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The Growing Competition for Natural Resources: Economic Security and the Rise of the 'BRIC' Economies



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Energy Security in Northeast Asia: U.S. Foreign Policy Interests



Two approaches

With regard to the issue of energy security, there is the ideological approach in the form of multilateral cooperation, and the practical approach amidst expanding competition. Despite lingering concerns about the finite amount of oil, analysis by industry specialists like the Cambridge Energy Research Associates indicates that net productive capacity is likely to

increase up to 25% over the next decade. In other words, the world is not running out of oil, or at least, not yet. Cooperation and participation in the market system makes a win-win situation for all energy consumers, but many governments take a zero-sum approach and anxiety is increasing amidst political tension.

As a result of spikes in demand from developing countries like China and India, energy security has come to be viewed as synonymous with national security. US leaders have traditionally argued that all countries should take a market-based approach to the energy field. In other words, it is the power-projection capability of the US military that allows others to consider energy security in strictly economic terms.

The situation in Northeast Asia

As China's demand for energy has soared in line with its dramatic economic growth, it too has begun to depend upon foreign sources of energy. Both Japan and China are aiming to diversify their sources of supply and lessen their dependence on the volatile Middle East. The largely undeveloped resources of the Russian Far East offer an attractive, geographically close option and the circumstances appear to be ideal for developing a robust market for energy supplies.

Yet the result has been a bidding war over a pipeline from Siberia. Few or no cooperative mechanisms have been developed to protect against a supply shock, and both Beijing and Tokyo appear to view the other on increasingly suspicious terms. Many analysts feel that energy competition has contributed to a sense of instability in the region, heightening the potential for actual conflict.

US foreign policy concerns with Northeast Asian energy competition

The average price of gasoline in the US has increased 200% between 2002 and today. The US government generally promotes global open markets, but also has human rights and geopolitical concerns that do not always square with a market-based approach. In order to feed its own skyrocketing demand for energy, China has sought partnerships with such countries as Sudan, Venezuela and Iran, so Deputy Secretary Zoellick has encouraged China to be a more "responsible stakeholder" in the international system. From a market perspective, however, China's efforts to extract energy supplies from areas where US companies are often prohibited from operating actually helps to improve global supply.

Washington has also expressed concern about Japan's economic relationship with Iran, particularly in the midst of international concern about Tehran's nuclear program. It has voiced its reservations about the development of the Azadegan oilfield in southwestern Iran by Japanese companies, but Japan was reluctant to withdraw from the project for fear that it

might open the door to China and went ahead with the signing of the contract. The question is how this discord between Japan and the US is likely to look, ahead of the meeting between Prime Minister Koizumi and President Bush.

The US has resisted taking a position on the Yasukuni Shrine issue or competition between Japan and China, such as energy-related disputes over territory in the East China Sea and access to resources in Far Eastern Russia. Given the potential flashpoints for conflict of the DPRK and the Taiwan Straits, the US priority is stability among the large powers in East Asia.

Congress's role and interest in energy competition in Northeast Asia

US foreign policy is generally directed by the executive branch, but Congress weighs in when a vacuum exists, or if it feels its interests are not being represented, and most often on human rights and trade issues.

In terms of congressional involvement in the area of energy security in Northeast Asia, the most high-profile action involved the bid by the Chinese National Offshore Oil Company (CNOOC) to buy the US energy company UNOCAL. The CNOOC bid coincided with a period of high oil prices caused partly by China's increasing demand, growing uneasiness in the US over the rise of China and the security and economic challenge it was presenting, the large bilateral trade deficit with China, and concerns about whether Beijing was playing by international trade rules – particularly giving insufficient protection to intellectual property rights and systematically holding down the value of its currency. Many say that the concerns raised by Congress pressured CNOOC to eventually withdraw.

A treasury report issued in February found that the economic consequences of a successful bid would have been “economically neutral”, and even pointed out that if China pursued energy deals in countries where US companies are prohibited, it would actually increase the global pool of oil. The CNOOC controversy raised the issue of state-run companies and the question of whether or not companies that rely on financing by a central government or government-owned financial institutions should be allowed to outbid US companies that do not benefit from such backing. Similar episodes may follow in Congress if Russia presses for access to Western energy facilities, and a further globalized energy market is likely to continue to spark controversy and debate in the US Congress.

