

This report was written by Carla Eggert, researcher at Hanns Seidel Foundation Korea. The report is about the Asan Roundtable Energy Series on March, 29th 2016 at The Asan Institute for Policy Studies.

Title: Asan Roundtable Energy Series

Date: March 29, 2016

Theme: Connecting East and West Asia – KAPSARC and regional energy governance in Northeast Asia

Place: Conference Room (2F), The Asan Institute for Policy Studies

Summary:

The Program for American Politics and Policy of the Asan Institute for Policy Studies hosted a talk given by Leo Lester (Research Fellow at KAPSARC, King Abdullah Petroleum Studies and Research Center) on their current international and collaborative project to investigate the current state and possible future of the GCC (Gulf Cooperation Council) and NEA (North East Asian) energy relations.

Dr. Lester started his talk by providing a short introduction on the work of KAPSARC, which is an independent non-profit research center focused on energy economics and policy in a worldwide context located in Riyadh, Saudi Arabia. It acts for the advancement of understanding of energy economics and acts as a catalyst for dialogue, charting a path to better welfare for societies, locally and globally. The strategic objectives are to develop sustainable economic frameworks that lead to lower societal costs of energy supply, higher value created from energy consumption and better alignment between energy policy objectives and outcomes.

Mainly the project was initiated because there is a huge interest in China in the gulf region. Also the gulf region showed interest on what is going on in China, so KAPSARC took the opportunity to broaden the research to GCC and NEA.

KAPSARC is also constructing a forum for inter-regional scholarly and policy relevant dialogue on energy economics and policy within their current research on GCC – NEA relations. An edited volume is also being published to bring the different perspectives of researchers from both regions together. KAPSARC works towards the release of a concise policy brief to give policy makers across all countries in both regions a framework to deepen relationships between the two regions. The main focus lies on creating a dialogue between the involved regions.

The project, building on the „One Belt, One Road Initiative“ of Chinese President Xi Jinping, aims to shift the focus away from an asymmetric view of risk, meaning the fear of interruption of oil supply on the one side and on the other, that the customers will simply walk away. And to transform the current “transactional” relationships into strategical equally supported ones, which will unlock the huge potential on both sides. So far the Chinese framework ignores the gulf region completely. It also serves to reinforce mutual interdependence, to build trust and to examine the dynamics of bilateral energy relations

between the GCC and NEA. The project aims to provide the possibility of having a broader perspective on the problems that exist to prevent a dangerous lockdown of focus on the own asymmetric risk and therefore being stuck in expensive policies.

The collaboration in research is achieved through different participating institutions in both regions. These are KEEI in Korea, IEEJ in Japan, CAS, Renmin, SIC, SFU, IERC and Beihang in the People's Republic of China, CIER and CTCI in Taiwan, KAPSARC and Saudi Aramco in Saudi Arabia, KISR in Kuwait, DERASAT in Bahrain, QU and QEERI in Qatar and Masdar Institute in the United Arab Emirates.

The book which is going to be published will be divided into four main parts: Trade and Connectivity, domestic policies, energy security and energy and the environment and will be published in summer 2016.

Dr. Lester explained the energy relations between GCC and NEA by means of some selected highlights. The existing relationships are driven by energy through trade, investment and joint ventures. The total trade volume in 2013 from GCC to NEA was about 367 BN \$ whereas the volume from NEA to GCC was only about 104 bn \$. So there exists a huge surplus which is hiding great narrows, lack of diversification and vulnerability. The GCC is overall more dependent of NEA as the other way round. Exports from GCC to NEA in 2014 made up 44% while they only imported 23% from NEA. The exports from NEA to GCC made up only 3% while imports were slightly higher at 10%.

The research has shown that in terms of upstream there is only one GCC – NEA Exploration & Production Joint Venture between Saudi Arabia and China whereas in the downstream sector there are a handful of projects, which compared to the size of both regions still has an enormous potential for growth, but bureaucracy in the Gulf is driving potential interests away, which should be an issue that policy makers have to think about as it would be very easy for NEA to expand their markets to GCC.

The trade relationships are vulnerable to three different shocks. First is the price volatility which leads to recessions whenever it spikes. Second, there is a possibility that NEA might become even less dependent on GCC through new means of energy sources. The shale revolution in the USA had a great impact on trade relations with GCC, which has led to a greater interest in relations with NEA, but, if for example Japan started to use their own resources of methane hydrates, they would be completely independent of extern sources for gas which affects Qatar the most. Thirdly, there is an increasing competition in the market coming from Russia, which is closer to NEA in geographical terms. In the period of 2000 to 2010 the growth in oil exports to China went up 70% and gas went up 15%. Whereas the total exports of oil from the Middle East region to Asia decreased from 78% in 2008 to 66% in 2014.

Energy security was another selected highlight of the project. Research from one of the Chinese partners have shown that the domestic gas production in China is falling and is being made up by imports which have grown by 31%. There was an enormous growth in a short period of time, starting in 2006 with pipelines added in 2009. Chinas demand for Qatari LNG is sinking therefore Qatari exports fell by 48% in 2015. China's appetite for gas will be way below forecasts, expectations and hopes therefore there is no room for growth in the market.

Seeing as GCC concentrated more on NEA after Europe and America showed less demand, GCC influence over energy security in China has grown steadily and become more tied over the past years. Another factor in terms of energy security are political unrests. The Middle East is especially vulnerable in terms of the relation between the flow of oil following political unrests. But compared to the effect of broader economic factors political ones aren't as important. What policy makers really should be driving is ensuring a stable economic environment in both regions. The goal should be to broaden relationships.

How do you broaden these relationships? One thought to tie relationships together was brought up by the Korean partner, which is joint GCC-NEA stock stockpiling to help integrate energy security concerns. Japan and Saudi Arabia are already engaged in stockpiling and Korea is also talking about this method. Another is accounting for embodied energy and emissions to give a fuller understanding of the real energy demand. There is a huge amount of energy flow from NEA to GCC in terms of smartphones, cars and other products. The importance of the relationships changes when the regions start to see them as more than just based on pure energy resources in form of oil or gas. Renewable energies also play a major factor in deepening the relations. Currently the percentage of renewable energies in NEA is around 10% whereas in GCC it is below 1%. Sharing Chinese and Japanese expertise on solar and wind energy with GCC, which has a great potential but can't be fully utilized due to local problems like sand, presents new opportunities for cooperation. Qatar is planning to have 2% renewable energies by 2020, Bahrain is aiming for 5% and Oman for 10%.

KAPSARC plans to continue the project with a focus on the relations in NEA, after they had been approached by Renmin University which was contacted by the Chinese Government, who showed an interest in the dynamics of NEA. The continuation, which will start mid-2016, is building on the community that developed and tries to bring in more partners from NEA. The research will then focus on what is driving or preventing regional energy cooperation in NEA.