

## **Reviewing Japanese and International Energy Situations in 2017**

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Five days are left before the end of 2017. The year saw many important events and surprises in the Japanese and global energy situations and the overall international situation. Regarding them, I would like to summarize the impressive points for me.

First, the U.S. Trump administration was inaugurated a year ago and has continued to shake the United States and the rest of the world. From just after his inauguration, President Donald Trump issued many executive orders including controversial immigration restrictions and other “America First” measures. He promptly offered to withdraw the United States from the Trans-Pacific Partnership free trade agreement and the Paris Climate Accord, emphasizing his differences with the previous administration. In domestic politics, however, the Republican president has had difficulties in dealing with Congress despite Republicans’ control of the legislature, failing to pass major bills. Late this year, Congress passed a pending massive tax cut bill at last, allowing the president to sign it into law in his first major achievement to put a major presidential campaign promise into practice. However, it is still uncertain whether the achievement can shore up his administration.

Various diplomatic developments indicated that the United States’ inward-looking approach under the “America First” foreign policy caused big problems with global stability and order. A symbolic development regarding the global warming problem was the abovementioned U.S. offer to exit from the Paris Climate Accord. Energy-related developments have reminded us that the United States’ Middle East policy has played a very big role in stabilizing the region and the energy market. Having the most important impact has been President Trump’s recognition of Jerusalem as the capital of Israel. The United States has traditionally served as a mediator for Middle East peace negotiations, one of the most important issues for stability in the region. Despite opposition and criticism from the international community, President Trump recognized Jerusalem as the Israeli capital, indicating a major turn in the United States’ Middle East policy. The U.S. Trump administration’s future moves will attract attention from the viewpoint of not only stability in the Middle East but also global order maintenance and stability.

Second, geopolitical risks grew more than ever in 2017 as the U.S. Trump administration enhanced its inward-looking attitude under its “America First” foreign policy. Regarding geopolitical risks and energy, the Middle East situation attracted global attention. As noted above, Washington’s recognition of Jerusalem as the capital of Israel caused growth in anti-America sentiment and protest rallies, leading to concerns about the destabilization of the Middle East. The U.S. action was not the only development attracting global attention regarding the Middle East. In 2017, Saudi Arabia, the United Arab Emirates and some other Persian Gulf countries severed diplomatic relations with Qatar. While Saudi Crown Prince Mohammed bin Salman expanded his power, many royal family and

cabinet members were arrested and detained, attracting global attention.

The Trump administration's toughening of its policy against Iran also emerged as a major factor for anticipating the future Middle East situation. While enhanced military operations against the Islamic State have remarkably narrowed IS-controlled areas, concerns are growing about the future diffusion of IS related terrorism. Behind the fluidization or destabilization of the Middle East situation are the U.S. Middle East policy and Saudi Arabia's confrontation with Iran. While growing geopolitical risks fell short of affecting energy flows in 2017, the world grew alert to future developments. Outside the Middle East, North Korea's rapid development of nuclear weapons and ballistic missiles grew as a key geopolitical risk affecting regional and global stability. Under the Xi Jinping regime growing stronger, China's strategies and actions regarding international order, including its maritime expansion, have become a key global challenge. The development and impact of China's "One Belt and One Road" initiative and other Chinese moves are attracting much attention.

As the world economy grew at a rate above 3.5% in 2017, global energy demand steadily increased. However, oversupply remained in the international energy market including oil and LNG markets in the year. The oil market went in the direction of rebalancing on a fall in inventories as OPEC and non-OPEC oil producing countries implemented their coordinated production cut to eliminate oversupply. Thanks to the coordinated production cut, the benchmark Brent crude oil price rose back above \$60/bbl in October for the first time in two years and three months. The LNG market is likely to take more time to eliminate oversupply. This is because Australian and U.S. LNG projects are entering the production stage in a manner to lead supply to increase faster than demand. However, 2017 also saw remarkable developments regarding demand, including rapid growth in Chinese LNG demand.

While renewable energy including wind and solar energy still accounts for a small share of the global energy mix currently, interests in renewables grew globally on their substantial expansion. Attracting attention was a rising number of cases in which competitive bidding contributed to lowering renewable energy power generation costs rapidly and increasing renewables' competitiveness against other electricity sources. At the same time, the importance of initiatives to stabilize electricity supply came to the fore in response to the expansion of intermittent renewable energy power generation. As expectations on and interests in a shift from internal-combustion engine vehicles to electric and other advanced automobiles grew considerably, the impact of advanced vehicle diffusion on the world economy, and energy supply and demand surfaced as one of the largest global matter of interest.

In Japan, the Strategic Policy Committee of the Advisory Committee for Natural Resources and Energy and the Roundtable for Studying Energy Situations started discussions on the revision of the Basic Energy Plan in 2017. Under the policy of making no revision to the target energy mix fixed in 2015 for FY2030, the panels discussed how best to overcome various challenges for the realization of the target energy mix. At the same time, they recognized that it would be important to reflect the desirable direction of energy strategies and policies for a long term through 2050 in the basic plan, discussing how to revise policies.

As for nuclear power generation that holds the key to realizing the target energy mix, the number of restarted nuclear power plants increased up to five in 2017. In December, however, the Hiroshima High Court ordered an injunction to suspend operation of Unit 3 of the Ikata Nuclear Power Station, producing a new judicial risk. After approved renewable energy power generation capacity expanded rapidly under the Feed-in Tariff system introduced in 2012, the system was revised in 2017 to reduce burdens on consumers, leading to the first bidding for large-scale solar photovoltaics power generation. However, Japan's renewable energy power generation costs are still far higher than international levels. Even after some approved capacity was cancelled, cumulative surcharges under the FIT system total as much as 42 trillion yen, indicating that the economically reasonable expansion of renewable energy power generation continues to be a key challenge for Japan. In 2017, Japan considered details of new systems required for the completion of the power and gas system reform in the early 2020s. Given new uncertainty factors including the rapid expansion of intermittent renewable energy power generation, it is difficult to design coherent, adequate market systems. Emerging new difficult problems include the realization of a politically desirable energy mix under increasingly competitive electricity and energy markets and how to secure necessary investment (and recovery of fixed costs).

Based on the important domestic and foreign situations, I would like to pay much attention to how the year 2018 will be.

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