

Session 3

TOWARD INTEGRATED ENERGY COOPERATION MECHANISM IN NORTHEAST ASIA

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1. Introduction

Even though only six countries, China, DPRK, Japan, Mongolia, ROK, and Russia, are located in Northeast Asia, Northeast Asia is commanding significant attention from global economic and political perspectives. Specifically, since the economic growth rate of Northeast Asia is faster than any other region in the world, the faster growth of demand for energy in this region is naturally expected.

Until 2020 the share of Northeast Asia in the world energy demand is forecasted to be more than 25%. Northeast Asia's phenomenal economic growth, its steadily rising energy demand, and its accumulating impact on world energy markets raises the question of how the region will meet its energy challenges. To meet these challenges, each country in Northeast Asia has developed various strategies to guarantee the sustainability of each economy.

In this paper, I would like to investigate the appropriate mechanisms for energy cooperation in Northeast Asia. To deal with various energy challenges, the countries of Northeast Asia have tended to heavily depend on bilateral collaboration. However, as the characteristics of the players in the energy market become more diversified and interdependent, multilateral collaboration as well as bilateral collaboration becomes more necessary for the efficient operation of energy markets. Therefore, it is necessary to investigate the appropriate mechanisms for energy cooperation in Northeast Asia. To explore this issue, at first I will review the current potential of Northeast Asia energy cooperation. This review will reveal what kind of energy cooperation is appropriate in Northeast Asia energy markets. Next, in section 3, I will focus on energy security issues in Northeast Asia because energy security has become more vulnerable due to Chinese economic growth. Also, in this section, an analysis of the relationship between the characteristics of energy security and energy security-improving methods will be provided.

Next, in section 4 I will analyze the specific needs and current constraints of energy cooperation in Northeast Asia. In addition to energy security enhancement, there are many potential areas for

mutual benefit from Northeast Asia energy cooperation. Also, there are some constraints on energy cooperation mechanisms that may hinder the realization of targeted benefits. The combined analysis of benefits and constraints will provide a more realistic and clear picture of efficient energy cooperation within the region.

In the section 5, I will explain in detail the on-going Korean initiative for energy cooperation in Northeast Asia. In the detailed description of the Korean initiative, we can find how all the main issues of energy cooperation in Northeast Asia would be incorporated into the activities of inter-governmental collaborative mechanisms. In the final section, I will suggest what is the appropriate direction for an integrated energy cooperation system in Northeast Asia. Based on all the analyses of the previous sections, we can evaluate the current approach and find out which is the more reliable and practical energy cooperation system.

2. Current Energy Cooperation Opportunities in Northeast Asia

Since in Northeast Asia the most important energy source is considered to be petroleum, many of the potential opportunities for energy cooperation are found in the petroleum sector. In the near future Chinese oil demand is expected to surge¹ and the Northeast Asian oil market can be a significant factor in world oil markets. This significance can transform Northeast Asia into an efficient hub region for world oil transportation. Also a Northeast Asia alliance for oil transport can provide a powerful oil purchasing negotiation tool to this region.

As all the countries except Russia have become major oil importers and experienced surging oil demand, each country's emergency oil stockpiles will be more meaningful to each economy. While Japan has a 160 day supply of oil stored and ROK keeps a 90 day oil supply, China is only now starting the stockpiling of petroleum². Even though China is a novice in oil stockpiling, because of the immense scale of Chinese energy demand, the impact of the China factor becomes more pronounced in the world petroleum storage market. The participation of China in the petroleum storage market will provide a new opportunity for energy cooperation in Northeast Asia. Since the ROK and Japan have sound experiences in petroleum stockpiling, a Northeast Asia alliance will provide new investment opportunities to each country such as co-investment for new stockpiling structures, co-operation in stockpiling installations, and storage information exchange.

