30. Projecting oil demand for transportation use faces many uncertainties, including different rates of economic growth, changes in fuel tax policy, development of urban public transportation networks and rail, density of areas undergoing urbanization, and adoption of new technologies and penetration of alternative fuel vehicles.
34. See David G. Victor, "The Gas Promise," chapter 3 of this volume. Market structure in which capacity rights are unbundled from facility ownership has been critical in the United States, just as the producers’ ability to negotiate directly with landowners has aligned incentives to expedite development. Furthermore, although public opinion is more muted in China, fear of possible watershed contamination or water use, particularly in regions where water scarcity is already a problem, has led to the implementation of government policy banning or suspending such activities in many regions around the world, including the US state of New York and the countries of France and Bulgaria.
36. These data are derived from US Energy Information Administration statistics on total oil and gas consumption and imports.

Chapter 14

Japan, Southeast Asia, and Australia

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Asia has become the center of gravity for global energy demand growth. Energy consumption has been booming over the past two decades to meet rising transportation needs as well as rising demand for electricity. For its part, rising demand also has meant rapidly rising dependence on imported energy.

As a whole, the region is now a large net oil importer. Hence, energy security is a vital economic and strategic concern across both Northeast and Southeast Asia. Australia’s energy security interests, alternatively, reflect a robust energy endowment and, therefore, a rather different mix of concerns. Australia’s energy security worries have more to do with ensuring that its rising energy exports have reliable access to energy markets across Asia as well as secure and open sea-lanes to serve those markets.

Hence, the three cases examined in this chapter reflect Asia’s wide range of energy endowments, histories, and energy security prospects. Each case also has its particular set of current energy security challenges and specific concerns. Japan is facing a new national energy crisis as a result of the Fu-
kushima earthquake and nuclear disaster that is forcing a profound rethinking of its future energy plans. Southeast Asia's hopes for new oil and gas supplies in deeper offshore waters of the South China Sea are increasingly entangled in disputes with China over conflicting maritime territorial claims and over control of the critical energy sea-lanes of Southeast Asia. And Australia is facing major new challenges as it seeks to become the world's largest liquefied natural gas (LNG) exporter in the space of just one decade.

Japan: Energy Security Is National Security

Japan's approach to energy security is shaped by the island state's poor resource endowment and virtually total dependence on imported energy, which must be delivered over the sea-lanes. In 2010, 95 percent of Japan's energy needs were met by imported energy, 83 percent of which was oil, natural gas, and coal, and another 12 percent of which was made up of imported uranium to fuel nuclear power generation. The Middle East accounts for 90 percent of Japan's oil needs and more than one-quarter of its LNG supplies. Hence, energy security for Japan is almost an existential issue: energy security is national security.

Although Japan remains highly dependent on imported energy, it has made enormous progress in strengthening its energy security over the past four decades. The first path was through diversification of energy sources. Oil powered Japan's economic miracle, and the country grew dramatically for the two decades leading up to the early 1970s. By 1973, oil accounted for 75 percent of Japan's total energy, and consequently, the Japanese economy was hit hard by the two 1970s oil shocks, which led to sharp recessions in 1973–75 and 1980–82. Since then, Japan has worked ceaselessly to diversify its energy mix away from oil toward natural gas, coal, and nuclear power generation. The early mantra for energy policy became the two e's of energy security and economic efficiency, which later became the three e's when environmental protection was added. Between 1973 and 2010, oil's share of energy use was reduced from 75 percent to 42 percent as oil was replaced by coal, natural gas, and nuclear generation. Use of coal doubled in volume, and its energy share rose from 17 percent to 22 percent of total energy as it backed oil out of the power sector and fueled Japan's growing steel industry.

The share of natural gas increased more than fourfold, from 4 percent to 19 percent, as Japan practically invented the LNG industry. Tokyo spon-

sored its large trading companies in a string of LNG projects in Indonesia, Malaysia, Brunei, and the United Arab Emirates to feed gas to its large coastal electricity markets. Japan has become the world's largest LNG importer, importing 70 million metric tons (mmt) of LNG in 2010, nearly 30 percent of the global—and one-half of the Asian—LNG market. Japan also built a large nuclear power generation fleet and a nuclear industry that became an export powerhouse. Nuclear generation rose from nothing to 12 to 13 percent of total energy and 30 percent of total electricity by 2010. The government considers nuclear energy to be semidomestic production.

