

## **Beyond Zero Sum Politics: Frameworks for delivering Energy and Climate Security in the Asia Pacific Region**

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### **Economic Cost or Security Threat? The Varied Faces of Energy Security**

Energy Security is different from other issues. It raises passions and perceptions which do not bedevil other areas of international policy. Only by understanding these issues can we unravel the reasons why cooperation in this area seems to lag behind other issues of equal or lesser economic importance.

Firstly, energy security is poorly defined. It encompasses a range of risks and threats over different timescales and different magnitudes. It has yet to result in a well quantified measure of public good which can be compared against other public policy objectives, such as environmental protection or poverty reduction. This lack of sharp definition makes it prey to distortion in policy debates.

Secondly, the nature of energy security means that it often “securitised” - framed in “military security” terms - as well as seen as part of economic analysis. Some threats to energy supply are seen as fundamental threats to the nation; on a par with direct external military aggression; for example, hostile attack on energy resources or disruption of supply routes. This hard security approach is backed up by the importance of securing energy supplies in case of inter-state warfare. All military strategists are taught the vital dynamics of oil as decisive element of 20<sup>th</sup> century imperial struggle and the battles of World War II.

A securitised approach places high value on direct state control of resources, companies and transit routes, backed by hard security measures to preserve these investments (e.g. military bases/capability; “private” security companies; military cooperation). These may be backed by government to government relationships with energy suppliers where diplomatic support, military equipment and other benefits are used to create a preferential supply basis. China’s recent aggressive energy and resource diplomacy in Africa displays all these features.

In contrast, the economic interpretation of energy security sees it in terms of higher and more volatile prices, impacts on macroeconomic balances and incentives to move to substitutes. The economic approach sees energy security as a potentially costly problem, but one that can be dealt with inside the normal mechanisms of markets, insurance and buffer mechanisms.

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The dual nature of energy security results in contested analysis between the bureaucratic cultures advising political leaders, especially over the ability of markets to deliver security and on the need for direct state control of resources. These differences lead countries to adopt markedly different strategies when faced with similar external circumstances; particularly in the balance between preventive and reactive, cooperative and competitive, legal and power-based measures needed to ensure their perceived energy security.

These differences are exemplified by the heated debates in Japan over whether the government should increase the share of nationally owned oil imports from 15 to 40%. These debates also underlie the recent aggressive policy of overseas energy resource acquisition pursued by China and India; despite questions raised by some energy experts as to whether there is any public benefit to be gained from these expensive foreign ventures.

In contrast, energy security policy in the UK has increasingly relied on a market-based and cooperative approach; despite historical UK military involvement in Middle East oil politics. Recent reviews of UK policy in the 2003 Energy White paper and 2006 Energy Review have confirmed this approach, which is supported by the major security actors inside the UK administration. In general, European energy security policy follows a similar approach, though with more emphasis in countries such as Germany, France and Italy on long term commercial contracts with gas suppliers.

Whatever the objective outcomes of energy security policy, and without robust measures of security these are hard to determine, it is clear that the regular cry that issues of “perception” drive policy is not something that can be cured by greater inter-country dialogue or exposure of facts. Different attitudes to energy security policy are deeply engrained in the organisational cultures of different parts of governments; particularly the contrasting approaches of economic and security ministries. Most governments reach an uneasy balance of these interests, which appears inconsistent and confused when outside analysts try and interpret policy as if it is a result of a unitary set of risk perceptions and objectives combined into a coherent strategic approach.

**The tensions which exist inside governments over framing the energy security issue generally to bias against multilateral and cooperative approaches to delivering energy security solutions, in favour of approaches which – at least in the short term – appear to be more under direct national control.**

### **Counting the Benefits of Energy Cooperation in the Asia –Pacific Region**

The ascendant logic of “securitisation” around the energy security issue in the Asia Pacific region implies that there must be significant potential gains from broad co-operation in order to make a deeper multilateral approach to energy security in the region worthwhile.

The historical record shows the power of these implicit barriers to potentially beneficial co-operation. The IEA only emerged after the significant macroeconomic shocks caused by the oil crises of the 1970’s; shocks which caused major harm to

developed country economies. The Ukraine gas “crisis” of 2005 led to the short term prospect of stronger European coordination on energy, but as the threat receded so did the political motivation for concerted action, even among a set of countries well used to pooling sovereignty to achieve common objectives.

