

The logo for the Observatory Indo Pacific, featuring the word "Observatory" in a large, white, sans-serif font above the words "INDO PACIFIC" in a smaller, white, sans-serif font, all set against a solid red rectangular background.

# Japan's quest for energy security in the 'new' world of geopolitics

## Introduction

Japan has one of the least self-sufficient energy systems in the world, relying on imports for nearly all its primary energy supply – particularly after the Fukushima disaster in 2011. For decades, Japanese policymakers considered diversification of crude oil supplies from the Middle East to be one of the country's most pressing security concerns. As part of this effort, Japanese companies were incentivised to invest heavily in Russian oil and gas projects in the Eastern Arctic. In 2021, Russia was Japan's third-largest coal supplier and fifth-biggest supplier of crude oil and liquefied natural gas (LNG).

In May 2022, the world is a very different place. In line with the G7 stance, Japan has banned coal imports from Russia and committed to phase out its reliance on all Russian energy exports. Former Japanese Prime Minister Shinzo Abe's vision of a rapprochement with Russia and a weak China-Russia alliance has had a brutal reality check. To the contrary, in the face of geopolitical turmoil, Japan appears to have underscored its ambition to be a representative of a liberal, rules-based order in the Indo-Pacific.

Nevertheless, Russia's invasion of Ukraine has significant implications for Japan's energy security, on top of already tight international energy markets. Both Japanese self-sanctioning of Russian energy exports and indirect effects on energy markets through other countries' decision to find alternative energy suppliers, expose Japan's energy supplies to high volatility and high prices well beyond the short-term. This is the reality that Japanese policymakers are facing while seeking to transform their energy system in line with their commitment to net-zero emissions by 2050.

As representatives from the Japanese Ministry of Foreign Affairs concluded in a recent webinar: "the geopolitical dimension of energy security has been forgotten for two decades – now it is back".<sup>1</sup> This essay will demonstrate that the "return of geopolitics" calls for a revision of some assumptions of Japan's energy security outlook. More specifically, it will show that the high fossil fuel prices present a strategic opportunity for Japan to accelerate the energy transition in the region and assert itself as a rules-setter for emerging energy commodity trade, making active resource diplomacy a more important feature of energy policy than ever. First, it will provide the context for Japan's energy security policy and point out some of the

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<sup>1</sup> Tanaka 2022

assumptions embedded in these policies. Then, these assumptions will be critically discussed, showing how they might be recalibrated in response to the global energy crisis.

## Japan's energy security context and policy concerns

### Japan's energy dilemma: energy transition in the context of import dependency

Japan faces fundamental energy security challenges, being an island nation with limited endowment of natural resources and no international gas pipelines and electricity connections. Moreover, with the Fukushima nuclear power accident in 2011, nuclear power generation – the single large-scale source of indigenous energy production Japan had (disregarding dependence on uranium imports) – was largely abandoned as a source of power generation, further increasing the reliance on fossil fuel imports. Although policymakers since have managed to increase the energy efficiency of Japan's economy and reintroduced some nuclear power generation capacity, in 2019, Japan still relied on fossil fuels imports for 88% of its total primary energy supply (TPES).<sup>2</sup> Of these imports, oil accounted for 38%, coal for 27%, and LNG for 23%.<sup>3</sup> Energy security is thus a fundamental tenet of Japanese energy policy, as laid out in Japan's Ministry of Economy, Trade and Industry (METI)'s regularly revised Strategic Energy Plan (SEP).

In October 2021, a 6<sup>th</sup> SEP was published to account for a significant change in energy policy: Japan's announcement in 2020 of its aim to “reduce greenhouse gas emissions to net-zero and to realise a carbon-neutral, decarbonised society” by 2050.<sup>4</sup> The ambition was to have renewable energy sources accounting for 50-60% of Japanese electricity supply in 2050, with the remainder 30-40% supplied by nuclear and thermal plants with CCUS technology, and 10% by hydrogen and ammonia generation.<sup>5</sup> As imported oil, coal, and natural gas are still considered to have a key role in Japan's future energy mix, also outside the power sector, the 6<sup>th</sup> SEP seeks to ensure the security of supply of these sources by increasing the “independent development ratio” (meaning the share of imports developed by Japanese companies) of oil and natural gas from 34.7% in 2019 to “more than 50% in 2030 and more than 60% in 2040”.<sup>6</sup>