Radical Improvements in Domestic Energy Efficiency

The second way Japan strengthened its energy security was through radical improvements in domestic energy efficiency. Japan's energy efficiency has reached the highest level in the world, improving by 40 percent from 1973 to 2009 in terms of energy used per unit of gross domestic product (GDP). By comparison, in 2009, Germany used 60 percent more energy per unit of GDP, the United States 100 percent more, and South Korea 200 percent more per unit of GDP. Japan has led in industrial energy efficiency as well as pioneering the development of more fuel-efficient vehicles and, more recently, hybrid vehicles.

While Tokyo worked diligently to strengthen its domestic energy foundation, it also pursued multilateral efforts to strengthen its energy security. A founding member of the International Energy Agency (IEA) in the mid-1970s, Japan has joined other IEA members in developing joint emergency oil stocks. It has been a strong proponent of energy security cooperation at the Group of Eight and the Group of 20 and has also been a leader in largely unsuccessful efforts to promote regional energy cooperation in Asia through the Asia-Pacific Economic Cooperation, the Association of Southeast Asian Nations (ASEAN), the East Asia Summit, and the ASEAN+3 (which added China, Japan, and South Korea).

Japan Energy Inc.: From JNOC to JOGMEC

Tokyo also has pursued a second track of its own brand of mercantilist energy and resource diplomacy. After the oil shocks of the 1970s, Tokyo sought to create competitive Japanese national oil companies (NOCs) un-
under the umbrella of the Japan National Oil Company (JNOC). Tokyo initially boosted its direct state support for JNOC in an attempt to secure control of overseas oil supplies that funded a number of smaller oil exploration companies, including Inpex and Japex, to expand Japan’s oil acquisition capabilities. This effort was an early forerunner of China’s push for its NOCs to gain control of overseas oil and gas resources beginning in the late 1990s. Japan’s strategy was led by the Ministry of Economy, Trade, and Industry (formerly the Ministry of International Trade and Industry), which subsidized these companies while it also worked in tandem with the large Japanese trading houses (such as Mitsui and Mitsubishi) that led much of the development of Japan’s LNG industry and overseas projects.

Unfortunately, the historical results for oil security have been disappointing. Despite huge subsidies and investments, Japan’s overseas equity share of oil imports has remained stable at a modest 15 percent of oil supplies. Under Junichiro Koizumi, who was prime minister from 2001 to 2006, Japan shifted away from an interventionist approach to energy, and Japan’s upstream oil industry was reorganized. Tokyo dissolved the troubled JNOC and created the Japan Oil, Gas, and Metals National Corporation (JOGMEC) to better assist Japanese oil and gas companies in their projects abroad.

But with the end in 2006 of the Koizumi years, which coincided with rapidly rising oil and LNG prices and with Beijing’s emergence as an aggressive competitor for overseas oil supplies, Tokyo returned to its emphasis on nationally controlled oil supplies, the so-called Hinomaru oil. In the New Basic Energy Policy Act of 2006, the government raised its target for oil imports by Japanese companies from 15 percent to 40 percent of imports by 2030. The Japan Bank for International Cooperation also has been mandated to expand its financial support for Japanese companies in their international oil and gas projects. In the 2010 Strategic Energy Plan, Tokyo set a goal of raising overall energy self-sufficiency from 18 percent to 36 percent by 2030, which implied an enormous increase in Japanese overseas oil and LNG investments. In 2012, the government authorized another $1 billion fund for JOGMEC to support the overseas expansion of Japan’s oil and gas industry.

Despite these efforts, Japan has been largely unable to gain national control over significant amounts of oil abroad or to diversify its heavy dependence on the Middle East. Japan lost its single most important oil production concession in the Partitioned Neutral Zone between Saudi Arabia and Kuwait in the early 2000s. Inpex’s subsequent efforts to develop the huge Azadegan oil field in Iran had to be abandoned because of US diplomatic pressure and unattractive Iranian contract and operating conditions.

