

A Review of the 2013 Japanese and Overseas Energy Situation

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The year 2013 saw various problems, important developments and new challenges emerging in the Japanese and overseas energy situation. In reviewing the year, I would like to discuss some points that I see as important.

First, crude oil prices have remained high over a long period of time. The international benchmark Brent crude oil futures price averaged \$109/barrel in the year, meaning that crude oil prices have remained above \$100/barrel for three years since 2011. Oil price hikes affect the balance of economic power between oil importing and exporting countries. In Japan where liquefied natural gas prices are linked to crude oil prices, oil and natural gas price hikes have brought great costs to the economy. In addition to this problem, we may have to pay attention to how the feedback effects of high crude oil prices would be exerted on oil supply and demand, or negative effects on oil demand and positive effects on oil supply.

Second, the shale revolution has made steady progress under high oil prices and brought about various effects. High oil prices have had great impacts on the forerunning shale gas revolution. At natural gas price levels of \$3-4 per million British thermal unit, many shale gas projects may have difficulties maintaining their profitability. Even under the situation, high prices for the liquid portion are supporting shale oil and gas production. The year 2013 saw an epoch-making development in which the U.S. government approved LNG exports to Japan as one of the countries that have no free trade agreements with the United States. Although actual U.S. LNG exports to Japan and other Asian countries will not be implemented in the near future, discussions and negotiation among related stakeholders on the impacts of US LNG exports on LNG trade and business in Asia have already been ongoing. In this sense, an interesting reference is how expanding liquefied petroleum gas exports from the United States are influencing the international market. Also attracting attention are upward revisions to shale oil production projections under the actual increase in shale oil output. The shale revolution will exert various impacts on a wide range of areas including global oil supply/demand and U.S. energy policy. From 2014 and on, discussions inside US on whether to lift the ban on U.S. crude oil exports will also attract attention.

Third, severe developments continued with regard to the destabilization of the Middle East situation as a key factor behind the high crude oil prices. Egypt and Syria attracted global attention with developments related to “Arab Spring” democratic movements. The United States had stood at the brink of launching military attacks on Syria over the chemical weapons issue and eventually

avoided such attacks under an agreement with Russia. But the deal affected the perceptions of credibility of U.S. diplomacy. November's Geneva agreement came as a major development regarding Iran's nuclear development problem. Under the "interim agreement" where Iran would freeze its nuclear program for six months in exchange for the partial relaxation of Western sanctions, Western nations will continue talks with Iran. But subsequent developments are uncertain. The Iranian issue is complex in the sense that the U.S. approach to Iran impacted key Middle East US allies including Israel and Saudi Arabia.

Fourth, interests grew unprecedentedly in China and other Asian emerging countries driving global energy consumption growth in 2013. China is likely to replace the United States as the world's largest oil importer in the near future. China's natural gas and coal consumption and imports have become one of the largest factors affecting global supply and demand. In the meantime, how to tackle the PM2.5 particulate matter problem in China attracted attention as a key topic for energy and environment policies in 2013. How China will shift away from coal as its largest energy source at present will be significant for the international and Chinese energy situation. While China's Xi Jinping regime tried to solidify its power base, the country saw a series of incidents in November that prompted the world to pay attentions to China's domestic security or stability. In the month, China abruptly established its "Air Defense Identification Zone" in the East China Sea, prompting tensions to grow between China and neighboring countries including Japan, the United States and South Korea. In this way, the year 2013 saw the Northeast Asian geopolitical environment grow more serious in line with development in the Korean Peninsula. At the same time, however, it was also questioned how Asian countries should cooperate in tackling their common problems including Asian premiums on LNG prices in the year 2013.

Fifth, the year 2013 was an attention-attracting year regarding Europe's energy policy. While the European economy and energy demand slumped, coal inflow from the United States and renewable energy's spread under the feed-in tariff system brought about major structural changes in energy supply and demand. We must take note of this point in analyzing the European energy policy. Interestingly, discussions have emerged on how to adapt individual EU member countries' policies for their respective targets to the EU grand goal of creating a single competitive energy market. From this viewpoint, Europe may review the existing FIT system. The United Kingdom enacted an energy bill to create specific mechanism including the FIT-CFD (feed-in tariffs with contracts for difference) system to tackle the complex, difficult challenge of promoting nuclear and renewable energy under an electricity market reform. The U.K. policy has important implications for Japan.

Sixth, interests grew in Russia's shift to the East in 2013. Even under high crude oil prices cited as the first topic for the year, the Russian economy has been plagued with slow growth. While Russia is required to fundamentally advance and diversify its economic structure, an urgent challenge is the revitalization of the oil and gas sector as its largest income source. As demand and sales have slumped in the European oil and gas market as Russia's leading moneymaker, Russia has enhanced its Asian market strategy by stepping up negotiations on gas pipelines for China and LNG development for the Asian market. In his annual policy address in December, Russian President Vladimir Putin emphasized the promotion of economic growth through structural reforms and gave priority to the improvement of the investment climate, the development of eastern Siberia and the

introduction of foreign investment. Attracting attention in 2014 will be how and if Russia will tackle these priorities and make specific progress in its Asian market strategy.

Japan has reviewed its energy policy since the March 2011 Great East Japan Earthquake. In late 2013, the government indicated an energy policy revision plan in which it would position nuclear energy as an important energy source while giving top priority to safety and departing from the “safety myth” for nuclear energy. Although no numerical target was set for the nuclear energy promotion, it was significant for the government to have concluded a responsible energy policy revision. As the Japanese and overseas energy situation changes dramatically, the government will be required to develop and implement its specific energy policy and strategy based on global trends.

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