Meanwhile, security of low-carbon energy supplies is approached in a similar way, with the SEP aiming to demonstrate Japan's “active involvement in realistic energy transitions in Asia”.<sup>7</sup> For instance, being among the first countries to launch a national hydrogen strategy, Japan sees itself as “well positioned to push for an internationally shared vision on making hydrogen a truly clean energy source”.<sup>8</sup> In short, Japan's reliance on traditional and new energy carriers alike is premised on an active international presence – in terms of “resource diplomacy with energy exporting countries as well as public financial support to overseas energy supply projects with the involvement of Japanese companies”.<sup>9</sup>

However, for each of the main current energy import commodities – oil, coal, and LNG – Japanese policymakers have crafted energy security policies based on perceptions of risk. Such

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<sup>2</sup> IEA 2021, 13

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

<sup>5</sup> METI 2021b

<sup>6</sup> METI 2021a, 11

<sup>7</sup> Ibid.

<sup>8</sup> IEA 2021, 14

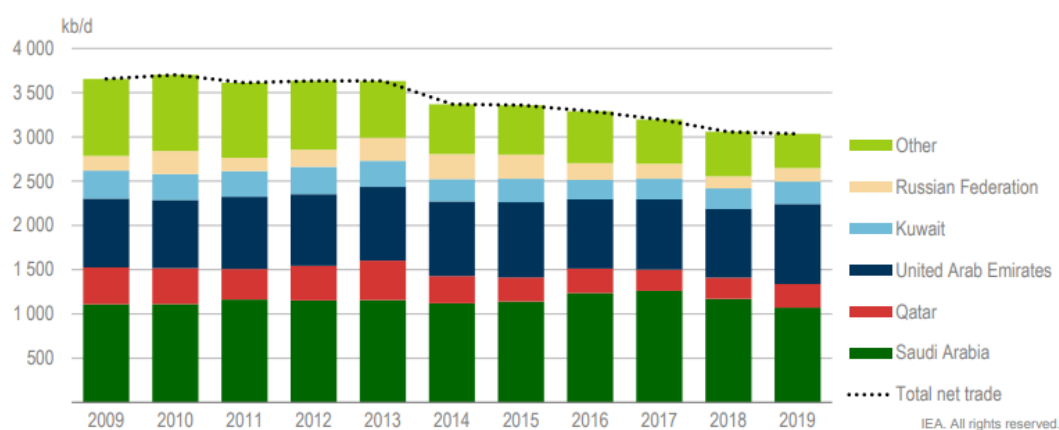
<sup>9</sup> Ibid., 30

risk calculus pertains to the commodities' respective import dependency profiles, their geopolitical risk exposure, assumptions about Japan's future energy mix, and projections of global energy market dynamics. By outlining some of these characteristics in the following sections, some of the basic assumptions of METI's energy policy can be identified.

### Security of supply: oil

Oil accounted for 40% of Japan's TPES in 2019, playing a vital role in domestic transport, industry, agriculture, and power generation.<sup>10</sup> 99.7% of Japan's crude oil supplies are seaborne imports, with highly concentrated sources: in 2019, around 82% came from countries in the Middle East, while 5% came from Russia.<sup>11</sup> Meanwhile, domestic oil demand has declined by around 10 percentage points since 2000, mainly due to improved fuel efficiency in vehicles, a gradual shift to electric vehicles, an oil-to-gas switch in power generation and industry, and a declining population.<sup>12</sup> The share of oil is expected to decline further – albeit modestly – to 33% of TPES in 2030.<sup>13</sup>

**Figure 9.4 Japan's crude oil net imports by country, 2009-19**



Due to the geopolitical risk of Japan's oil imports' dependency on Middle Eastern supplies and transport through the Strait of Malacca, oil security has for decades been considered a top energy security priority.<sup>14</sup> Japan has built one of the largest oil emergency stockholdings in the world relative to demand, and entered "joint stockholding arrangements with national oil companies from the Middle East".<sup>15</sup> Moreover, the mandate of state-owned Japan Oil, Gas and Metals National Corporation (JOGMEC) has been expanded to facilitate Japanese companies engagement in emerging project opportunities, notably US shale development, oil and gas field development in the Central and South America, Africa, and the Russian Arctic.<sup>16</sup> Nevertheless, as Japanese oil refineries must be rebuilt to process different kinds of crude oil, the focus seems to be less on promoting diversification and more on enhancing relationships with existing suppliers.

