

## **Two Destabilizing Factors Shaking the World**

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Two destabilizing factors that differ from each other characteristically coexist now for not only the international energy landscape but also the wider international political and economic situation. The first one is an extremely tense Middle Eastern and North African situation symbolized by European and U.S. military attacks on Libya. The second is Japan's unprecedentedly enormous damage inflicted by the Great East Japan Earthquake and Tsunami.

In Libya, domestic armed clashes between government and dissident forces developed into a war involving the international community as British, French, U.S. and other Western countries launched bombings and cruise missile attacks on military facilities of Colonel Muammar Gaddafi's dictatorial regime on March 19. The European and U.S. military attacks on Libya came after the Gaddafi regime, which had once been defensive, built on its military forces to enhance a counteroffensive to regain control of Libya's second biggest city, Benghazi, a key stronghold for antigovernment forces. With growing alert toward the Gaddafi regime's offensive, both Europe and the United States made decisions to forcibly prevent the Gaddafi regime from suppressing the antigovernment forces, leading the United Nations Security Council to adopt Resolution 1973 on March 18. The resolution allows Western forces to take all necessary steps, including the creation of a no-fly zone in Libya, to protect the civilian population in Libya. It thus effectively authorized them to launch military operations.

More than one week has passed since Western countries launched Operation Odyssey Dawn that might have been aimed at expelling Colonel Gaddafi as well as protecting the civilian population. The Gaddafi regime has maintained its tough stance, continuing fierce battles with antigovernment forces. Libya's oil output has declined to 400,000 barrels per day from 1.6 million bpd in January 2011 before the Libyan situation became tense, according to the Libyan state-run oil company. Future developments after the military attacks are still uncertain. There are growing expectations that the international market may lose more Libyan oil over a longer term.

Meanwhile, geopolitical risks are growing in Persian Gulf oil producing countries as well. On March 13, the largest-to-date clash between government forces and protesters occurred in the wake of intensifying antigovernment demonstrations in Bahrain. In response, Saudi Arabia and other Gulf Cooperation Council members sent security forces to Bahrain on March 14. Behind the Saudi action might have been a fear that the destabilization in the neighboring Bahrain could have spillover effects on Saudi Arabia. Given the complicated relations between Sunnis and Shiites in the Middle East as well as the Iranian factor, the Bahrain unrest can be expected to trigger further destabilization of Gulf countries including Saudi Arabia.

The growing tensions in the Middle East and North Africa have led to crude oil price spikes. The benchmark West Texas Intermediate crude oil futures price rose from \$97.2/barrel on March 15 to \$105.8/barrel on March 23, while the Brent futures soared from \$108.6/barrel to \$115.6/barrel. The growing geopolitical risks and relevant fears of oil supply interruptions could drive crude oil prices up further.

The second key destabilizing factor is the consequence of the huge damage inflicted by the March 11 Great East Japan Earthquake. The devastating earthquake and its unprecedentedly enormous damage have attracted global attention. While international networks for supporting Japan and its disaster survivors have expanded, potentially grave impacts on the world economy from the huge damage in the world's third largest economy have attracted attention. The catastrophic disaster has led people in the world to recognize not only Japan's large economic size but also its position as the world's most important manufacturing base. The future reconstruction of the Japanese economy has become a matter of grave concern to the world. The Dow Jones Industrial Average on the New York Stock Exchange plunged to 11,613 on March 16 from 12,044 on March 11 when the earthquake occurred, while the WTI crude oil futures slipped below \$100/barrel on March 15 and 16. Grave concerns about the Japanese economy might have triggered heavy selling.

Developments involving the serious accident of the Fukushima Daiichi nuclear power plant have also become a matter of global concern. As well as fears of serious damage from the nuclear plant accident, various ideas and speculations about the accident's impacts on the energy situation in Japan and the world have risen around the world. How will demand increase for additional fuels for thermal power plants to make up for power generation losses on the accident? How will the additional demand affect international oil and gas markets? How will the nuclear plant accident affect the globally growing moves for the expansion of nuclear power generation and the entire international energy market over a long time? We now see these key questions that had

not been asked before the disaster.

The Middle Eastern and North African, and Japanese situations are extremely uncertain. Their future developments are difficult to foresee. The two destabilizing factors may continue to shake the global situation for the immediate future. Under the circumstances, Japan faces the impact of the tense Middle Eastern and North African situation as an external factor while making maximum efforts to stabilize the post-disaster domestic situation and reconstruct disaster-hit regions. As crude oil price spikes and relevant natural gas price hikes are expected to exert great impacts on Japan's energy supply/demand and procurement, and on its economy and citizens' livelihood, we will have to closely watch relevant future developments.

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