Tokyo has also worked over the past decade to gain access to Russian Far East oil and gas to help diversify its dependence on the Middle East. At one point Tokyo offered to finance the large East Siberia–Pacific Ocean (ESPO) pipeline to bring oil from East and West Siberia to the Pacific Coast. Ultimately, a smaller pipeline was built with Chinese financing supplying 300,000 barrels per day (bpd) to China beginning in 2010. Japan, however, has been able to access some 150,000 bpd of the additional 300,000 that has been transported by rail to the Pacific Coast at Kozmino Bay. That oil is now flowing to the Pacific Coast through the completed ESPO pipeline. Japan has also been importing Russian oil from ExxonMobil’s Sakhalin 1 project since 2009. Overall, Japan has been able to source roughly 300,000 to 400,000 bpd from Russia, but this source has been disappointing compared to Tokyo’s earlier hopes and has not substantially altered the country’s heavy dependence on the Middle East.

Japan’s energy security profile in LNG is far more robust, insofar as Japan and its trading companies have successfully developed a diverse range of supplies from nearby and reasonably secure countries. Roughly 27 percent of LNG comes from the Middle East, mainly Qatar and the United Arab Emirates. This LNG must transit the Strait of Hormuz, so these supplies would be at serious risk if conflict were to break out in the Arabian (Persian) Gulf. But traditionally secure and nearby sources in Indonesia, Malaysia, and Brunei historically have accounted for well over half of Japan’s LNG supplies since the late 1970s. Malaysian and Bruneian supplies have remained steady, but Indonesian shipments have declined by 50 percent since 2003, as Jakarta has increasingly diverted the gas to domestic use. Rising LNG demand has been met increasingly by Australia’s North West Shelf project, where Chevron has the leading position, and by new supplies from Russia’s Sakhalin 2 project, which commenced in 2009. Japan’s companies also have stakes in many of the large LNG projects that are scheduled to come on line after 2015, most importantly from Australia.

Fukushima and Its Fallout

The March 2011 earthquake and Fukushima nuclear disaster have triggered a profound resurgence in Japan’s energy security anxieties, most importantly over future LNG supplies. The disaster led to the shutdown of the en-
tire 54-unit nuclear power generation fleet by mid-2012 and the loss of 30
percent of normal electricity supplies. On an emergency basis, the shortfall
has been addressed by rationing electricity, restricting supplies, imposing
conservation and efficiency measures, and significantly raising electricity
prices. At the same time, Japan has sharply raised imports of LNG and crude oil to boost thermal capacity. Despite these measures, electricity production was cut nearly 5 percent for 2011 and declined a profound 12 percent during the hot summer months.

The crisis has triggered major new energy security concerns in Tokyo
over reliable and affordable access to its burgeoning but uncertain future
LNG needs. In 2011, the power sector accounted for 65 percent of Japan’s
total LNG consumption. Much higher imports of LNG will be needed in
the future. To fill the immediate gap, Japan’s annual 2011 LNG imports
rose by 12 percent to 79 mmt, and recent forecasts suggest that 2012 im-
ports will rise to 88 mmt. This increase would amount to an annual 18
mmt demand shock compared to a base of 140 mmt per year in Asia’s 2010
LNG market and a global 2010 LNG market of around 220 mmt per year.
Japan’s needs were met by diverting supplies from Qatar, West Africa, and
Sakhalin that had been destined mainly for the Atlantic Basin.

Adding to Japan’s concerns, its buying spree led to a severe spike in
Asian LNG prices. Since the crisis, LNG prices linked to the Japan Crude
Cocktail price (i.e., the average price of customs-cleared crude oil imports
in Japan) rose from $13 to $16 or $18 per million British thermal units. The
Asian LNG premium was already a serious concern for Asian LNG
buyers—especially Japan. Beyond energy security concerns, the surge in
imports of LNG also drove up Japan’s import bill dramatically. The LNG
import bill alone rose an eye-popping 52 percent, from ¥3.5 trillion to
¥5.4 trillion ($60 billion) from fiscal 2010 to fiscal 2011 (more than 1 per-
cent of GDP). That increase led to the first trade deficits for Japan in many
years. The 2012 bill is likely to be even higher.