<sup>10</sup> Ibid., 177

<sup>11</sup> IEA 2021, 180

<sup>12</sup> Ibid., 177

<sup>13</sup> Ibid.

<sup>14</sup> METI 2018

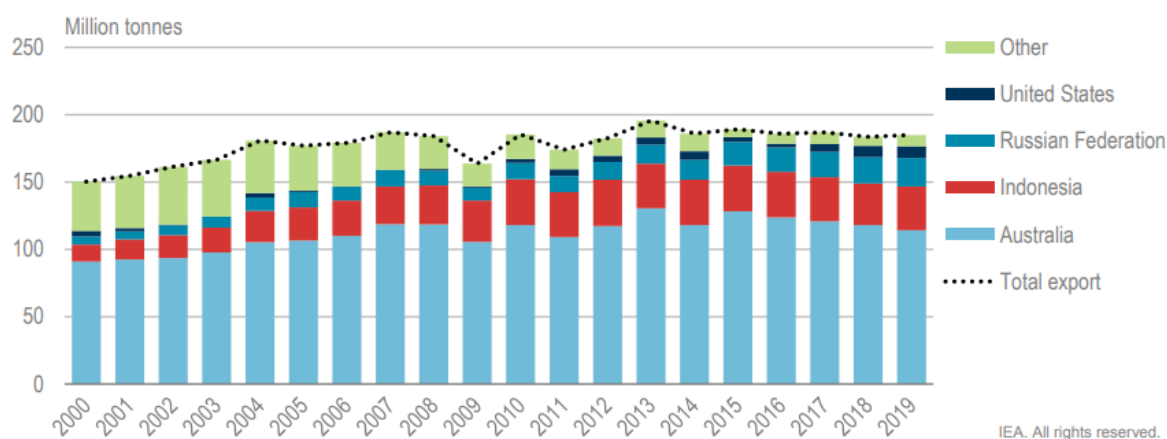
<sup>15</sup> IEA 2021, 191-192

<sup>16</sup> METI 2020a

### Security of supply: coal

Coal accounted for 27.2% of TPES and 31.9% of electricity generation in 2019.<sup>17</sup> Besides electricity generation, coal is used extensively in iron and steel production.<sup>18</sup> As with oil and gas, domestic coal extraction is marginal, making Japan the world's third-largest importer of coal in the world. Most of these supplies comes from Australia (62%), followed by Indonesia (18%) and Russia (11%).<sup>19</sup>

**Figure 10.3 Japan's coal imports by country, 2000-19**



As most of Japan's coal plants are adapted to Australian high-quality coal, a key step for diversification is to "develop technology to expand the use of low-quality coal" while providing public finance to overseas coal projects.<sup>20</sup> However, Japanese public and private funding overseas has not only been for mining, but also local grid development and power plants. This approach mirrors the recognition in Tokyo that pure mercantilism is counterproductive to promoting a "free and open Indo-Pacific", and that providing "quality infrastructure" is more effective in fostering trust in Japan as a regional partner and viable alternative to China's Belt and Road Initiative.<sup>21</sup> Moreover, it reflects METI's assumption that developing national coal markets in neighbouring countries increases coal trade liquidity. However, following global criticism, in 2020, Japan decided to limit such public financing to projects where the buying country has a decarbonisation strategy, or where the project was already in the pipeline.<sup>22</sup>

Domestically, the future role of coal in Japan's energy mix fundamentally relies on Japan's success in making CCUS and carbon recycling technologies economically viable and deployed on a large scale by 2030. The recognition of this risk is to some extent reflected in the moves of Japanese and international banks and investors to increasingly divest from coal-related assets.<sup>23</sup>

<sup>17</sup> IEA 2021, 195

<sup>18</sup> Ibid.