¹ Gao(2004) pp.15-17

² KEEI (2003), p.11

Even though natural gas is considered to be an alternative and clean energy source, currently the ROK and Japan import gas only through LNG tankers. There have been many discussions on alternative supply methods of natural gas, such as, natural gas pipeline construction projects in the Northeast Asia region. These PNG (Pipeline Natural Gas) projects have some advantages: lower transportation cost and more flexible supply adjustments to fluctuating demand. However, the lack of multilateral agreements for the fair operation of pipelines has delayed the necessary multiple procedure steps for the PNG projects.

Another potential area for energy cooperation in Northeast Asia is the interconnection of electricity. Since Far East Russia has an immense potential for hydroelectric power plants, the ROK and Japan have displayed keen interest in the electricity interconnection to the Eastern Russia hydroelectric power plant network. However, since the construction of hydroelectric power plant and electricity interconnection in Northeast Asia requires a huge, intensive investment in the region, the realization of the necessary investment requests a stable political situation and a guaranteed security in the region as prerequisite conditions.

3. Energy Security

3.1 Main Characteristics of Energy Security

Energy security can be defined as the stability of energy supply under a reasonable price range, and the ability of compensate for a sudden welfare loss due to the disruption of energy supply and radical changes in energy price³. Therefore, to secure energy security each country usually focuses on the establishment of a stable, cost-effective and sustainable energy supply system. To analyze the energy security issue we need to understand three kinds of risk, namely, quantity risk, price risk, and environmental risk. The quantitative risk has been the traditional focus in energy security. When the world economy experienced the first oil shock in 1973, the main focus was on quantitative constraints rather than price increases. Traditionally political or strategic energy supply disruption is closely related to quantitative risk.

Another energy security related risk is price risk. This risk tends to be a kind of price shock due to short-term supply shortages or non-market disruptions. Recent oil price hikes due to the Middle East crisis can be a typical example of energy security problems related to price risk. Price risk is frequently confused with quantity risk and they can be considered a transitory phenomenon of the energy market. However, recent frequent short-term energy price hikes have

³ Doh (2003), pp.34-35. This report also provides a comprehensive definition of a new interpretation of energy security.

led many energy experts to identify price risk as a distinct energy security related risk.

3.2 How to Improve Energy Security?

To improve energy security we need a comprehensive approach that takes into account all kinds of risk such as quantity risk and price risk. A comprehensive approach requires a political approach as well as an energy economic approach to investigate the reliable options and constraints related to energy security.

First of all, an energy economic approach requires the removal of instability in energy supply. To secure a stable energy supply, traditionally we need to diversify energy import regions and fossil-fuel type. More flexibility in contract conditions and securing reliable delivery routes and systems are other options for stable energy supply. More integrated domestic infrastructure and energy storage installations are considered as necessary conditions for enhanced energy security in each country. More participation in overseas resource development is another option for enhancing energy security. The political approach to energy security tends to emphasize the geopolitical aspect of energy. This means that we can consider energy cooperation as a catalyst for regional economic cooperation and use it as a tool for easing regional tensions arising from the heterogeneous characteristics of the regional countries.

Besides traditional energy security measures, more specific energy policies can be utilized for lowering instability in energy supply. First market-oriented energy policies will be a good measure for energy security. If the energy market becomes more dependent on price mechanisms, the energy market can have stronger flexibility under unstable energy supply conditions. With this flexibility, a country can reduce its vulnerability to price volatility, which can make its energy economy have a lower price risk.

Next, energy policies for energy efficiency enhancement are another good measure for energy security. The more efficient the use of energy, the more flexibility the energy economy has in equalizing demand and supply in energy markets. This flexibility allows energy markets more adjusting time for equilibrium, which can provide the economy more reliable energy security.

Restructuring of the energy industry can be a more fundamental measure for upgrading the energy security level of each country. Since the restructuring must be realized through privatization in the energy industry, each energy company will adopt the various strategies for strengthening its own competitiveness. During this procedure, each player in the energy market will put many measures for enhancing energy security into practice explicitly and implicitly

because most measures for energy security can be competitive enhancing strategies.

