

IEEJ e-NEWSLETTER

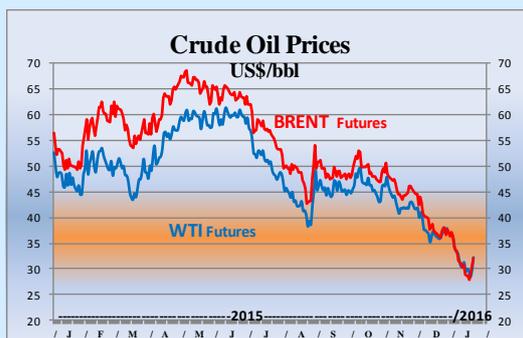
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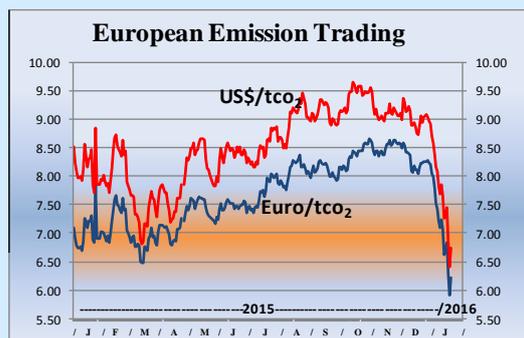
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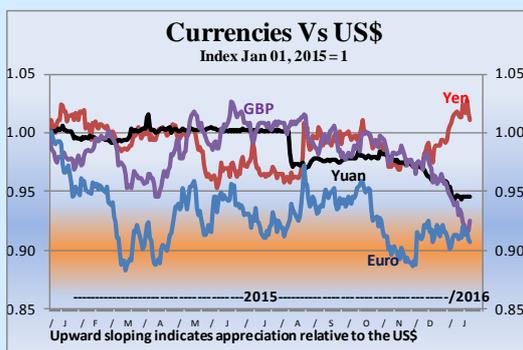
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**I. New Year Message
from
IEEJ Chairman & CEO Masakazu Toyoda
“Addressing the Four Uncertainties to Solve Issues Quickly”**

A Happy New Year.

2016 marks the fiftieth anniversary of the establishment of the IEEJ. I sincerely thank our members and everyone concerned for their warm support and our predecessors for their untiring efforts, which together have enabled us to reach this major milestone.

Over the past 50 years, both the international and domestic energy situations have become more complex, fluid, and unforeseeable. Four factors can explain this trend: 1) further strife in the Middle East, 2) deeper awareness of climate change, 3) the repercussions of the nuclear accident, and 4) the impact of the US shale revolution.

First, the strife in the Middle East is a consequence of the relative decline of US power. The Middle East has not been particularly stable in the past: it endured two oil crises in the 1970s, the Gulf War at the beginning of the 1990s, and the US's Iraq War at the start of the 2000s. However, during the Cold War period, the regional order was maintained to a certain extent thanks to the balance of power between the two superpowers, the US and the Soviet Union, and after the collapse of the latter, to the overwhelming military might of the US. However, the US now appears to have abandoned its role as the world's policeman due to its relative decline in national power and the rising anti-war sentiment among the public. The Arab Spring which coincided with this power shift exacerbated the problem due to the immaturity of society in the related countries, giving rise to Islamic State and other radical Muslim groups, and triggering a massive outflow of refugees heading toward the EU. Oil and gas are highly convenient and important sources of energy, but continue to involve serious energy security issues because supplies depend highly on the Middle East.

Second, the greater awareness of climate change has resulted from the abnormal climate patterns that are threatening the daily lives of humans worldwide, such as increasing torrential rains, massive typhoons and tornadoes, and devastating regional droughts. At the Third Conference of the Parties to the United Nations Framework Convention on Climate Change (COP3) held in Kyoto in December 1997, the Kyoto Protocol was formulated to set legally-binding GHG emissions reduction targets. However, the Protocol was incomplete as it bound only the advanced countries, and was never even ratified by the US. Innumerable discussions were held on the roles of developed and developing countries in reducing carbon emissions, but it took as long as 18 years for a new agreement, this time incorporating the US and the developing countries including China and India, to be reached as the Paris Agreement at COP21 last December. The Agreement should greatly accelerate the shift to renewable and nuclear energies, which is already being encouraged for the sake of energy security.