<sup>19</sup> Ibid., 197

<sup>20</sup> IEA 2021, 203

<sup>21</sup> Saint-Mézard 2022

<sup>22</sup> Abe and Hanawa 2020

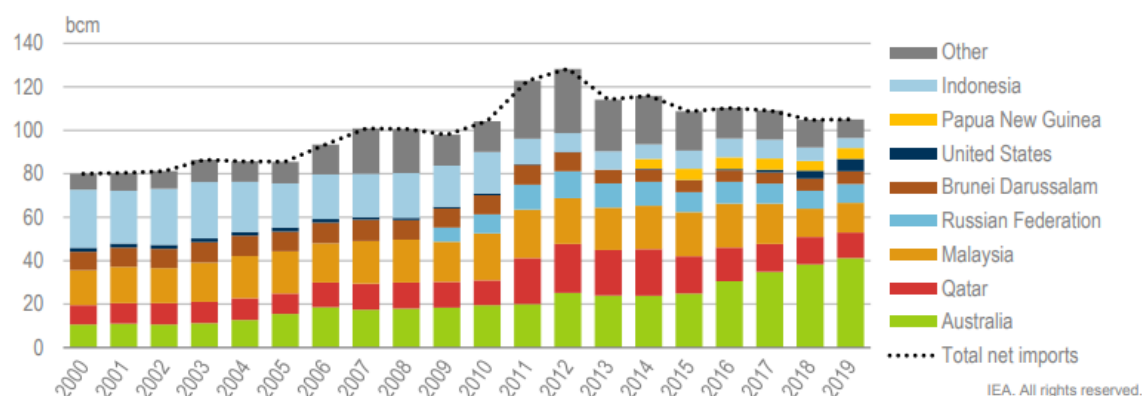
<sup>23</sup> IEA 2021, 203

### Security of supply: natural gas

Since the Fukushima disaster in 2011, natural gas has become a central element of Japan's energy security. In 2019, natural gas accounted for 23% of TPES and 34% of electricity generation.<sup>24</sup> Nearly all of Japan's natural gas is imported to Japanese ports in the form of LNG, regasified in terminals and distributed across the country through pipelines. Until late 2021, Japan was the world's largest LNG importer, of which most supplies were procured through long-term contracts, with additional supplies purchased on the JKM spot market.

The sources of Japan's LNG imports are relatively diverse. In 2019, 39% came from Australia, 13% from Malaysia, 11% from Qatar, and 8% from Russia.<sup>25</sup> The share of Australian LNG imports has increased substantially since 2014, while the US shale revolution led to a rapid expansion of US LNG imports from 2017.<sup>26</sup> While import volumes have plateaued in recent years, natural gas is expected to continue to have a crucial role as an "intermediate power source" in Japan's energy mix, especially as renewables are added to the power system and the most inefficient coal plants are phased out by 2030.<sup>27</sup>

**Figure 8.3 Natural gas imports to Japan by country, 2000-19**



As METI expects global LNG demand to double by 2040, with market growth led by China, India, and emerging Asian markets,<sup>28</sup> it is important for Japan to maintain its ability to secure LNG supplies. Several measures have been taken in the last decade: promoting flexibility in long-term LNG contracts, liberalising the domestic gas market, investing in overseas gas production and LNG infrastructure, and increasing the diversification of LNG suppliers.<sup>29</sup> Concerning the latter, the International Resource Strategy underlined the benefits of pivoting to Russia, given its "plentiful sources in the Arctic" that could be transported to Japan in much fewer days than supplies from the Middle East and the US.<sup>30</sup>

Japan has also sought to strengthen the demand-side of regional LNG trade. As with coal projects, the idea is to lead the creation of "a larger international market that integrates strong Asian demand", whereby Japan's energy security benefits from a more liquid and flexible