It is unclear whether there are really strong benefits from further cooperation in the Asia-Pacific region to achieve their “traditional” energy security objectives:

- Access to stable energy producers in the Middle East, Africa and Russia/Central Asia will not be secured by regional cooperation.
- Cooperation is needed over gas pipeline transit and infrastructure cooperation, but bilateral deals are making progress.
- Asia-Pacific countries require high investment rates in energy infrastructure but this is mostly driven by domestic investment conditions.
- Many other regional collective action issues are already being addressed in other fora: sea lane protection; supply transparency and cooperation; terrorism vulnerability.

In these traditional energy security areas there do not seem to be sufficient benefits to promote deep regional cooperation in the Asia Pacific region. Certainly not enough to overcome other long term causes of distrust and tension between major consumers such as China, Japan and India,

**A focus on narrow energy security concerns is likely to result in a patchwork of bilateral and plurilateral agreements which will evolve and improve, but will not resolve into a set of binding and substantive cooperative commitments. More benefits are needed on the table to drive cooperation.**

### **The New Energy Security Agenda**

Though there may not be large enough benefits inside a narrow interpretation of energy security to justify enhanced multilateral cooperation; a broader view of energy security shows a larger set of potential security and economic benefits from cooperation. This broader agenda revolves around the instability impacts of the geopolitics of energy and growing impacts of climate security.

#### *The Rising Geopolitics of Energy*

In a recent speech Javier Solana, the EU High Representative outline how energy was a key aspect of every major foreign policy issue he was involved with; from Iran to North Korea to Sudan. The increased importance of energy security as a foreign policy issue is leading to a set of unintended consequences in other policy areas.

Firstly, geopolitical tensions rooted in bilateral energy alliances between countries are preventing – or weakening - global collective action to reduce other security threats. Examples include: Chinese and Russian energy relationships with Iran weakening Security Council action on nuclear proliferation; China’s oil sector involvement with Sudan delaying UN action on Darfur; India’s energy investments in Myanmar

limiting action against the military regime; and European and US energy interests in Russia and Central Asia weakening action on human rights and internal oppression.

The geopolitics of energy security is limiting the international community's freedom to act in many unstable parts of the world, notably Africa, Central Asia and the Middle East. In the long term this is likely to increase political instability and the risk of conflict as international mechanisms are not deployed to reduce tensions. Such instability will have inevitable knock-on effects on energy security, as is already being seen in the \$10-20 risk premium in current oil prices.

Secondly, state-to-state relationships on energy access are increasing instability in producer states. One of the most consistent observations in development economics is the long term poor economic performance of developing countries with high dependency on natural resources, especially oil and gas. The World Bank estimates that over the last 40 years developing countries without major natural resources have grown 2-3 times faster than those with high resource endowment. The root cause of this failure is the destabilising impact of high-value resources on the political economy of supply countries: weakening incentives for good governance and pro-development policies; macroeconomic impacts of resource industries on the broader economy ("Dutch Disease"); creating massive incentives for high-level corruption and asset looting; increasing risk of violent challenges to state power, either nationally or in break-away resource rich regions; and reducing the leverage of the international community to intervene in unstable situations.

Only countries with developed and mature systems of governance find positive long-run impacts from large natural resource finds; even the UK has suffered negative macroeconomic impacts and a large scale separatist movement as a result of North Sea oil production. Bilateral exclusive relationships with supply countries make these negative impacts more likely, by: increasing state control over assets; weakening market oversight and transparency of resources and revenues; and empowering the existing elite to use resource revenues for their personal or political benefit.