Third is the repercussions of the nuclear accident. Despite the high hopes for nuclear power as a major source of zero-emissions power, its expansion has been hindered by the Three Mile Island accident in 1979 in the US and the Chernobyl accident in the former Soviet republic of Ukraine in 1986. The Fukushima Daiichi accident in 2011 shocked not only Japan but the entire world, having occurred in a country known for its advanced technologies. Nearly five years since the Fukushima accident, nuclear power has regained support and trust in many countries; as a result of the accident, the safety and security schemes for nuclear power have been reinforced and have evolved. In Japan, two nuclear power plants have finally restarted under the new regulatory safety scheme, but many citizens remain concerned. However, given the high cost and instability of renewable energies, a common understanding is emerging in Japan and abroad that neither fossil fuels, nor renewables nor nuclear power is perfect on its own, and that a well-balanced combination of all these fuels is the optimum solution in terms of energy security, efficiency (cost) and the environment (the 3Es), as well as safety (S) of the 3E + S policy.

Fourth, the US shale revolution has had a great impact, causing oil prices to more than halve in the past twelve months to nearly \$40/barrel. This is the second time in 50 years that the reverse of the oil crisis has occurred. The first occurred when oil prices soared from around \$2 to \$40 per barrel due to the two oil crises of the 1970s and later plummeted in the mid-1980s. Behind this was the massive rise of OPEC oil prices that allowed high-cost non-OPEC oil to enter the market, causing a supply glut. The present low oil prices are mainly due to the sustained high oil prices from 2011 to mid-2014 fueled by the turmoil in the Middle East and the high growth of emerging countries, which boosted the production of high-cost nonconventional oils, including shale oil, causing an oversupply. Are such low prices sustainable? Last time, it took more than ten years for supply and demand balance to recover. This time, however, the IEEJ believes that prices will likely reverse within five years. While the demand for oil remains robust despite the slowing Chinese economy, and even with additional supplies expected from Iran and Iraq, the scale of oversupply is far smaller, and in view of the natural decline of existing oil fields, supply and demand are expected to regain balance in roughly five years.

As explained, at least four factors are clouding the outlook for the domestic and overseas energy situation. The IEEJ has been conducting objective and neutral analyses in order to give appropriate policy and strategic advice to the governments and firms of major countries in the world including those of Asia, as well as to the government and firms of Japan. Taking our 50th anniversary as an opportunity, we will enrich our mission as "Mapping the Energy Future", and pledge to strengthen our efforts on analysis and proposal, to resolve the many issues we face amid the increasingly uncertain energy situation. I would like to take this opportunity to wish everyone a prosperous new year.

Summary

【Energy Market and Policy Trends】

1. Renewable Energies

2016 is expected to be the first year of efforts to introduce renewable energies in a balanced manner, by reducing the burden of electricity surcharges on the public and enhancing measures to stabilize power systems.

2. Energy Efficiency and Conservation

In 2016, various policy measures will be launched including ensuring compliance with energy saving standards for buildings and categorizing factories/business entities based on their energy saving efforts. The energy saving business is expected to take off.

3. Climate Change Policy

In 2016, climate change measures toward the 2025 and 2030 targets will start to be formulated under the agreed global scheme beyond 2020. Such measures must be closely monitored in both Japan and major countries.

【World Monitoring】

1. APEC's Energy and Environmental Issues

In 2015, APEC adopted Energy Resiliency as the theme of energy cooperation. Japan has a major role to play in realizing the cooperation, and progress in this area in 2016 is attracting attention.

2. US: Left and Right Candidates Highlighted in Presidential Race

With the presidential election kicking off on February 1, Democrat Hillary Clinton and Republican Donald Trump are currently leading, but it is not yet clear who will win the nomination on either the left or right.

3. EU: Can the EU Implement EU-wide Policies?

The difference in position among EU members toward EU-wide policies is widening due to the refugee crisis. Will Brexit (Britain's exit from the EU) happen, and how will the members implement the Energy Union Strategy?

4. China: Thirteenth 5-Year Plan Puts Leaders to the Test

The Thirteenth 5-Year Plan is starting. Decarbonization will accelerate to consolidate the New Normal and fulfill the Paris Agreement. Whether the total energy consumption and CO2 emissions are actually controlled must be closely monitored.