<sup>24</sup> Ibid., 159

<sup>25</sup> Ibid., 161

<sup>26</sup> IEA 2021, 161

<sup>27</sup> METI 2018; IEA 2021

<sup>28</sup> METI 2020b

<sup>29</sup> IEA 2021, 160

<sup>30</sup> METI 2020b

market.<sup>31</sup> Therefore, JOGMEC has been mandated to directly invest or provide debt guarantees to Japanese companies not only developing gas fields and liquefaction projects, but also building and operating LNG receiving and trans-shipment terminals in third countries”.<sup>32</sup> In 2017, METI announced a USD 10 billion investment plan for new LNG projects in Asia over a period of 5 years, followed by another USD 10 billion in 2019 and training of personnel.<sup>33</sup> The aim is that by 2030, 100mn tons of LNG are handled by Japanese companies per year.<sup>34</sup>

Moreover, METI has since 2017 worked to remove the “destination clause” from long-term LNG contracts and has several international initiatives to “advance collaboration among LNG-consuming nations,”<sup>35</sup> such as providing workshops and training to foster human resources in LNG and hosting conferences for LNG producers and consumers.<sup>36</sup> It also has extensive strategic energy partnerships with the EU, India, the US, and Australia. Being an LNG importer that recently has invested in domestic LNG reloading capacity,<sup>37</sup> Japan thus seems to assume that the expansion in Asian LNG demand will benefit both its own energy security and its energy transition efforts.

The confidence in the impact of these measures, together with the expectation of ample US LNG supplies to Asian gas customers, may explain why Japanese “energy companies, trading houses and electricity producers maintain reserves amounting to only two to three weeks’ worth of demand”.<sup>38</sup> However, the Asian power price crisis of 2021, which resulted in power cuts and LNG having to be purchased at record-high prices at the spot market, demonstrated the lack of transparency and regulation concerning national natural gas stocks.<sup>39</sup> The risk of gas shortages had thus began to emerge as an issue of electricity security.

## **Russia’s invasion of Ukraine: implications for Japan’s energy security**

### **A turning point in Japan-Russia relations**

Japan’s reaction to Russia’s invasion of Ukraine surprised several observers, including Russia itself.<sup>40</sup> In early February 2022, as a Russian invasion started to look increasingly likely, the Japanese industry minister agreed to a US request to divert some surplus LNG to Europe.<sup>41</sup> As the invasion became a fact, Japan joined the EU and the US in condemning Russia’s actions and imposing sanctions. The Japanese government later announced that its upcoming revision of its national security strategy “would no longer refer to Russia as a “partner” but as a “security challenge”, putting Russia in the same category as China and North Korea”.<sup>42</sup>

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<sup>31</sup> Ibid.

<sup>32</sup> Ibid.

<sup>33</sup> Reuters 2019

<sup>34</sup> METI 2020b

<sup>35</sup> Ibid.

<sup>36</sup> IEA 2021, 167

<sup>37</sup> Ibid., 161

<sup>38</sup> Lewis, Sugiura and Slodowski 2022

<sup>39</sup> IEA 2021, 16

<sup>40</sup> Mitrova 2022

<sup>41</sup> Lewis, Sugiura and Slodowski 2022

<sup>42</sup> Mainichi Japan 2022

This marked a major break in Japanese rhetoric and strategic outlook vis-à-vis Russia, particularly compared to its response to Russia's annexation of Crimea in 2014. Under former Japanese Prime Minister Shinzo Abe's tenure, there had been multiple initiatives and promises of "big Japanese investment to help revive the economy of Russia's depopulating Far East", ultimately seeking to advance peace talks towards an agreement over the disputed Kuril Islands.<sup>43</sup> Proponents of this approach argued that as Japan cannot handle having both China and Russia as strategic adversaries, it had to "pry Russia away from China".<sup>44</sup> As such, the national security strategy passed of 2013 considered advancing cooperation with Russia "in all areas" a prerequisite of "security, peace, and stability of the Asia-Pacific region".<sup>45</sup>