3.3 Relationship between Energy Security and Regional Energy Cooperation

The previous section shows that the enhancement of energy security is realized by securing energy supply, energy economic measures and geopolitical measures. While some measures for energy security may be realized through domestic policy, other measures can only be realized through international cooperation. Specifically, enhancing energy efficiency, building-up reliable domestic infrastructure, and restructuring the energy industry can be handled effectively through domestic energy policy. However, the other energy security enhancing measures can be realized by a combination of domestic policies and international cooperation energy policies.

Many measures for secure energy supply become more effective through international cooperation. For a stable energy supply, the diversification of import sources is always strongly advocated. However, diversification requires more negotiation with multiple energy suppliers with diverse economic situations. Sometimes the transaction costs of more negotiated processes can surpass the benefits of the diversification of energy suppliers. To reduce the negotiation costs, the energy consumer (the country with the energy demand) needs more purchasing power, which can be realized through negotiation and cooperation among purchasing countries. This enhances the possibility of energy cooperation within a specific region like Northeast Asia. The improving flexibility in energy purchasing contract conditions is another potential benefit of regional energy cooperation through regional cooperation.

Geopolitical conditions represent both critical opportunities and challenges for energy cooperation because economic interests and political interests are intertwined. The geopolitical feature of energy can ignite serious conflict between neighboring countries at first. But because cooperation in energy exploration can be more beneficial to each country, energy-related conflict can be transformed into an opportunity of mutually beneficial energy cooperation

4. Potentials and Impediments in Energy Cooperation in Northeast Asia

4.1 The Necessity of Northeast Asia Energy Cooperation

With the above argument for energy cooperation, we can analyze the necessity of energy cooperation in Northeast Asia. First of all, Northeast Asia energy cooperation can enhance the energy security level in the region. Since energy resource reserves such as petroleum, natural gas, and coal are immense in Northeast Asia, cooperative projects such as, exploration and development of energy resources, can deliver effective tools for enhancing energy security in the region. The growing oil dependency on the Middle East, which is becoming a more serious

concern in Northeast Asia, can be lowered through regional energy resource development. Specially, more development of natural gas can provide not only more secure energy resources but also lower environmental vulnerability in the region.

Energy development projects usually take a long time to implement because they require a large scale of capital and technology. If South Korea and Japan participate in Russian and Chinese energy development projects with the necessary capital and technology, the project will provide huge mutual benefits such as securing stable energy supply sources to South Korea and Japan and more easily accessible energy consumers to Russia and China. However, this mutual benefit can be realized only after an investment-friendly environment is established in Russia and China. To encourage the investment there must be a reasonable dispute settlement procedure for the trade and transportation of energy resources and applicable and reliable regulations for settlement. Without these prior requisites, it becomes very difficult to remove investment-related uncertainty. To ensure those institutional requisites, each country necessarily must cooperate with other countries in the region through an energy cooperation framework.

As we can see in the case in Europe, energy cooperation can be expanded into other economic sectors such as steel, railroads, and communication. Since more active energy sector trade demands more mass transportation services like railroads and the communication services, energy cooperation demands cooperation in the transportation and communications sectors as well. In addition, a more active interconnection network requires more for basic materials and industry development such as the steel industry.

Another contribution of energy cooperation in Northeast Asia is that it can ease political and military tensions between North and South Korea and can improve the North Korean energy sector. Relaxed tensions between the two Koreas can lower investment uncertainty in the region and create more opportunities for interconnection projects in the region.

4.2 Impediments for Energy Cooperation in Northeast Asia

The heterogeneity of economic systems in Northeast Asia is the primary impediment to energy sector cooperation.⁴ While South Korea and Japan have developed an energy sector under market economy conditions, China and Russia are still struggling in the transition from a planned economy to a market economy and restructuring their energy industries under a transforming economy. North Korea has not yet started a significant transformation of its economic system.

⁴ KEEI (2003), pp.26-28.

Under this sluggish transformation, the improvement of laws and regulations to attract foreign investment into the energy sector has been delayed in Northeast Asia. This lack of institutional protection of foreign investment can be improved significantly by inter-governmental agreements for investment protection. The inter-governmental agreements must accompany a kind of inter-governmental collaborative framework.