Thirdly, strategic rivalry over access to energy resources decreases trust between consuming nations and makes cooperation to secure fundamental interests difficult. Part of the reason for aggressive energy security policies by China and India is their fear of the "West" monopolising access to the major Middle East/Russian/Central Asian oil and gas; due to their closer geographic proximity and larger purchasing power. They also feel militarily vulnerable to US disruption of oil shipping routes, though of course benefit currently from US sea lane protection. Recent moves by the US to place military bases in West Africa near new oil fields, increases suspicions that in times of crisis military control will be exerted over supplies. As a result, Chinese policy makers often argue they are forced to deal diplomatically with countries where the US and Europe tend not to operate due to human rights or security concerns; such as, Sudan, Myanmar and Angola. In their turn, these moves are interpreted by US and European governments as strategic moves to deliberately undermine their influence in the region. In fact both sides have an interest in stable, secure and transparent governance in supplier countries; something mostly likely to come with representative and least semi-democratic government (though this may be disputed in China). Their current competitive stance obscures the longer term

interests of all large consuming nations to support sustainable stability and efficient market development in supplier countries as the best guarantee of energy security.

The enlarged Europe has particularly high interests in these issues. As the lesson of Algeria shows, Europe's geographic position means that increased instability in supplier countries in Africa, Middle East and Central Asia will have the direct security impacts from migration, refugees, extremism and even terrorism. The new importance given the external aspects of European energy policy, and constructing strong cooperative energy frameworks in its immediate neighbourhood, reflects these broader security and stability concerns.

**The growing geopolitical approach to energy security is undermining cooperation between large energy consuming countries in a range of areas, and increasing instability in many supplier countries. A cooperative approach to a market-based access to energy resources, good governance and transparency in supplier countries and energy efficiency and diversification would be a better guarantee of long run energy security than current competitive strategies.**

#### *The Imperative of Climate Security*

Climate change is the most pressing security threat facing the world. In simple economic terms the 2006 Stern Review of the Economics of Climate Change estimates that if unchecked it will reduce global GDP by between 5-20% in the coming decades. Developing countries will bear the brunt of the early impacts as they are more vulnerable to climatic changes and extremes, and have fewer resources to adapt.

Estimates of the cost of climate change are also likely to rise as knowledge improves. Recent research has shown increased estimates of the sensitivity of the global climate to rising concentrations of greenhouse gases, and that we are likely to cross critical climate thresholds earlier than previously thought. We have probably already crossed the threshold where the Greenland ice pack will melt, increasing global sea levels by 7 metres; we may soon cross the threshold for the Western Antarctic Ice Shelf, which would raise global sea levels by another 7 metres. A 14m sea level rise will affect the livelihoods of over 1 billion people who live in low lying coastal areas, and destroy huge amounts of capital. There are still questions about how long this sea level rise will take to happen, will it be 30, 50 or 100 years. However, once a threshold is breached there is no way to reverse the process. Other thresholds – such as from the melting of the Siberian tundra – will accelerate climate change by releasing methane a powerful greenhouse gas; there are several similar positive feedback mechanisms.

The world has already warmed by 0.7C degrees, and we are already committed to probably another 0.7C degree rise. Avoiding the worst impacts of climate change requires action to keep below the 2C degrees, and this requires global carbon emissions to start falling by 2020.

Achieve a reversal of global CO<sub>2</sub> emissions growth will require massive shifts in investment flows in the energy sector over the next 25 years. The International Energy Agency estimates that under such a scenario total investment in the energy sector would fall from \$19-21 trillion to \$11-12 trillion, as increasing energy efficiency

reduces the need for higher energy supply; with investment in transmission and distribution particularly affected. Inside the energy sector large amounts of investment will flow into low carbon technologies – renewables, nuclear and carbon capture and storage - and away from fossil fuels.

The implications of these shifts will be felt earliest and most strongly in the Asia-Pacific region, as globally it is deploying capital at the fastest rate. China alone is building one large coal power station every 4 days. If all the planned coal power stations in China, India and US are built their lifetime emissions will exceed all global greenhouse gas emissions up to 1970. If this happens there will be no likelihood of keeping climate change below dangerous and irreversible thresholds.

Future greenhouse gas emissions are embedded in patterns of investment in urbanisation, road building and car use and the fabric of buildings. Moves to improve energy security by investing in coal-to-oil processes in China and elsewhere leave an even larger climate change legacy; as they emit far more carbon dioxide per unit of energy than using conventional oil. Across the Asia-Pacific investment is pouring into these sectors and therefore determining the potential and cost of future greenhouse gas emission reductions.