A central piece in this rapprochement effort was the joint development by Russia and Japan of large-scale energy projects in Sakhalin in the Russian Arctic. However, on March 9, the minister of the METI warned that Japan may consider pulling out of the massive Sakhalin-1 oil project and the Sakhalin-2 LNG project.<sup>46</sup> The Japanese stakeholders include state-owned energy companies Itochu, Marubeni, and JOGMEC, as well as trading houses Mitsubishi and Mitsui. Other international partners in the projects, such as Shell and Exxon Mobil, had already announced their exit, leaving the Japanese companies to reconsider their investments and future presence.<sup>47</sup> Nevertheless, METI's concern about Japan's energy security has to date hindered it from breaking off the projects and energy trade relations.<sup>48</sup> Japan thus seems to find itself in a similar situation regarding Russia as Germany, diplomatically aligning with its G7 allies while recognising that energy diplomacy requires time to catch up.

Today, after 30 years of cordial relations, Abe's approach seems impossible.<sup>49</sup> Not only has Putin added Japan to its list of 'unfriendly nations' and suspended the peace negotiations over the Kurils; the Sino-Russo alliance looks closer than ever. Just days prior to the invasion, Putin and Xi Jinping signed an agreement on a new gas pipeline between the two countries. Russian foreign minister Sergei Lavrov recently said that China and Russia together will "move towards a multipolar, just, democratic world order".<sup>50</sup> It is clear to Japanese policymakers that Russia and China now "work hand-in-hand as revisionist powers".<sup>51</sup> The energy market power of such an alliance may be another reason for Japan's reluctance to pull out of Sakhalin for now; there is a fear that "companies of a "particular origin" could swoop in to take over Tokyo's stakes".<sup>52</sup> Meanwhile, other Asian countries, including Japan's strategic ally India, have expressed willingness to buy discounted oil from Russia.

### **A global energy crisis**

The Russian war and the following reordering of international politics has direct and indirect implications for Japan's energy security situation.

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<sup>43</sup> Hille 2022

<sup>44</sup> Ibid.

<sup>45</sup> Ibid.

<sup>46</sup> Slodowski 2022

<sup>47</sup> Ibid.

<sup>48</sup> Hille 2022

<sup>49</sup> Pajon 2022

<sup>50</sup> AFP 2022

<sup>51</sup> Pajon 2022

<sup>52</sup> Slodowski 2022b

First, on April 4, Japan's government reaffirmed its alignment with its G7 allies by joining their ban on Russian coal exports and a policy of reducing overall reliance on Russian energy. Making up for Russia's 11% share in Japanese coal supplies will not be easy, at least in the short-term. The prospects of increasing coal imports from existing suppliers are limited by continued floods and weak shipment levels from Australia, logistical issues in South Africa, and prolonged rain and new export restriction legislation in Indonesia.<sup>53</sup> On top of already high Asian coal prices following the natural gas shortage of 2021, the invasion of Ukraine has caused global coal prices to jump to record levels, leaving Asian power producers "scrambling for any available supply".<sup>54</sup>

Second, while Japanese companies have not yet pulled out of the Sakhalin projects, Japanese gas and power companies fear disruptions to LNG supplies – either initiated by Moscow or through self-sanctioning in response to increased international political pressure. Global LNG markets were already tight before the invasion, as the 2021 energy price crises in both Europe and Asia combined with a cycle of low upstream investments had driven up spot LNG prices to unprecedented levels. Following the invasion, and especially the release of the EU's plan to phase-out two-thirds of the bloc's reliance on Russian natural gas by the end of 2022, markets have been pricing in expectations that the imbalances in international gas markets will last well beyond the short-term. For Japan, this entails having to pay high premiums to win bidding wars against European and Asian counterparts for available LNG cargoes, while incurring shortages and forced domestic demand curtailment, as even if the willingness to pay is there, the "kinds of volumes" required to replace Russian gas are simply not available.<sup>55</sup> Russian gas currently supplies half of Hiroshima's gas needs, 10% of Tokyo's, and 4% of Osaka's.<sup>56</sup> The effects of rising fuel prices are already felt by Japanese consumers through higher electricity bills, inflation, and a drastically weakened yen.<sup>57</sup>