Another aspect of the heterogeneity in energy market conditions in Northeast Asia is a serious impediment to energy cooperation in the region. While energy demand patterns in China, Russia and North Korea are more dependent on their own energy resources and less expensive energy products, South Korea and Japan are dependent on imported energy resources and more environment-friendly energy products. These differences in energy demand patterns are likely to induce each country in Northeast Asia to pursue energy policies that satisfy only their own demand patterns. This coordinated energy policy problem in Northeast Asia can be improved through the inter-governmental collaboration, which can provide a guidance for optimal energy mix of demand and supply and an integrated-plan for energy exploration, project financing, and environmental protection.

The initial huge investment requisition for the Northeast Asian energy sector is another impediment to energy cooperation in the region. While Russia, China, Mongolia, and North Korea desperately need more investment in their own energy sector, the lack of necessary legal protection for foreign investment has kept Japan and South Korea from more active investment in the energy sector of the other four countries. To improve the current investment environment, there must be a kind of multilateral financing mechanism which can play a role in risk spreading and risk mitigation. Also, multilateral financing mechanisms will provide more institutional investment protection, which is not sufficiently developed in each country and will likely guarantee a sustainable project profit level.

The lack of political leadership is another constraint on energy cooperation in Northeast Asia. The negative impacts of World War II and the Cold War deeply influenced diplomatic relationships in Northeast Asia. Even though China, Japan, and Russia have the potential to play a leading role, each country has specific weak points economically or diplomatically. In addition, since previous energy cooperation in Northeast Asia was implemented only on a project basis, China and Japan have preferred an ad hoc bilateral cooperation framework to a multilateral one. However, without political consensus, efficient energy cooperation in Northeast Asia becomes very difficult to implement. Significant energy cooperation projects such as natural gas pipelines, oil pipelines, and electricity interconnection in the Asia region cannot be implemented without

the consensus and mutual trust of all the countries involved. To make up for the absence of leadership, the establishment of a multilateral consultative framework in the region must be initiated immediately. Even though bilateral negotiation is frequently stalled by complicated stalemate conditions of two countries involved, multilateral frameworks provide more flexible and negotiable agreements to all the participating countries.

Another impediment to energy cooperation is the lack of mutual trust between Northeast Asian countries. With rivalry and conflicts from the beginning of 20th century, Northeast Asian countries have kept some political and economical tensions between them. However, the prerequisite for successful energy cooperation is economic and political stability based on mutual trust in the region. Without mutual trust building there is a low possibility of successful energy cooperation. The separation of economic interests from political interests is the first step toward mutual trust. To implement this step, we need a kind of collaborative framework focusing on economic interests rather than political interests.

5. Korean Initiative for Collaborative Mechanisms for Energy Cooperation in Northeast Asia

5.1 Main Directions in Collaborative Mechanisms

Successful energy cooperation in Northeast Asia can be implemented through a more economic-interests-first approach. To encourage this approach we must separate energy cooperation issues from political sensitive issues and ensure the sound profitability, stability, and environmental friendliness of each cooperation project. Also in the initial stage all the cooperative projects must be advanced through the voluntary and non-binding participation of the regional countries.

All the energy cooperation projects must be accompanied by concrete investment financing schemes because the energy industry is intrinsically capital-intensive. For the promotion of necessary investment, the principle of non-discriminatory trade and investment must be applied to every project. Reliable mechanisms for foreign investment protection and risk allocation can be promoted through the collaborative framework.

Even though energy cooperation in Northeast Asia concentrates on the establishment of collaboration among regional countries, the actual collaborative framework must aim for open regionalism. Since energy cooperation needs not only the promotion of intensive investment but also the utilization of highly-advanced technology, the participation of Western developed countries, which possess a huge investment potential and high-tech applicable to the energy sector, must be strongly encouraged. The adjustment of legal standards for foreign investment

protection to Western developed countries' standards will help the swift establishment of institutional standards in the region.