Adding to Tokyo’s anxieties about LNG is the uncertainty about the
outcome of the domestic debate over future nuclear power in Japan. The
Japanese public remains deeply opposed to restoring nuclear power, while
the government and industry believe that the costs of doing without nu-
clear energy are too high. Precrisis plans called for nuclear power to rise
to 50 percent of generation by 2030, and filling this gap will be extremely
difficult and costly. In late 2012, the Democratic Party of Japan govern-
ment announced a new plan that would restart existing power plants but
gradually phase out nuclear power by 2040, as the existing plants reached
their 40-year life spans. But the plan was filled with caveats and plans to
reassess the decision in the future. Moreover, Japan’s national election in
December 2012 led to the return to power of the Liberal Democratic Party,
which is much more favorable to a return to nuclear generation. The new
Abe government announced plans to restart Japan’s nuclear power sector
gradually as the new, independent Nuclear Regulatory Agency certifies
each plant one by one to meet new, tougher safety standards. Neverthe-
less, in the face of widespread public suspicion of the nuclear industry,
there remains significant uncertainty over the scale of returning nuclear
supplies, and hence, LNG imports are likely to continue at high levels for
the foreseeable future.

The government has responded to this energy security predicament by
expanding its energy diplomacy and seeking stronger national access to
future LNG projects. Japan is working diligently to access future US shale
gas LNG exports, although this effort is complicated by the lack of a US–
Japan free trade agreement. The government hopes to import less expen-
sive LNG based on Henry Hub pricing and more flexible volumes. Tokyo
is also stepping up support for its oil companies to take ownership stakes in
many of the major new LNG projects around Asia and in the United States.
Although the Asian LNG market looks very tight until 2016, beyond that
date major new Australian and other supplies should reduce some pressure
on the market.

In conclusion, Japan has made enormous strides over the past 40 years
to strengthen its domestic resilience and claim on future LNG supplies, de-
spite what remains a very uncertain nuclear energy outlook for the future.

Southeast Asia: Changing Energy Export Roles
and South China Sea Challenges

Southeast Asia is a diverse region that defies easy categorization into a
single set of energy security concerns. It includes net oil exporters and oil
importers, LNG exporters, and—most recently—some new LNG import-
ers. It is an increasingly significant coal exporter, and it features extensive
intraregional energy trade. But, in broad terms, the Southeast Asian region
is significant in a number of ways with respect to global and regional en-
ergy trends, and changes in some of its key states are notable.

Traditionally, Southeast Asia has been a major oil and LNG supplier
to Northeast Asia. During the 1990s, Indonesia, Malaysia, and Brunei ex-
ported 700,000 to 900,000 bpd of oil, mainly to Japan and South Korea, which provided those countries some diversification away from the Middle East. In the early 2000s, Vietnam also became a modest oil exporter to Northeast Asia as its offshore oil production ramped up.

However, this situation has since changed; Southeast Asian domestic oil demand has grown rapidly over the past two decades, and production has plateaued or declined. The change has been most dramatic in Indonesia, where oil output peaked at 1.5 million to 1.6 million bpd during the 1990s but began gradually declining after 2000. With rapidly rising domestic oil demand, Indonesia became a net oil importer in 2003 and now imports nearly 0.5 million bpd. Malaysia remains a modest and steady net exporter, although since the mid-2000s, exports have declined because of rising domestic demand as well as sharply declining production after 2008. And with rapidly growing oil demand in Thailand, the Philippines, and elsewhere in Southeast Asia, the region is now overall a large net oil importer. It depends on imports from outside the region for nearly three-quarters of its oil needs.

Roughly three-quarters of the region’s oil imports come from the Middle East; thus, Southeast Asia is exposed to potential supply disruptions in that volatile region. One exception to Southeast Asia’s overall decline as an energy supplier to Northeast Asia is the development of new oil and gas pipelines to Southeast China from Myanmar (Burma). Myanmar’s rising gas production will begin flowing to China by 2014, along with Middle East oil shipments in transit to China.

A second major shift is from Southeast Asia’s historic role as a major LNG supplier to Northeast Asia to its new role as an LNG market as its own gas demand booms. Indonesia, Malaysia, and Brunei have long been major LNG suppliers to Japan, South Korea, and Taiwan, and much of Asia’s LNG industry has been based on Japanese investment. Although all three countries remain LNG suppliers to Northeast Asia, these supplies are now beginning to lag. Rising demand in China, Japan, and South Korea is being made up increasingly with volumes from Australia, Qatar, and Russia.