Third, as part of its sixth sanctions package, the EU is preparing to impose a ban on Russian oil exports by the end of 2022, with restrictions phasing in until then.<sup>58</sup> As almost two-thirds of the EU's crude oil imports come from Russia, the ban is expected to drastically increase global oil prices as European customers seek alternative suppliers. Some Japanese refineries have also ended oil contracts with Russia, embracing for high uncertainty, price volatility and reduced liquidity in global oil markets.<sup>59</sup>

In general, the significance of Russia's global role as energy exporter has become starkly evident to OECD countries. Reducing reliance on *one* energy commodity, like coal, is exacerbating existing market imbalances but could arguably be managed by countries like Japan which has extensive trade relationships and a political culture for paying premiums for energy security. However, reducing reliance on *all* Russian commodities at once – crude oil, coal, natural gas, and potentially even uranium – is a tall order. Even with the current coal embargo, not only the global coal price, but also global oil and natural gas prices are substantially affected.

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<sup>53</sup> Slowowski and Jung-a 2022

<sup>54</sup> Sutherland 2022

<sup>55</sup> Slodowski 2022b

<sup>56</sup> Ibid.

<sup>57</sup> Oda and Reynolds 2022

<sup>58</sup> Nardelli and Chrysoloras 2022

<sup>59</sup> Fattouh 2022



## Revising energy security assumptions

These developments challenge some of the assumptions of Japanese energy security policy, while highlighting the relevance of others.

The effort of investing heavily in coal production in the region to create a supply buffer has not had an adequate effect, as record-high gas prices has pushed emerging Asian economies to undertake gas-to-coal switching, further limiting coal supplies in an already tight international coal market. The assumption that coal would be a cheap source to fuel Japan's coal power plants, is also less certain. Moreover, if coal supplies expand and prices come down relative to other commodities, the imperative of ramping up CCUS technologies is even more urgent if climate targets are to be respected. Oil prices are, however, coming down somewhat, proving the relative resilience of oil as a global, more liquid commodity, particularly as opposed to LNG where supply capacity is not restricted by costly liquefaction and regasification capacity.

LNG security indeed appears to be more of a pressing concern vis-à-vis oil security than traditionally believed, despite the relative diversification of LNG suppliers. The expansion of US LNG supplies and participation in Russian LNG projects were thought to mitigate Japan's reliance on the Strait of Malacca for energy imports.<sup>60</sup> Now, additional US LNG capacity is likely to be directed to European customers who, impatient to cut reliance on Russian gas, will be willing to pay high premiums to secure cargoes while having the cost advantage of shorter transport distances. Further, Japan's belief in LNG supply diversification and development of a liberalised regional LNG market as adequate guarantees for LNG security may have presumed that Europe would continue to act as a "sink market" balancing global supply and demand – a premise that now is fundamentally challenged as the EU seeks to phase out its 40% share of Russian gas imports "well before 2030".<sup>61</sup> As LNG supply is restricted in the short-term due to the lead-times of LNG infrastructure development, the 9% share of Russian LNG from Sakhalin-2 will be a difficult gap to fill. But also in the long term, analysts forecast a substantial structural gap between global supply and demand of LNG, partly because of a reluctance of investors to lock-in capital in fossil fuel assets with long payback periods.<sup>62</sup>

## Strategic opportunities?

These pressures on global fossil fuel markets combined with Japanese policymakers' preference for energy security may stimulate two interdependent policy developments: On the one hand, a stronger diplomatic alignment between Japan and regional energy partners and a more explicit assertion of the Japanese FOIP vision in response to the potential hegemonic energy market power of a China-Russia bloc. On the other hand, the global energy crisis represents a crossroads where Japan and other Asian countries either proactively accelerate or significantly delay the energy transition. Both policy dimensions embody a renewed emphasis on geopolitics.