Some Congressional leaders have introduced bills that encourage further cooperation with major energy-consuming nations, including China and India. Senator Lugar, Chairman of the Senate Foreign Relations Committee, has introduced the “Energy Diplomacy and Security Act”, which specifically calls for the formulation of coordination mechanisms with China and India to draw them into the international energy system. The bill calls for a

high-level coordinator within the State Department to provide leadership with regard to such problems.

However, Congress ultimately answers to their constituents and faces frequent campaigns for re-election. Developing the US energy strategy is itself a sticky political issue; there is no form of energy supply that does not affect some constituency: objections will always be raised to drilling for new sources of oil off the Florida coast or in Alaska, or for windfarms, or hydroelectric dams by different interest groups. Offering leadership on an issue as complex as energy security is challenging for congressional leaders. Ultimately, Congress will probably never have the lead role in incorporating energy security concerns into our foreign policy.

Existing initiatives and possible areas to expand to hedge against conflict

Although all states will continue to consider the geopolitical implications of their search for energy security, there are ways to encourage a more cooperative, less destabilizing approach. The International Energy Agency (IEA), which was established in response to the oil shocks of the 1970s, coordinates collaboration on member energy policies and offered a coordinated response to the Hurricane Katrina shock.

In the region, the multilateral Asia-Pacific Partnership on clean development, energy security, and climate change addresses areas of mutual concern in the region and encourages cooperation on alternative energy technology, and it is hoped that it will be a forum for further cooperation in the future.

Bilaterally, the US has engaged in two dialogues with China that specifically address energy issues and possible cooperation: the US-China Senior Dialogue initiated by Deputy Secretary of State Zoellick, and the US-China Energy Policy Dialogue sponsored by the US Department of Energy and China's National Development and Reform Commission (NDRC).

Given the spike in consumption by BRIC economies, many energy experts feel that existing frameworks need to be upgraded. Globally, many have floated the idea of including China and India in the IEA. IEA membership comes from the OECD (Organisation for Economic Co-operation and Development), which assumes a democratic government and relatively high standards with regard to the protection of human rights. The IEA also requires a 90-day strategic petroleum reserve (SPR). Given political concerns and its lack of an SPR, it would be difficult to admit China. Although China has expressed determination to build up its reserves, the goal of 90 days in a time of record-high oil prices may be unreachable in the near future. Other experts have suggested expanding the G-8 to include China and incorporating similar coordination mechanisms into that body.

The particular circumstances in Northeast Asia – Japan, the ROK and China as major consumers and Russia's promise as a major provider of LNG and oil – have led some to suggest a regional framework, possibly growing out of the Six-Party Talks. Although the forum has not been successful in resolving the DPRK nuclear issue, regional analysts point to the benefit of getting all the region's major powers to meet on a regular basis. Optimists see the grouping as an opportunity to create a security framework that has long been lacking in the region, and see the shared interest in energy security as a promising area for cooperation.

Technological cooperation between Japan and China could also establish valuable confidence-building measures and help ease distrust. Some experts have proposed that Japan focus its ODA to China specifically on the environment and energy, possibly in trilateral programs with the US.

If global, regional, and bilateral initiatives such as these are developed, many security and energy experts believe that further globalization of the energy market can actually reduce the potential for instability and conflict.

Conclusion

In the interest of political stability, policymakers should acknowledge the reality that geopolitical concerns about energy security exist in Asian capitals, but also encourage the development of cooperative mechanisms to diminish the possibility of conflict. Incentives and confidence-building measures are important tools.

In order to develop such multilateral frameworks, leadership and political capital is needed, as well as technological know-how. Both the US and Japan can play key roles in developing such a framework. The US Congress, as well, has demonstrated interest – such as Lugar's bills – in tackling the problem and, with leadership from the executive branch, can facilitate the process.

The issue of how energy security concerns interact with broader foreign policy priorities will be played out in international for a in the upcoming days. It will be interesting to watch how much attention is paid to the issue of Iran, for example, in the upcoming Koizumi-Bush summit, as well as how Russia addresses, and the other countries respond to, the issue of energy security at the G-8 summit next month.

(Speech summarized by ERINA)