A third key point is Southeast Asia’s position abreast key energy sea-lanes between the Middle East and Northeast Asia. Two-thirds of Asia’s oil supplies transit the critical sea-lanes of the South China Sea and the Strait of Malacca and the other key regional straits, Lombok and Sunda. The littoral states of Indonesia, Malaysia, and Singapore have national jurisdiction over the actual Strait of Malacca, but the regional powers and large oil importers of Northeast Asia clearly all have major stakes in ensuring reliable and safe passage of oil and LNG tanker traffic through the strait. Use of the Strait of Malacca has become hostage to the broader geopolitical shadowboxing in the region among the United States, China, Japan, and the Southeast Asian states. In 2002, the United States proposed a new Regional Maritime Security Initiative to add to littoral state efforts to safeguard the Strait of Malacca, and in 2005, Japan also proposed a new regional arrangement.

These proposals met with deep Chinese suspicion and were rejected soundly by the littoral states. More broadly, securing the congested and contested sea-lanes of the South China Sea is leading to what increasingly looks like a regional naval arms race. As China’s regional maritime power grows with its blue-water naval modernization and its ability to project power into Southeast Asian waters, control of the energy sea-lanes is increasingly a key aspect of the growing US–China struggle for mastery in Asia.

This struggle for Asian mastery fuses energy security with regional geopolitics and is reflected in intensifying disputes over territorial sovereignty in the South and East China Seas between China and neighboring states. Although these disputes have existed for decades, they have heated up recently as the naval capacity of China to enforce its maritime claims has grown and as several Southeast Asian states move to strengthen their claims and capabilities. The rapid rise in regional energy demand and the potential for large oil and gas reserves in these contested areas add to the already toxic mix of motivations over sovereignty, fishing rights, and other resource potential.

The most acute naval incidents in the South and East China Seas have occurred between China, on the one hand, and Japan, the Philippines, and Vietnam on the other. In 2011, 2012, and 2013, Filipino and Chinese naval vessels faced off repeatedly over control of the Mischief Reef, and Vietnam awarded a number of oil and gas exploration blocks located inside Chinese territorial claims, among them a block awarded to India’s Oil and Natural Gas Corporation. Responding that Vietnam’s claimed blocks are illegally in Chinese waters, Beijing prompted China National Offshore Oil Corporation to put out for bid a line of exploration blocks that precisely track China’s maritime claim line and are well within Vietnam’s claims. This action–reaction cycle continues to escalate, and the potential for direct military conflicts is increasing. The situation also risks drawing in the United States, which has alliance commitments to Japan and the Philip-
pines. ASEAN has made repeated efforts, supported by the United States, to forge a regional approach, but ASEAN has been divided, and China has been able to use its historically close allies in ASEAN, Myanmar and Cambodia, to prevent such an approach. The outlook for finding solutions is increasingly uncertain, and the potential for open conflict is growing, which suggests that oil and gas exploration and development in the South and East China Seas are likely to be delayed indefinitely.

Australia: The Opportunities and Challenges of Energy Plenty

Australia defies the broader Asian narrative of an energy-short region dependent on imported energy. Australia’s story, rather, is as a major energy supplier to Asia, because of its abundant resource base. Hence, its major energy security concerns revolve around ensuring that its enormous energy export industry can secure new markets in Asia to monetize its large endowment and drive Australian economic prosperity, as well as the security of the sea-lanes to transport that energy reliably.

Compared to much more interventionist Asian governments, Australia relies on flexible and transparent energy markets and private investment to ensure its energy security. As the 2012 energy white paper stated, “The cornerstone of the government’s energy policy framework is … through competitive and well-regulated markets that are operating in the long-term interests of consumers and the nation.”

Australia’s location in the Pacific makes it well positioned to take advantage of Asia’s booming energy demand. Australia exports two-thirds of its total energy output and is the world’s second-largest coal exporter, the fifth-largest exporter of LNG in 2011, and a major uranium exporter. Coal production has doubled since 1990, and Japan is typically the largest export market, taking around 40 to 45 percent of Australia’s exports, but China, South Korea, and India are also important export markets. Australia has benefited enormously from the commodity supercycle and from rising prices for steam and metallurgical coal in Asia. Nevertheless, Australia will have to compete with rapidly rising coal exports from Indonesia, which surpassed Australian coal exports in 2011. In the longer term, evidence that the commodity supercycle may be coming to an end with China’s slowing economic growth is likely to present new challenges for Australia’s heavily resource-based economy.

