

## What Might the G20 under China's Presidency Deliver for Global Energy Governance?

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### SYNOPSIS

The prevailing architecture of global energy governance is fragmented, uncoordinated and failing to yield the required outcomes. This brief examines the argument that the G20 can provide a leadership role to improve the quality of global energy governance. Given that energy has characteristics of a global public good and the energy system resembles a complex adaptive system, the global governance of energy should be polycentric. This requires a high level of coordination and trust between governing actors. The G20 can be seen as a club at the hub of networks that can play a key role in improving the global governance of energy, for clubs and networks are institutions that can usefully enhance coordination and trust. China's Presidency of the G20 in 2016 will provide a unique opportunity for the G20 to prove its worth.

### KEY POINTS

- The effective governance of energy on a global scale requires a step change in the level of collective action between nations, but it is unrealistic to create a new institution to undertake this task.
- As a club at the apex of multiple networks, the G20 is well placed to shoulder leadership, trust-building and coordinating roles in global energy governance, not least because its membership accounts for 75 per cent of global commercial energy consumption and 80 per cent of carbon dioxide emissions from energy use.
- Key priorities for the G20 should include improving the transparency of information relating to energy, and enhancing coordination between existing international organisations in the field of energy.
- China is the world's largest consumer of energy and is heavily dependent on international markets for energy commodities, investment and equipment. It is therefore well placed and has the incentive to use its 2016 Presidency of the G20 to push forward a global energy agenda.
- Two specific initiatives that might appeal to China, and which are consistent with stated G20 objectives, relate to transnational investment in energy infrastructure and trade in energy technologies and equipment.

### INTRODUCTION

Energy is just one of many fields in which the call for effective global governance is becoming louder. Energy is of particular importance to all nations and societies as a

vital ingredient for a modern economy, yet it is both underprovided and overused. At the same time, the production and use of energy is creating serious negative environmental and social externalities, the most prominent of

which is global climate change. Energy markets are increasingly global in reach—many external costs of energy production and use are regional or international in their geographic extent, and the issue of access to energy for the poor is now a global concern. Nevertheless, the architecture for global energy governance remains fragmented and incoherent.

Given that it is unlikely for a truly global body to be created to manage all aspects of energy governance, it has been argued that the Group of Twenty (G20) could play a role in building a higher degree of coordination between existing international organisations as well as between individual nations. At the annual G20 Summit in 2014, held in Australia, energy appeared for the first time on the agenda of top leaders. The result was the *G20 Principles on Energy Cooperation*. Turkey is leading the G20 in 2015, and one of the energy priorities is to address energy poverty and access in Sub-Saharan Africa.

China takes over the Presidency from Turkey in December 2015. Not only is China the world's largest energy consumer and emitter of greenhouse gases, in recent years it has also become highly integrated with international energy markets through trade and investment. It may therefore be in a strong position to take the lead in addressing some of the deficits in the global governance of energy, possibly in cooperation with the USA.

## **ANALYSIS**

### ***The Need for Better Global Governance of Energy***

The current architecture of global energy governance institutions has not delivered the desired results. The prevailing criticism of the current framework for global energy governance is that it is incoherent, fragmented and poorly coordinated—and characterised by gaps, overlaps, tensions and conflicts which impede effective governance and raise the risks of governance failure. The origins of this

fragmented and incoherent governance structure lie in its history. Like almost all transnational governance regimes, that for energy has grown in an ad hoc fashion over the last 70 years or so. Many of the institutions were built around individual fuels, but even for these fuels, the frameworks lacked coherence and completeness. Another reason for the current inadequacies of global energy governance is the failure of the governing institutions to stay aligned with the shift of consumption from the Organisation of Economic Cooperation and Development (OECD) states to developing countries, notably in Asia. The highly politicised nature of energy at both national and transnational levels adds a further impediment to cooperation.

The effective governance of energy at a global scale requires a step change in the level of collective action between nations, though it is unrealistic to create a new institution to undertake this task. The global governance of energy must necessarily have a strong polycentric character for two reasons. First, the global energy system is not only complex but resembles a complex adaptive system in which local actors and institutions have the capacity to react to challenges. Second, energy possesses features of a global public good requiring local as well as global action in a way that is not suited to hierarchical systems of governance. Polycentric governance, in turn, requires coordination, information-sharing, learning, deliberation and decision-making in fora that are flexible, adaptable and innovative, and characterised by mutual trust and reciprocity.

### ***Can the G20 Enhance Global Energy Governance?***

A number of different conceptualisations of the G20 can be found in the literature. There appears to be wide agreement that the G20 has been able to act as a “global crisis committee” through its ability to coordinate between key national governments and international organisations, especially in times of financial

and economic crises. The G20 has the potential to become a “global steering committee”, but this potential has yet to be realised. Despite this deficiency, the G20 is clearly a “club” of large states that provides a forum for informal dialogue, consultation and deliberation, and several authors highlight the networked character of the G20 through its connections to international organisations, businesses and civil society.