Concerning energy diplomacy, the balance of power in the Indo-Pacific will likely depend on near-term developments in China's approach to the G7 and Russia that remains somewhat unclear for now. Nevertheless, the crisis has exposed some differences in Indo-Pacific

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<sup>60</sup> METI 2020b

<sup>61</sup> RePowerEU 2022

<sup>62</sup> Shell Global 2022

countries' willingness to abandon Russian energy supplies, effectively creating a division between those markets, like India and China, who can access Russian energy supplies at substantially discounted prices, and those markets, like Japan and South Korea, who to a larger extent will be exposed to high global prices. However, as Russia's energy exports to Europe cannot fully nor rapidly be redirected to Asia, global energy markets will likely remain tight and volatile.<sup>63</sup> Japan's policy of "comprehensive resource diplomacy" is thus going to be more relevant than ever, including with former foes such as South Korea.<sup>64</sup>

The US has already emphasised energy as a central component in its version of the Free and Open Indo-Pacific (FOIP) strategy, as the Indo-Pacific's dominance in global energy demand is considered a lever to strengthen US influence in the region and reducing the energy dependency leverage of autocratic regimes such as China, Russia and Saudi Arabia.<sup>65</sup> In a similar vein, recent events may encourage Japan to strengthen the intersection of its strategic and energy cooperation initiatives, including a stronger focus on the energy-related components of Japan's FOIP strategy. Potential levers include multilateral forums such as the Japan-US-Australia Blue Dot Network, the Asia-Africa Growth Corridor, and the Asia Enhancing Development and Growth through Energy (EDGE) initiative, as well as bilateral platforms such as the Japan-US Strategic Energy Partnership (JUSEP).<sup>66</sup> Indeed, Japanese government delegations have in the past weeks visited a series of Western allies such as the UK, to discuss plans "to support Asian nations to find energy supplies to diversify away from Russian oil and gas".<sup>67</sup> The politicisation of regional energy trade is also seen elsewhere in the Indo-Pacific: Australia's largest LNG producer recently asked the Australian government to speed up permitting for new projects to exploit the "huge opportunity" for a "safe, secure, reliable democratic nation" to meet the gas demand of "like-minded countries" in Asia.<sup>68</sup>

Meanwhile, the global energy crisis may put into question the expected future role of LNG as a central driver of decarbonisation and energy security in Asian economies. Until now, Japan has built its regional energy diplomacy on the message that fossil fuel investments are not risky, based on the assumption that Japanese technology, expertise, and capacity to establish international rules and standards, will serve to minimise the emissions from fossil fuel production and combustion.<sup>69</sup> Therefore, from one perspective, neighbouring developing countries' sensitivity to LNG prices is an opportunity for Japanese coal-related business activities and trade flows in the short-to-medium term. However, if Japan is to reach its net-zero target by 2050, it cannot afford seeing the regional energy markets that it so deeply depends on be stuck in the fossil era. While domestically, ramping up nuclear power generation seems to have become more politically viable lately, "a rapid return is unlikely" for various reasons.<sup>70</sup> Moreover, the Covid-19 pandemic and the energy crisis have highlighted the vulnerability of global supply chains, and sharpened the attention towards China's dominance in key metals and components required in energy transition technologies such as solar panels, wind turbines and lithium-ion batteries.

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<sup>63</sup> Tsafos 2022

<sup>64</sup> Toyoda 2022; Sugiura and Lewis 2022

<sup>65</sup> Kucharski 2020

<sup>66</sup> Bakshi 2021

<sup>67</sup> Bloomberg News 2022

<sup>68</sup> Fernyhough 2022

<sup>69</sup> Toyoda 2022

<sup>70</sup> Inajima and Oda 2022

Considering these factors, the centrality of accelerating the energy transition to Japan's energy security becomes evident: as Japan's energy security is fundamentally linked to the liquidity and flexibility of energy-related commodities in its region – whether the commodity is coal, hydrogen, or rare earth metals – the energy transition must be accelerated regionally, not just nationally. The understanding in Japan that enhancing energy security among Indo-Pacific countries is fundamental to its own energy security, is far from new. What is, is the sense that geopolitics is back as a defining feature of this planning among all regional stakeholders. Whether this renewed focus will materialise as resource nationalism, as alluded to with Indonesia's recent export restrictions, or deeper integrated and more liberalised energy markets in the Indo-Pacific, is an open question. For Japan, the dual challenge of ensuring energy security and energy transition in the international context of geopolitical reordering gives the FOIP objectives of promoting multilateral energy cooperation, adherence to international rules and practices, and a competitive energy marketplace another dimension.

4333 words

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