

On Establishing Comprehensive Energy Security Policies to Support the APAC Region

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Introduction

Russia's invasion of Ukraine exposed fragility in the global ecosystem of energy supply and energy security. The most immediate effects were seen across Europe—following the invasion, a combination of voluntary reductions and Russian supply cuts reduced natural gas supplies to Europe by 80 percent.¹

Voluntary natural gas consumption reductions, warmer-than-expected weather, strong natural gas storage injections, and an increase in LNG (Liquified Natural Gas) supplies played a pivotal role in assisting Europe in backfilling its needs during the first year of the war.²

While these conditions helped alleviate the anticipated supply shortage and its immediate ramifications, alternative energy sources like nuclear power and renewables have been insufficient to fully address Europe's near-term energy needs. A near-term structural shift toward greater reliance on LNG has exposed Europe to the global market in which the APAC (Asia-Pacific) region has long been the dominant player in LNG consumption: the top three largest global LNG importers are Japan, China, and Korea.³

Europe's entry into the market for LNG was generally fortuitously timed—China's overall LNG consumption was lower in 2022 partially as a result of the country's Zero Covid strategy, along with an increase in coal consumption and gas flows from Russia on the back of Western sanctions. However, the rapid shift in global demand trends heavily strained the spot prices for LNG, in which Europe and many other countries compete for cargo. Prices across Europe and Asia reached record highs, inflicting economic pain on countries—many developing and low income—reliant on the market for energy supplies as the market adjusted to the changing dynamics.⁴

As the APAC region's demand for energy is forecast to grow during the next decade, a forward-looking plan for how to balance competing demands for LNG and build energy security and resilience in the region should be a priority in the U.S. Indo-Pacific Strategy. As such, we should consider:

1. How can the United States and countries across Asia align and mobilize one another to encourage mutually-beneficial policies and practices which increase energy security in the region?
2. What are the trade-offs across regions in pursuit of global energy security?

Interconnected Interests

The United States has a vested national security and policy interest in helping inform and shape solutions for the future of energy security across the APAC region.

First, the nature of energy consumption in APAC influences current energy supply security considerations for U.S. allies across the globe. LNG is poised to remain a flexible fuel that supports U.S. allies in Europe (import capacities are expected to increase by 33 percent through the end of 2024) as countries invest in regasification terminals.⁵ However, barring the implementation of substantial long-term contract agreements, Europe will likely continue competing for spot market gas with seasoned buyers across Asia. Should Asian spot markets command a premium—as seen this summer—countries across both Europe and APAC may be forced to reckon with elevated natural gas prices that potentially exacerbate a stressed economic environment.⁶ Any policy steps the U.S. can take to encourage consistent and reliable LNG exports via incentives or process facilitation for private enterprise—such as clarifying recent limits to LNG project extension policy changes under the Natural Gas Act and providing more permissive guidelines—could bolster supplies to key allies in APAC (Japan and Korea), as well as to other developing partners (India, Thailand, Vietnam, Malaysia, and the Philippines).

Second, a robust U.S. energy policy solution can help address the concentration of geopolitical risk in APAC when it comes to the development and supply of technology critical for facilitating the U.S. and other countries' transitions to lower carbon energy generation. Despite the discussion around 'off-shoring', China retains a stranglehold on the production and processing of critical minerals necessary for renewable energy generation—and Western countries are unlikely to make substantial inroads in curbing that reliance anytime soon.⁷ While this paper does not seek to address the full suite of steps required as part of that risk mitigation, engaging countries like Myanmar, Indonesia, Thailand, and Vietnam that are developing partners in the diversification of the renewable technology supply chain and identifying areas of strategic collaboration within the current global energy ecosystem can both help mitigate China's potential ability to weaponize critical mineral supplies by strengthening the United States' relationship with these partner countries in the region against Chinese coercion or influence.⁸

Third, it is in the interest of the United States to approach energy policy in the region with an eye to bridging short-term objectives—such as fostering improved relations with as many country partners as possible through technology sharing and LNG trade relations—and longer-term goals of aligning policies to support regional decarbonization targets. The U.S. would derive a strategic diplomatic benefit via permissive export policies of its current abundance of natural gas, particularly as the share of domestic power generation from renewable energy increases and provides additional optionality.⁹ While the U.S. does benefit from the security afforded by energy self-sufficiency, it is able to simultaneously utilize its position as a leader in the global energy trade to pursue policies that could address both near- and long-term considerations in energy diplomacy objectives in the region.¹⁰