As a club at the apex of multiple networks, the G20 is well placed to shoulder leadership, trust-building and coordinating roles in global energy governance, not least because its membership accounts for 75 per cent of global commercial energy consumption and 80 per cent of carbon dioxide emissions from energy use. The involvement of the G20 in matters relating to energy has its origins in the Gleneagles Summit of the G8 in 2005. In 2009, the G20 took on the energy and climate change agenda and, by 2011, had set up four working groups, on fossil fuel subsidies, fossil fuel price volatility, marine environmental protection, and clean energy and energy efficiency. The 2013 Summit, hosted by Russia, amalgamated these four working groups into a single Energy Sustainability Working Group. An energy regulators roundtable was also created.

The summit hosted by Australia in November 2014 marked the first time that energy was on the agenda of national leaders. The most important outcome was the *G20 Principles on Energy Collaboration*, a short, one-page document outlining nine principles for cooperation. These Principles commit the G20 nations to cooperate on such issues as energy access, transparent markets, energy security, fossil fuel subsidies, sustainable development, technology, energy efficiency, data collection and dissemination, renewable energy, and more effective coordination between institutions. A further outcome was the creation of the G20 Global Infrastructure Hub, designed as an information hub to help mobilise private sector investment in

infrastructure, including for energy. In turn, energy access in Sub-Saharan Africa is a key focus of Turkey's presidency in 2015.

Notwithstanding its apparently favourable position at the apex of the polycentric architecture, it is still unclear whether the G20 will make a significant contribution to the global governance of energy. Recent critiques have argued that energy has not been sufficiently high on the agenda, and that the G20 should build wider collaborations with businesses and civil society. More fundamental is the contested nature of the G20, both in what it should do and in how it operates, in general and with respect to energy, for it is, de facto, a club of major and leading middle powers, each with its own interests, priorities and domestic imperatives.

#### ***What Will China Do?***

The G20 currently lacks internal leadership for reform of global energy governance. Given their role in energy consumption and carbon emissions, China and the USA are the only nations which could provide unilateral leadership, but neither has shown the inclination to do so as yet. China is the world's largest consumer of energy and is heavily dependent on international markets for energy commodities, investment and equipment. It is therefore well placed and has the incentive to use its Presidency of the G20 to push forward a global energy agenda.

The current leadership in China has demonstrated a greater willingness than its predecessor to take major initiatives on the global stage, as witnessed by the creation of the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank, as well as by the “One Belt–One Road” initiative. This last scheme encapsulates a grand economic vision for Asia and the Indian Ocean along a terrestrial Silk Road Economic Belt and a Maritime Silk Route. The central government has also been increasingly vocal in its call for global energy governance reform. Finally, the

joint announcement made by the Presidents of China and the US in November 2014, committing their countries to work together on energy and climate change, raises the possibility that the US could support China during its Presidency.

Should China decide to take the lead on global energy governance during its Presidency, it is likely to choose those initiatives to promote initiatives based on specific criteria. These criteria are likely to include: relevance to its national strategies such as "One Belt–One Road" and "Made in China 2025" (a strategy to upgrade its industry); a match with its national strengths; potential for tangible outcomes in a relatively short period of time; and consistency with the *G20 Principles on Energy Collaboration*.

One possible initiative would involve the advancement of transnational investment agreements to stimulate investment in energy projects; in particular, to low-income countries that are still battling for access to energy. China's interest in investment in international energy infrastructure is evidenced by the creation of the New Development Bank and AIIB. Its increasing global interests require China to integrate itself with the global governance systems for investment, such as the Energy Charter Treaty and the International Energy Charter. Such infrastructure initiatives and associated activities are consistent with the G20's priority work on development, and thus can be integrated within the G20 platform and with the Global Infrastructure Hub.

Moreover, China might support the creation of forums to facilitate cooperation and dialogue on renewable energy subsidy policy, and trade in technologies and equipment. As the world's leading producer of renewable energy and renewable energy equipment, China now faces numerous trade disputes with other nations concerning renewable energy products. While some of these disputes have emerged due to subsidies, others could be non-tariff barriers

which are evidenced in the case of biofuel trade where requirements for carbon footprint (CFP) labelling can disadvantage developing nations. It would thus be in the interests of both China and the other G20 members to create platforms to address renewable energy subsidies and trade issues.

#### WHAT TO LOOK OUT FOR

- The extent to which the G20 Leaders' Summit in November 2015 shows a continuing, and preferably enhanced, willingness to address issues relating to global energy governance.
- Comments on the progress made in implementing the G20 Global Infrastructure Hub.
- The support received from the G20 members and other governments for energy initiatives under Turkey's presidency.
- Any indications given at the G20 Leaders' Summit in November 2015 by China concerning its intended energy priorities during its Presidency.
- Any indications that China and the USA might cooperate in addressing deficiencies in global energy governance.

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