This collaborative framework has the characteristics of a multilateral inter-governmental consultative framework. The successful establishment of an inter-governmental framework must accompany the harmonizing of energy policies in the region. Every step toward an inter-governmental framework must be made in consultation with all the Northeast Asian countries and at every stage opinions must be freely exchanged and no participating country should have a feeling of being left out of the decision-making process. Since the collaborative framework has a multilateral negotiation structure, all decisions must be finalized based on consensus. If some countries have differing positions, their opinion must be carefully consulted and to some degree reflected in the final decision based on majority opinion.

5.2 Current Korean Initiative for Northeast Asia Energy Cooperation

The groundbreaking work for regional energy cooperation in Northeast Asia has already been initiated by the ROK government. In June 2001, at the International Symposium on Energy Cooperation in Northeast Asia, the creation of a senior officials committee to expand current energy cooperation issues to the intergovernmental consultation level was proposed by the Minister of Commerce, Industry and Energy (MOCIE) of ROK.

As the first step toward a collaborative framework, an intergovernmental meeting was held in Khabarovsk, Russia in October 2001 attended by government officials and experts from China, Japan, Mongolia, Russia, North Korea and South Korea. At the meeting, a declaration, the Khabarovsk Communiqué, containing the objectives and basic principles of energy cooperation in Northeast Asia was adopted. The agreed objectives for energy cooperation are: (i) to increase the supply of energy from the Northeast Asian region; (ii) to optimize the efficiency of supply and use of energy; and (iii) to minimize the environmental impact of energy projects through improved energy mix. The basic principles manifested in the Communiqué include: (i) the recognition of sovereign rights over energy resources; (ii) development of free and fair trade; (iii) investment promotion and protection and environmental protection; and (iv) free and non-discriminatory transit of energy products

The Khabarovsk Communiqué also recommended institutional arrangements for a 'senior officials meeting' among the six countries, a secretariat, and five 'working groups' on subjects such as, energy planning, programming and restructuring, electric power interconnection and the interstate transit of fossil fuels.

Subsequently, a preparatory meeting aimed at creating a working committee for Northeast Asian energy cooperation was held in Seoul, Korea in November 2001. At the meeting, a consensus was reached to create a working committee for energy cooperation in Northeast Asia and the UNESCAP accepted the role of interim secretariat of the committee.

Following all the developments, the would-be First Senior Officials Meeting was held on April 2003 in Vladivostok, Russia by the initiative of ROK. This meeting was intended to serve as the initial inter-governmental institutional vehicle—critical to moving forward with the implementation of much desired energy cooperation in Northeast Asia. However, this meeting was not titled the official First Senior Officials Meeting mainly because China and Japan did not attend it.

Despite the non-attendance of certain government officials, participants from international organizations were enthusiastic, including UNESCAP, ADB, IEA, and APERC. Significant progress was made in the form of the Vladivostok Statement. The Vladivostok Statement endorsed The Khabarovsk Communiqué and suggested regular meetings of senior officials. It was also agreed that more cooperation will be ensue through the establishment of ‘working groups’ in the areas of electric power interconnection, interstate transit of fossil fuels and prospective energy planning and programming.

Also it suggested that a Task Force on Energy (TFE) would be formed immediately to formulate the draft Collaborative Framework on Energy Cooperation in Northeast Asia. Furthermore, the Vladivostok Statement contains Annex on Inter-Governmental Consultation Mechanisms that provide detailed description of the geographical coverage, objectives and principles, envisaged collaborative multilateral energy development projects, establishment and formality of a Senior Officials Committee, Working Groups and Secretariat, and financing arrangements.

Then as preparation for the Senior Officials Committee Meeting, a Consultative Meeting on Energy Cooperation in Northeast Asia was held in Bangkok, Thailand on September 2-3, 2004, with the Vladivostok Statement as the base line of energy cooperation in Northeast Asia. The main purpose of the Meeting was to enhance understanding of the need for energy cooperation among Northeast Asian countries. The Meeting eventually adopted the Chairperson’s Summary to strongly recognize the mutual benefit of energy cooperation in Northeast Asia and the need to further promote regional energy cooperation. The Chairperson’s Summary also set the next TFE Meeting schedule and displayed the possible agenda issues for TFE Meeting. The early

December 2004 scheduled TFE Meeting was expected to provide further steps toward the establishment of an energy cooperation framework in Northeast Asia.

