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Comment on "Implications of Deglobalization on Energy and Carbon Neutrality in Asia and the Pacific Region"

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Arimura and Sugino (2024) highlight the shock to fossil fuel markets caused by Russia's expanded invasion of Ukraine in 2022 and the Western-led international response. While fossil fuel prices generally soared, some countries including China and India benefited from relatively cheap Russian fuels.

What happened in 2022 is certainly interesting. Data from the Energy Institute (2023) and BP (2022) suggest that Russian exports of oil, coal, and piped natural gas to the Asia-Pacific increased relative to the prior year, although exports of liquefied natural gas (LNG) fell. Nevertheless, Russia continued to play a relatively modest role in supplying the Asia-Pacific's energy needs, especially for non-oil products. In 2022, Russian exports supplied about 10% of the oil consumed in the Asia-Pacific, 3% of the region's coal use, and 2% of its natural gas use (via a pipeline to China). Russia was only the fifth-largest supplier of LNG to the region, after Australia, Qatar, Malaysia, and the United States (US).

Russia appears set to increasingly look East for its energy exports, with a new gas pipeline to China as part of the potential mix. Yet most Asia-Pacific countries are unlikely to wish to become overly dependent on Russian energy. The competitive nature of global energy markets, the economic and political benefits of diversification, and constraints on rapid ramp-up of Russian supply are instead likely to mean that Russia remains only one of a number of suppliers to the region. In 2023, fossil fuel prices were also already down from their 2022 levels, reducing the size of the price discounts available from Russia.

Arimura and Sugino (2024) highlight a division in emission reduction ambition between developed and developing countries. Fortunately, this is one that has generally declined over time, with the Kyoto-era distinction between Annex B countries and others now behind us. One of the major achievements of the Paris Agreement era has been the net zero emission commitments announced by countries from Vietnam (by 2050) to India (2070).

While energy security concerns spiked in 2022, climate ambition was not cast to the wayside. Indeed, the G20 declarations of 2022 and 2023 included strong climate

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statements. There has also been ongoing policy momentum, with Singapore announcing it will increase its carbon tax rate from 2024, for example.

Taking the long view, the energy sector has generally been globalizing over time, with the ratio of energy trade (imports plus exports) to energy use rising for both the world and the Asia-Pacific (IEA, 2023). This has been aided by improvements in transport for products such as natural gas, among other factors. In recent developments, there have also been some moves toward cross-border integration. In 2023, China removed its restrictions on Australian coal, for example, while Singapore signed memoranda of understanding with several neighbors for cross-border power flows.

Arimura and Sugino (2024) discuss the potential effect of the European Union (EU) carbon border adjustment mechanism (CBAM). The underlying principle of a CBAM is to extend the price on negative externalities beyond only domestically produced commodities, although accurate implementation is challenging. In the Asia-Pacific, the EU CBAM has already had the positive effect of raising awareness of the energy transition and emission reduction imperatives.

Efforts to reduce technological dependence on China loom large. As of 2022, China accounted for more than four-fifths of global solar cell production capacity and three-quarters of global battery cell production capacity, which are large shares (BNEF, 2022). The US Inflation Reduction Act and other efforts for diversification and decoupling may foster a broadening of the global production base for these technologies and a reduction in the vulnerability of supply chains. These efforts are not cost-free. Ongoing research on the effectiveness and implications of these efforts will be of high potential value.

An imperative for the energy transition is to avoid investments that lock in future emissions and larger emission abatement costs over the long term. Arimura and Sugino (2024) are sanguine about natural gas, although note the large costs involved and that renewables are an alternative. Leaping to zero-emission energy sources would be much more compatible with climate goals. In some good news, the renewables share of electricity generation in the Asia-Pacific reached 14% in 2022 (Energy Institute, 2023).

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