Oil security for Australia presents a rather different picture. Australian crude oil production peaked in 2000 at 800,000 bpd and has declined gradually to around 550,000 bpd, while demand has gradually risen toward 1 million bpd. Hence, Australia imports nearly half of its crude oil needs. Although government policy maintains that oil security can rely on flexible global markets, the 2012 energy white paper has faced some criticism, which is focused on Australia’s rapidly declining refining capacity and near total dependence on imported oil products over the next decade. These critics argue that Australia needs to retain enough refining capacity to ensure product supplies in a strategic emergency. However, the government contends that a diversified products supply market and a healthy regional refining system centered in Singapore can meet Australia’s oil product security needs.

Australia’s LNG Boom

The most important aspect of Australia’s energy boom for Asia is its emergence as a major LNG producer with enormous plans for the next decade. In 2011, Australia exported 26 mmt per year of LNG from the existing Northwest Shelf and Darwin projects. The exports were destined for Japan primarily but also for South Korea and China.

Australia is poised to surpass Qatar as the largest LNG exporter in the world. Seven major LNG projects under construction, with combined investments of $168 billion, put the industry on track to export more than 80 mmt per year by 2021. Seventy percent of the LNG projects currently under construction in the world are in Australia and are concentrated in four major offshore north and northwest projects producing conventional gas and three large LNG projects fed by coal seam gas in the east in Queensland. The largest offshore projects are two Chevron-led projects, Gorgon and Wheatstone, along with major projects led by Woodside (Browne); Prelude, which is a floating LNG project led by Shell; and Ichthys (Japan Inpex). The Queensland coal seam gas projects are led by Shell, ConocoPhillips, and Santos.

The massive expansion of Australian LNG is good news for LNG-short Japan; the other growing LNG markets in South Korea, China, India, and Taiwan; and the new Southeast Asian LNG importers. Nevertheless, Australia’s LNG growth faces significant risks and headwinds. Most important, the massive scale of LNG project construction in Australia is rapidly driving up the costs of engineering services, labor, equipment, and port services. Chronic delays attributable to overloaded infrastructure and port
congestion are also taking a toll. The cost of labor in the context of Australia’s heavily unionized labor market has skyrocketed.

Moreover, the resource boom has driven up the value of the Australian dollar to the point where equipment and capital costs for projects have escalated dramatically. For example, Chevron announced in late 2012 that its Gorgon project costs had risen by 40 percent, from $37 billion to $52 billion. Rising costs across the industry are threatening the viability of future LNG developments planned beyond the seven currently under construction and could even lead to delays in projects currently under construction.

Also, Australian LNG will face strong competition for Asian markets from (a) potentially lower-cost LNG projects in the United States and Canada from the shale gas boom, (b) renewed export competition from Qatar, (c) new Russian supplies from Sakhalin 3 and possibly Vladivostok, (d) West African supplies drawn in by Asia’s LNG price premium, (e) Papua New Guinea LNG, (f) potential East African offshore gas, and (g) even possibly Alaskan LNG. In China, Australian LNG also will have to compete with potentially much higher domestic conventional and shale gas production, as well as pipeline gas competition from Turkmenistan, Kazakhstan, Myanmar, and possibly Russia’s East Siberia. Japan’s LNG needs also are highly leveraged to the very uncertain outlook for nuclear power.

Finally, growing competition to supply high-priced Asian LNG markets suggests that LNG price trends over the longer run are quite uncertain. While the Asian LNG balance seems likely to remain very tight for the next few years, LNG markets look likely to be much more balanced and potentially oversupplied after 2016, with major new supplies coming online and continuing weak LNG demand in Europe. The gradual introduction of US hub-based pricing to Asian LNG markets also creates new uncertainties. Already, several of Japan’s large utility LNG buyers have negotiated new short- and medium-term contracts that include a US Henry Hub component to their price formulas. All these factors suggest that the traditional oil-linked Japan Crude Cocktail contract price system that has led the Asian “premium” is likely to be under growing pressure. This development would not bode well for Australia’s higher-cost projects.

In sum, Australia is extremely well positioned to take advantage of Asia’s booming LNG and coal demand growth. Despite the economic slowdown from 2010 to 2012, which led to a period of commodity price weakness, gradually strengthening economic growth in China and the West should underpin strong markets for Australia’s energy exports, and prospects look excellent. Australia is not called “the lucky country” for nothing.