As official preparation meetings, there were two TFE (Task Force on Energy) Meetings. The 1st TFE Meeting was held in Khabarovsk, Russia on December 2-3, 2004 as scheduled in the Bangkok Consultative Meeting. The Meeting adopted ‘the 1st TFE Meeting Conclusion and Recommendation’. It includes a long-term vision that ‘by 2020, improved energy security in North-East Asia through energy cooperation in a sustainable manner.’ For the realization of the long-term vision the Meeting had a consensus on three objectives which are originally from the Khabarovsk Communiqué.

Also it identifies five primary principles such as the recognition of sovereign rights over energy resources, the development of free and fair trade, special needs and collaboration in emergencies, and environmental protection—these were already adopted in Vladivostok Statement.

More importantly consensus was reached on six areas that are to be the main scope in NEA energy cooperation: (i) Energy Planning and Policy for regular exchange of information on policies, legislations and projects; (ii) Investment Policies on the removal of regulatory barriers to promote the energy sector; (iii) Electric Power Development and Interconnection, recognizing a great potential for interstate electricity cooperation and trade in the sub-region; (iv) Interstate Transit of Fossil Fuel for Oil, Natural Gas, and Coal; (v) Energy Efficiency; (vi) Renewable Energy including hydropower.

To effectively implement the cooperation framework’s objectives, the participants recommended establishing a Senior Officials Committee comprised of senior government officials to provide policy guidance and establish working groups to address the scope of the Mechanism; and the working groups comprising government officials and researchers to cover different scopes of the Mechanism.

The 2nd TFE Meeting was held in Ulaanbaatar, Mongolia on April 13-14, 2005. Through a similar procedure to the previous Meeting, it adopted ‘the 2nd TFE Meeting Conclusion and Recommendation’. In identifying suitable modality of the cooperation mechanism, it discussed and agreed on the objectives, results, activities and stakeholders of the six areas of scope. For example, the main objectives of the energy planning and policy cooperation area are the coordination of energy security policy and legislation among countries of Northeast Asia by 2020 and the linking of energy security to national sustainable development strategies. The

expected results of this cooperation are more available and accessible information regarding policies, national projects, bi/multilateral projects and increased number of joint activities/projects for improving energy security in a sustainable manner. For realization of those objectives, there will be many activities such as the formulation of policies for transboundary energy cooperation, the identification of scope for coordinating policies, legislations and projects to improve energy security through exploration and development of energy resources, and the adaptation of policies to address external shocks to energy supply disruptions. Then there are many stakeholders like energy policy makers, national development and financial policy makers, environment policy makers, policy researchers (energy, environment, development), and international organizations and development partners. Also five areas such as investment policies, electric power development and interconnection, interstate trade and transit of fossil fuels, energy efficiency, and renewable energy including hydropower and wastes to energy are classified as other appropriate cooperation areas. In each cooperation area, there are agreed specific objectives, expected results, necessary activities, and stakeholders.

The 2nd TFE Meeting also discussed and reached consensus on institutional modalities such as Senior Officials Committee (SOC) and Working Group (WG) for support of the Collaborative Mechanism. As a main function, SOC will make all policy decisions concerning substantive and financial matters related to the Mechanism. More specifically, it serves as a forum for sharing experiences and exchange of information on policies to improve energy security in Northeast Asia. Also it provides overall policy guidance to the work of the Committee including its working groups and mobilizes financial resources, approves budgets and work plans. Supervision of the implementation of activities by the working group is another important function. All the decisions of the SOC must be made by consensus of all the members. Working Groups are established according to the need for cooperation activities in each cooperation area. Also they can be established by the SOC and implement specific tasks and assignments specified by the SOC.

Another important consensus in the Meeting is priority setting among six Working Groups. The Working Group for Energy Planning and Policy (WG-EPP) is proposed to initially cover broad perspectives of policy coordination issues aimed at improved energy security and to act as a basic working group. The comprehensiveness of the Working Group led all participants to reach consensus that WG-EPP needs to be the first working group of the Northeast Asia Energy Collaborative Mechanism.

