continue to run deep and hinder collaboration. Participants emphasized, however, that energy security is an area where Asian states have strong common interests: efforts undertaken now may have the larger-scale impact of bolstering overall regional trust.

Moving Forward Together

Overall, discussants agreed that there is a strong common interest in promoting greater energy security across the Asia-Pacific given the shared need for stable, transparent, and diversified energy markets. Cutler argued that "new and politically bold steps will be needed to strengthen Asia's architecture for energy security if [the region] is to be adequately prepared for when—not if—there is a serious energy market disruption." Building on this, participants highlighted the importance of making a dedicated effort to expand, revise, and strengthen institutional frameworks. For example, although the IEA provides the most established framework for international energy coordination, it does not fully address Asian energy security challenges because membership is restricted to OECD countries and excludes emerging economies such as China and India. To address this limitation, Cutler proposed that the East Asia Summit could serve as a potential vehicle for an ASEAN-centric, pan-Asian umbrella arrangement for oil sharing and strategic oil stockpiles that works with the IEA. This could create an institutionalized space for conducting joint emergency-preparedness exercises, sharing technical expertise, and supporting oil stock coordination, among other measures. Participants agreed that such a step would not only meet a real structural need but align well with discussions and efforts currently ongoing in the region.

Importantly, discussants also noted that effective cooperation will require a clear statement of a shared strategic vision for energy security and how to strengthen it. For example, some participants argued that establishing a pan-Asian strategic petroleum reserve is an important next step in addressing regional energy security, one that would allow all countries to benefit from the added ability to mitigate supply disruptions and price spikes. However, Robert Price observed that when considering the use of strategic petroleum reserves, it should be remembered that countries may have different thresholds for what constitutes an "emergency" that should trigger a release of supplies. Is an emergency a dramatic shock to global supply (such as occurred in the 1970s)? Or is it also a dramatic flux in price (which for China and other countries may have a significant impact on their national economies and thus domestic stability)? That being the case, moving forward would require specific, actionable operating principles that address the needs of all stakeholders.

Congressman Charles W. Boustany, Jr., argued that the world is on the "cusp of a new era of energy diplomacy" and that the United States can play a key role in ensuring stable energy markets through a commitment to fostering transparent markets and strengthening U.S.-Asia relations. Tying into this point, Ambassador Ahn Ho-Young later described the "win-win-win" situation of current market changes: the United States provides dependable, reliable, and cheaper natural gas; the region has a chance to reduce emissions by substituting natural gas for oil and coal; and, finally, trade can offer a source of income and investment for infrastructure and the domestic shipping industry. Participants were also hopeful that energy integration could enhance collective security in Asia. All discussants affirmed that the temptation to pursue mercantilist or isolationist policies should be outweighed by the benefits of this new, more collaborative vision for how countries in the Asia-Pacific can move forward together.

Conclusion

These major shifts in energy markets and the strategic environment suggest the need for bold new action. This challenge requires leaders to commit to free-market principles, diversification of energy resources, and the construction of strong institutions to ensure stability of supply, including addressing questions about IEA engagement with Asian non-members and developing ASEAN's energy cooperation. It is also an opportunity for increased U.S. exports of LNG and potentially oil, which could not only reduce costs in Asia but also deepen and renew long-standing U.S. relationships with Japan, South Korea, and other regional states. As Nikos Tsafos observed, energy projections can change dramatically within five years—few analysts, for example, foresaw the shale gas revolution and its impact on U.S. energy production. Predictions, therefore, must be taken with a grain of salt, and industry leaders and policymakers must have a commitment to flexibility and plan for a range of future scenarios. A new, cooperative, and inclusive definition of energy security can help ensure prosperity and stability for the United States, Japan, South Korea, and other Asian nations alike.

Endnotes

[1] U.S. Energy Information Administration (EIA), "*AEO2014* Early Release Overview," December 2013, **http://www.eia.gov/forecasts/aeo/er/early_production.cfm**.

[2] See the section on natural gas from the executive summary of the EIA's *Annual Energy*

Outlook 2014, available at **http://www.eia.gov/forecasts/aeo/source_natural_gas_all.cfm**.

[3] In particular, the Basic Energy Plan is ambiguous about how many of the reactors will restart and about how to interpret the country's ideal energy mix.

[4] International Energy Agency, "WEO Future Energy Trends, New Zealand" (presentation in Wellington, March 28, 2013), **http://www.iea.org/newsroomandevents/speeches/130326FutureEnergyTrendsWEO2012NZrev.p** .

[5] See Nikos Tsafos, "The New Geography of Asian LNG," in "Asia's Uncertain LNG Future," National Bureau of Asian Research (NBR), NBR Special Report, no. 44, November 2013; and John V. Mitchell, "Asia's New Role in Global Energy Security," in "Oil and Gas for Asia: Geopolitical Implications of Asia's Rising Demand," NBR, NBR Special Report, no. 41, September 2012.

[6] More specifically, Article 9 states that "the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as means of settling international disputes." As a direct result of this statement, "land, sea, and air forces, as well as other war potential, will never be maintained [by Japan]." Although this has led to significant debate about whether the article allows for the maintenance and use of forces that are strictly defensive, the development of forces overseas remains controversial, as has the deployment of existing self-defense resources.

[7] Additionally, some competing anti-revisionist arguments are derived from the belief that Article 9 already allows for the development of self-defense forces as well as overseas missions if their intention is not to initiate war.

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