Options on the Table

There are three potential approaches for how U.S. policymakers could organize its energy diplomacy in the region. An “energy decoupling” strategy could be implemented with an objective to focus solely on initiatives designed to get out from the stranglehold China has on the renewable energy supply chain. This would likely come at the expense of helping address regional partners' short-term needs, in order to give the U.S. an edge in the U.S.-China strategic competition. Additionally, this approach would likely be seen as highly antagonistic toward Chinese growth and could invite further retaliatory actions by China to the United States and its allies. The U.S. could alternatively pursue a “energy protectionism” strategy wherein it prioritizes supporting domestic energy needs and protectionist policies above all other initiatives. This option could optimize limited domestic resources and address the most pressing needs, but is grounded in trade-offs and could overlook medium to long-term benefits of ignoring the geopolitical upside of providing widespread energy stability. Finally, the U.S. could choose to “spread the wealth” by collaborating with strong allies and partners—a comparative advantage of the U.S.—to invest in energy security in the region as a way to build second order security to pass on to European allies and other jurisdictions in APAC. Given recent advancements in the trilateral relationship between the United States, Japan, and South Korea, there are opportunities to leverage this new grouping to build a more energy resilient APAC and world.

The Best Path Forward—Spread the Wealth

Collective and global security energy is in the long-term interest of the United States, its allies, and partners. In an interconnected world, energy insecurity in one country can have consequences in others. The United States should take advantage of recent advancements in trilateral relations between the U.S., Japan, and South Korea to make concrete, near-term improvement in energy cooperation.¹¹ Areas of already identified commitment include greater economic connectivity, intelligence sharing, democratic resilience, and cooperation on green energy; however, LNG-specific policies and broader energy cooperation between the three parties is an area that could benefit from further discussion.¹² As the trilateral continues to solidify and expands into new areas of cooperation, it should make energy security a core pillar of its objectives. This would help ensure that as the countries work toward the shared goal of a clean energy future, the short- and medium-term transition is sufficiently able to mitigate any unforeseen challenges. It would also hopefully serve as an energy security multiplier in the region.

The opportunity is particularly ripe given the improved relationship between South Korea and Japan, being spearheaded by the relatively new leadership in both countries. South Korean President Yoon Suk Yeol and

Japanese Prime Minister Fumio Kishida have demonstrated strong political will to overcome challenges that have historically led to ups and downs in the bilateral relationship. South Korea and Japan stand to benefit significantly from greater cooperation and have many common opportunities when it comes to energy. Both currently require significant net imports of energy—especially natural gas—and have made overtures of wanting additional avenues of cooperation in the pursuit of increasing renewable energy sources.¹³ As demand for energy goes down in their countries due to aging populations, too, there may be an opportunity for them to leverage their high-tech economies and research and development on renewals and be a linchpin of energy security cooperation in APAC.

We propose several potential ideas to best leverage diplomatic advances in the trilateral framework to facilitate near-term improvements to energy security in the APAC region:

- Build on pre-existing commitments for trilateral ASEAN engagement and formally make energy security (particularly with regards to LNG supply) and cooperation a cornerstone of capacity building in the region;¹⁴
- Create incentives for companies to engage in joint LNG stockpiling or reserve arrangements as energy demands shift in Japan and Korea, to act as an emergency supply for the region;
- Encourage and invest in the ongoing opportunities for greater collaboration between cross-Europe and APAC LNG trading hubs;¹⁵
- Develop a trilateral experts commission to explore how Japan and South Korea’s world-class navies and maritime trading experiences can enhance floating storage and regasification unit (FSRU) technologies;
- Establish a trilateral working group to facilitate and propose European-APAC LNG trading norms (as previously encouraged between Japan and Europe);¹⁶ and
- Translate existing commitment for trilateral supply chain resilience to energy supply chains and develop emergency preparedness and early-warning response systems.

In addition to emphasizing the above ideas, the trilateral should also consider building dialogue on more sensitive areas of energy cooperation like nuclear power. The region is seeing considerable prioritization of nuclear as a low carbon energy source, but the social and environmental concerns that halted greater reliance on nuclear have not dissipated and will require acknowledging the importance of balancing ecological and health risks to neighboring countries, as we are seeing with the Fukushima controversy today.¹⁷

While renewable energy is key to improving energy security supply in the future, it is critically important to not lose sight of and address near-term challenges in the energy ecosystem. Prioritizing opportunities for energy diplomacy through recently improved Japan-Korea-U.S. relations will help provide a resilient framework to ongoing plans for energy transition, particularly in a precarious age of great power conflict.

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