NORTHEAST ASIA ECONOMIC CONFERENCE
TWELFTH NORTHEAST ASIA ECONOMIC FORUM

Towards an Asian Energy Community
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At the Niigata Energy Forum at the weekend, we were looking at the energy circumstances and prospects of the countries of Northeast Asia. As an outsider, I was setting the global perspective against which Regional interests need to be considered.

One thing that strikes an outsider is the great diversity between the countries of this Region in terms of their indigenous energy resources, their energy requirements and their policy priorities.

Russia is already the world's largest gas exporter and the world's second largest exporter of oil and oil products, with every prospect that these exports will grow in the years to come, despite the fact that Russia is the third largest energy consuming country in the world. Russia's main energy policy concern is to mobilize the necessary finance for investment in the energy sector: its capital investment needs in energy will exceed 5% of national GDP over the next thirty years, on average. (The figure for the countries of the OECD is 0.5%.)

China is the world's second largest consumer of primary energy, accounting for more than 10% of the world's total primary energy demand. It is the third largest world energy producer, after the USA and Russia. Demand growth over the next thirty years is expected to be faster than in most other regions and countries, with total energy demand more than doubling over the period. China is particularly dependent on coal and is expected to account for very nearly half of the increase in world coal demand over the next thirty years. China will, nonetheless, remain a net exporter of coal. Although her exports are not a large proportion of her production, they still account for a significant proportion of the international trade in coal. But China has already become a net importer of oil and her net oil imports could reach nearly I Ombd by 2030.

The other large economies of the Region, Japan and the Republic of Korea, are both highly dependent on imported energy. Japan is the world's fourth largest energy consuming country, with oil accounting for half of total primary energy supply. Domestic energy production (80% nuclear) accounted for only 20% of Japan's total primary energy supply in 2001 and the only untapped energy resources are methane hydrates, for which the technology for exploitation is not yet available.

Imports also account for more than 80% of the energy supply of the Republic of Korea. Korea is the world's fourth largest importer of oil and second largest importer of both coal and LNG. Oil accounts for more than 50% of Korea's total energy demand, three quarters of its oil imports coming from the Middle East.

I apologise to representatives from other countries present if I do not elaborate on their respective energy situations, confining my remarks to those countries which are really large players in international energy markets.

Diversity of energy circumstances is no barrier to energy integration. Indeed, the very essence of an international market in any commodity is the ability to match supply and demand across national frontiers. There are already concrete and important examples in this Region of cross-border collaboration in this sort of market making.

But when the organizers asked us to reflect on an Asian Energy Community, presumably they meant something more than this sort of bilateral (or even multilateral) mutual exchange, project by project.

When political, economic or social communities are formed, they are inspired by the expectation that collective activity will bring benefit to the members, beyond that which they could hope to achieve individually or through project-based collaboration. Since many energy markets are international, even global, in character and characterized by vulnerability to geopolitical action, it is no surprise that governments, companies and others with energy interests examine seriously the opportunities for mutual benefit through mutual commitment to some form of energy community. Several such international energy communities have already been constituted. I spent 8 years as the Executive Director of one - the International Energy Agency.

Though I began by commenting on the diversity of the energy circumstances of the countries of this Region, I do not wish to imply that such diversity is necessarily an obstacle to some form of association. A clear and dominant common situation, like that of the oil exporting countries who constitute OPEC, may seem the most obvious basis for some form of community; but everything depends on the objective (and do not be deceived by the shared interests ofOPEC members - there is much diversity of interest there, too). Countries with very diverse backgrounds can come together if they perceive a clear mutual interest.

The countries of the International Energy Agency are like that. The IEA is perceived as a club of oil consumers: the energy watchdog of the OECD, formed to confront a threat to oil supply. That is correct, so far as it goes.

But the membership is highly diverse. On one occasion, in Russia, I was called upon to comment on the categorization of OPEC as the world's oil producers versus the IEA as the world's oil consumers. I checked the figures at the time and the results were surprising.

How many of the world's top 5 oil producers do you suppose were members of OPEC? All five? Four? No, one, Saudi Arabia. More of the five were members of the OECD: USA and Mexico. (The other two were China and Russia, with Russia seriously challenging Saudi Arabia at the time as the world's largest net oil exporter).

And how many of the top ten world oil producers were members of OPEC? The score was OPEC three, the OECD five. The OPEC countries in the list were Saudi Arabia, Iran and Venezuela. They were outnumbered by the OECD five: USA, Mexico, Norway, Canada and the UK.

So, you see that the IEA membership includes some very significant oil producers, even net oil exporters, as well as net oil importers. Their preoccupations are inevitably different. But they still see advantage in association through the IEA.

The reason for this is that IEA members have a clear mutual interest in economic stability, underpinned by a secure energy supply. Oil and gas are major components of the GDP of my country, the UK; but they constitute a relatively minor part of total GDP. Oil and gas are a major part of Norway's GDP. But Norway is nonetheless a member of the IEA, because it recognizes the benefits of interdependence between the economies of the industrialized world and knows that the resilience of those economies depends on a secure, uninterrupted supply of oil. Norway is therefore prepared to participate in the mutual support arrangements of oil consumers, despite its status as a major oil and gas exporter.

That commitment to mutual support in an oil crisis was the motivating force for those who created the IEA and those who have since joined. But their mutual commitment now extends well beyond that single issue. IEA members share basic economic and social principles - all are members of the OECD - and have subscribed to a set of common principles shared by all members of the IEA, the "Shared Goals". These include respect for the need to achieve an appropriate balance between economic activity, energy security and environmental considerations. Members are prepared to subject their energy economies to scrutiny by a review team drawn from member states, which examines the consistency of national policies with those "Shared Goals". They collaborate on information exchange, policy analysis and technological endeavour.

The IEA is not exclusive in its approach. Non-members are welcome to join the technology collaboration agreements and to share in the fruits of policy analysis. The Agency recognizes the significance of major energy countries in the global economy. It has specific understandings with three of the most significant world players, Russia, China and India. And it shares the interest of major oil producers in there being reasonable stability in world oil markets. There was no rejoicing in the IEA when the oil price collapsed in 1998 and 1999, in the wake of the Asian Financial crisis.

So there is no reason, in principle, why the countries of this Region, despite their very different energy situations, should not form an energy community, if there are clear common principles to which they subscribe and if they perceive that clear mutual benefit can be derived from a formal association.

One must ask, of course, whether there is some unique quality which might bring together the countries of this Region. Oil is already a global commodity and other forms of energy - indeed, the economy at large – is becoming increasingly globalised. A global community is more logical in a global market.

One thing for which there is always room is dialogue between different interest groups. The International Energy Forum, based in Riyadh, Saudi Arabia and with a newly-appointed executive director, is one such community. The members have made no commitment to common principles, beyond a common dissatisfaction with the unstable course of the oil market. They have certainly yielded no part of their national sovereignty to the new organization; but they have joined it on the basis that some institutionalization of the dialogue between oil producers and consumers is in everyone's interest.

This Conference is a pragmatic example of such dialogue in Northeast Asia, without institutionalization. It might be formalised by some form of intergovernmental commitment. My counsel would be to contemplate that step only if there are clear benefits in view. Governments need to be involved in a successful process like this only where their commitment can be expected to eliminate obstacles to a clear, common objective.