After all these preparations, the 1st SOC Meeting was held on November 16-17 in Ulaanbaatar,

Mongolia; this was the First Intergovernmental Collaborative Mechanism Meeting. The attending government officials recognized the need and mutual benefits and challenges to promote energy cooperation in Northeast Asia by issuing the ‘Ulaanbaatar Statement of Senior Officials on Energy Cooperation in Northeast Asia’. The Statement reaffirms commitments of the participating countries towards the promotion of energy cooperation in Northeast Asia. In support of the Ulaanbaatar Statement, the senior officials adopted the ‘Intergovernmental Collaborative Mechanism on Energy Cooperation in Northeast Asia’.

They also agreed to establish the Working Group on Energy Planning and Policy (WG-EPP) and adopted its terms of reference. The Committee considered and endorsed the work plan for 2006 under the WG-EPP. Participating countries have identified information and data that need to be shared among them and made these available to further promote energy cooperation in Northeast Asia by the end of 2006. It was agreed that the first WG-EPP meeting will take place in April 2006. The agenda for the first meeting of the WG-EPP will include consideration and agreement on a methodology to gather information and data for Country Energy Reports to be shared among member countries. For 2007 activity, participating member countries are expected to jointly implement a study to identify the potential on energy trade and challenges to realize the potential by the end of 2007 based on the 2006 Country Reports.

Noting that China and Japan were not officially represented at the Committee, the participating member countries strongly recommended that efforts be made to encourage the Governments of China and Japan to join the Committee and in the implementation of the Intergovernmental Collaborative Mechanism. The delegates also reaffirmed the importance of synergizing activities within the framework of the Collaborative Mechanism with a view to ensure effectiveness of its activities.

The Meeting officially established the Northeast Asia Energy Cooperation Mechanism whose members at this moment are four countries. In the near future, we expect more participation by China and Japan in the Mechanism. The Mechanism is main part to be endorsement because it specifies all detailed vision and plans for Northeast Asia energy cooperation. In 2006 through two WG-EPP Meetings and the 2nd SOC Meeting we expect more substantial and concrete results for further energy cooperation in Northeast Asia.

6. Conclusion

From previous sections we can see that there are tremendous opportunities for fruitful energy cooperation among the countries of Northeast Asia because of the strong complementary

relationships among the regional countries. Those opportunities will contribute not only to the enhancement of energy supply security but also to the more efficient use of energy due to shared environmental and energy resources. However, there are many impediments and constraints in energy cooperation in Northeast Asia. To realize the fruitful opportunities we must find out how to overcome these impediments and constraints. The inter-governmental collaborative mechanism among countries can be one of the options for coping with those problems.

Even though the multilateral mechanism has significant advantages in dealing with the impediments in energy cooperation in Northeast Asia, it is true that there has been strong incentives for bilateral cooperative frameworks among countries because there are certain fears of heightened interdependence (for historical and political reasons) among Northeast Asian countries. However, without a multilateral framework based on inter-governmental consultation, the result will be tedious and ineffective negotiation to solve the various impediments in regional energy cooperation because most impediments originated from the lack of an institutional mechanism such as laws and regulations related to energy cooperation.

Because of the need for energy cooperation based on multilateral mechanisms, the Korean government initiated the inter-governmental consultation framework in 2001. After the adoption of the Vladivostok Statement in 2003, the initiative has been an on-going process for the establishment of a multilateral inter-governmental framework. Finally in November 2005, the official inter-governmental collaborative mechanism was established.

In the near future, with the successful implementation of WG-EPP activities, many impediments stemming from institutional insufficiency in Northeast Asia may be solved step by step. Now the creation of a favorable environment for mutual cooperation in the implementation of planned initial activities like the Country Reports becomes a more critical factor. With the favorable environment, the Mechanism can provide the appropriate multilateral institutional supports and be an effective tool in the realization of Northeast Asia energy cooperation.

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