### Energy Security Implications for the United States and the Region

The United States has important long-term strategic interests in Asia’s continuing search to strengthen the region’s energy security, and the pivot to Asia makes energy security an even more salient dimension of US interests. Japan, Southeast Asia, and Australia are key parts of the regional energy mosaic and, therefore, can play a central role in more secure energy trade. However, the drift in Asian energy security strategies since 2000 has been toward an increasingly zero-sum atmosphere in which national competition over energy supplies and transit routes has prevailed over energy cooperation. China’s, Japan’s, and Southeast Asia’s high and growing dependence on imported oil, combined with the region’s heavy reliance on Middle East supplies, have all fed this mercantilist competition. This scramble, in turn, has fed rising oil and LNG prices and strengthened the hands of the producers. Distrust has also reinforced major power strategic rivalry in the region such that, rather than becoming a source of common interest and collaboration, energy security has aggravated the underlying sense of strategic competition and major power rivalry.

In this highly charged atmosphere, achieving much in the way of regional energy cooperation has been difficult, despite obvious common interests. This scenario threatens not only the region’s economic stability, in which the United States has a vital stake, but also, quite literally, regional peace, as the recent rising tensions in the South China Sea clearly demonstrate. Therefore, as the United States shifts its strategic attention toward Asia, it needs to make strengthening Asia’s energy security and cooperation a much more salient dimension of its regional strategy.

The United States can pursue a range of strategies. The strong US–Australian strategic and economic partnership provides an ideal basis for new efforts to craft regional approaches to securing the energy sea-lanes vital to the region. Australia’s unique geographic position facing northward toward the South China Sea but also west to the Indian Ocean makes maritime security and naval power core national goals for Australia. The country’s enormous LNG and coal exports depend on secure sea-lanes through the contested and congested seas of Southeast Asia. The new agreement for positioning 2,500 US Marines in the port of Darwin testifies to growing strategic collaboration, as Australia searches for the right balance between its close alliance with the United States and its booming commodity export dependence on China. With less strategic baggage than
the United States in its relationship with China, Australia can potentially provide a bridge between the two countries in finding new ways to collaborate on energy security. The United States must pursue this opportunity vigorously with Australia, China, Japan, and Indonesia, if it is to be feasible.

US engagement with Southeast Asia through ASEAN, the East Asian Summit, and the ASEAN Regional Forum also presents opportunities to draw the regional powers into new energy security arrangements. These groups now include all the key players and could provide an architecture for regional energy cooperation. For example, ASEAN has discussed for 15 years the need for regional emergency oil stocks but has achieved little. Only Japan and South Korea, as members of the IEA, possess strategic oil stocks, whereas China is building its own national strategic stocks. The region is ripe for drawing all the major players into a regional oil stock system that would strengthen Asia’s energy security while beginning to institutionalize energy cooperation. A regional oil stock system could also potentially ease some of the tensions over maritime and energy territorial claims that are currently escalating in the South China Sea. But again, this effort will need a US push if it is to move up on the crowded regional agenda.

Another opportunity for promoting regional energy cooperation would be to strengthen energy security cooperation in the Pacific islands. US Secretary of State Hillary Clinton’s participation in the Pacific Islands Forum in August 2012 demonstrated a stronger US interest in the islands, albeit perhaps driven by China’s aggressive diplomacy there. But given the positive relationship between the Pacific Islands and China, energy cooperation could also provide another bridge toward US–China energy cooperation. The islands would certainly be important beneficiaries from and contributors to a regional emergency oil stock system.

Energy security provides an ideal platform for a stronger and constructive US role in Asia. If managed properly, it could also be a platform for easing some of the energy and strategic tensions between the United States and China. And energy security will be a critical determinant of Asia’s economic prosperity and political stability that is vital to the United States. A major future disruption in oil and LNG supplies will hit Asia’s heavily import-dependent economy harder than anywhere else, because Asia is the major importer of Middle East oil and LNG. As the United States shifts its attention and resources to Asia, energy security needs to be high on the list of strategic priorities.

Notes


13. Henry Hub prices are open market–based benchmark US natural gas prices that reflect direct gas-on-gas competition. In mid-2013, US gas prices stood at roughly $4 per million British thermal units, only one-quarter of Japan’s LNG costs.