Current energy pathways in Asia-Pacific – and globally – are unsustainable. Business-as usual will result in high costs to the region with real security implications, including a high potential for conflict and crisis. The Chinese government predict that their agricultural yields could fall by 38% by 2050, at the same time as demand is rising strongly. Meanwhile the ability of major agricultural exporters to make up these deficits is unclear. Australian agricultural yields have fallen by over 60% in 2006 due to a combination of long term drought and exceptional heatwaves. These conditions will become ever more frequent as climate change intensifies.

Climate change is a global problem, and thus will drive global cooperation to shift energy investment towards a low carbon economy. The existing Kyoto Protocol agreement has already begun this shift, particularly in Europe and Japan; for example, over the last ten years the global market for renewable energy has grown from virtually zero to \$40 billion per annum – around one fifth of global power supply investment. But Kyoto was always only a first step, and in the period 2008-2010 will see the completion of a new more ambitious global agreement to tackle climate change over the next two decades.

The critical international actor in driving climate change cooperation is the European Union, which is aiming to commit itself to a unilateral cut in greenhouse gas emissions of 20% by 2020, and by 30% if other developed countries take on comparable commitments. These commitments provide an immediate motor for global action as the EU opens its greenhouse gas emissions trading scheme to carbon reductions produced globally, and enters into bi-lateral partnerships on new technology with key partners. For example, the EU-China agreement in 2005 to build a full-scale carbon capture and storage coal power station in China. There are also a range of other investment and technology partnerships driving low carbon investment, including the Asia-Pacific Partnership founded by the USA.

**Global cooperation to tackle climate change is rapidly growing and will fundamentally change incentives, investment flows and technology in the energy sector. Achieving climate security will become as fundamental a priority as energy security in the Asia –Pacific region, opening up new opportunities for collaboration.**

### **Beyond Zero-Sum Politics: Co-operation for Energy and Climate Security**

It is in the nature of institutions to split the world into separate pieces, only by doing this can action be focused and outputs delivered. However, as times and situations change, and previously distinct areas become intertwined and interconnected, these policy silos become dysfunctional and prevent progress towards strategic goals.

We are now at such a juncture. There is no sensible way to construct policy inside the existing narrow categories of energy security, climate security and regional security. The interconnections between these areas are so profound that a holistic strategy is needed to address these challenges. No-one area deserves a priori precedence from decision makers as they all impact on fundamental security concerns. Put another way - security is security is security. Whether considering energy supply disruption, regional instability driven by competition for resources or the impacts of climate change on food and water availability and competition.

In the immediate future the most critical synergies need to be built between energy and climate security policies on three levels:

- **Clear investment signals:** Energy and climate security are public goods and so require governmental action to define objectives and set targets; the market will not produce them on its own. Both energy and climate security depend on changing energy sector investment patterns, which are mainly delivered through the private sector. This requires coherent, effective and long term investment signals to be sent from the public to the private sector.
- **New Institutional Structures:** few countries have truly integrated strategies for delivering energy and climate security; this results in policy and regulatory incoherence and failure to deliver on strategic outcomes.
- **Political Coherence:** it will not be possible for countries to cooperate at the level needed to deliver climate security, if they still see each other as strategic competitors over energy resources. The climate security imperative needs to drive a more cooperative and rules based approach to energy security relations between states, if both objectives are to be achieved.

The emerging climate security threat fundamentally changes the character of energy relationships; moving us beyond zero-sum politics into an era where cooperation must replace competition and isolation. It will not be acceptable for countries to achieve energy security at the expense of global climate security; for example by investing in large scale coal-to-liquids technology without matching carbon sequestration. This requires countries to work together to ensure that they can meet their energy security objectives without damaging mutual climate security; for example, by providing preferential access and finance for carbon sequestration technology. This cooperative

spirit should also drive major energy consumers to collaborate to stabilise energy suppliers, rather than seeking to strike exclusive and destabilising deals with them.

**Together the convergent issues of energy and climate security provide a fundamental political driver for stronger Asia-Pacific cooperation, which is important enough to overcome narrow national interests. However, it also implies that the EU and the US - as critical actors in delivering global climate security - will need to be core partners in the web of cooperation which grows in the region.**