5. ME: Struggling with Mutual Confrontation amid Low Oil Prices

As the countries remain on terror alert, confrontation among countries will hinder the joint effort to stop IS. With oil prices low, the intervening countries have little time to achieve results, both at home and abroad.

6. Russia: Will Troubled Russia Find a Way Out of International Isolation?

Russia's diplomatic conduct, including its confrontation with Ukraine and Turkey, attacks on IS and activities in Syria, are attracting international attention. The situation requires careful attention as Russia toughens its diplomatic stance amid the worsening economy.

1. Renewable Energies

Yoshiaki Shibata, Senior Economist

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New and Renewable Energy & International Cooperation Unit

2015 was the last of the three-year preferential treatment period of the Feed-in-Tariff (FIT) system, under which the profits of renewable electricity producers received special consideration. New renewable energy capacities, mainly solar PV, exceeded estimates, but also many problems emerged. To solve these, the Subcommittee for Reforming Systems Related to Introduction of Renewable Energy established in September held six meetings and drew up a draft proposal on reforming the FIT and other systems related to the introduction of renewable energies. The proposed reforms will be introduced in 2016.

The first is reforming the facility licensing procedure of the FIT system. Projects that were licensed when purchase prices were high but are still waiting for facility prices to fall before starting operation place a burden on the public through surcharges. The Subcommittee members have generally agreed to abolish and prevent such projects by not granting licenses to those without definite plans to start operation, and by deciding the purchase price at the time of licensing, and specific reform measures are expected to be taken.

The next is the setting of purchase prices. The current system sets the purchase price based on the actual facility cost, and thus does not encourage companies to reduce costs. Lower purchase prices are essential for reducing the public burden. It remains to be seen whether the Subcommittee's proposals such as the Top Runner System based on the cost-efficient facilities and purchase price setting through bidding will be implemented.

Another issue is the delay in introducing long-lead time energy sources such as wind power, geothermal and small and medium hydropower. In addition to existing efforts to accelerate environmental assessments, a study will be conducted on a mechanism proposed by the Subcommittee to improve business predictability and encourage new business decisions by setting future purchase prices for licensed projects several years in advance. Further, additional subsidies for initial investment in geothermal and small and medium hydropower, whose facility costs are not likely to fall with time, will be considered, together with efforts to ensure stable domestic fuel sources for biomass power.

Lastly, specific measures must be taken to remove grid restrictions, which were discussed by the Subcommittee. The first step is a planned scheme to enhance wide-area power grids including interconnecting transmission to alleviate the regional imbalance of renewable energies. This could set the long-term direction for wide-area grid operation. Meanwhile, to respond to the short-term need to curtail output mainly from the increasing solar PV electricity, curtailment rules are urgently required while ensuring fairness among renewable electricity producers.

So far, the main goal has been to use the FIT system to accelerate the introduction of renewable energies. 2016 is expected to see the start of efforts to introduce renewable energies in a balanced manner, by reducing the burden of electricity surcharges on the public and enhancing measures to stabilize power systems.

2. Energy Efficiency and Conservation

Naoko Doi, Senior Economist
Manager, Energy Efficiency and Conservation Group
Global Environment and Sustainable Development Unit

In 2016, various policy measures will be launched as part of the efforts to achieve the energy savings target as much as 50.3 million kL by 2030 set in the government's Long-term Energy Supply-Demand Outlook. Preparations for new efforts involving private businesses will also be made.

The highlight in the industry sector is that from April, factories/business entities will be categorized based on their energy saving efforts. Entities with an annual energy consumption of 1,500 kL or more will be divided into four classes based on their energy saving efforts that they report in a mandatory periodical report and by comparing the efforts among companies in the same industry (Class S: excellent, Class A: on-track, Class B: off-track, and Class C: warning). The factories/businesses will be treated differently depending on their category: excellent ones will have their names announced, while those with issues will be investigated and given assistance.

Diverse measures will be taken in the residential/commercial sector, whose energy consumption has soared since the 1990s. Specifically, commercial buildings with a floor area of 2,000 m² or more will be required by new government regulations and public notifications to comply with the energy efficiency standards. Further, a new permit system for exemption from the floor-area rule will be launched for new commercial buildings with high energy efficiency. Convenience stores were selected as the first target of the benchmark system in this sector. This system is intended to boost the energy saving efforts of the entire commercial sector by setting a benchmark for each business sub-sector, and by setting the energy efficiency achieved by the excellent operators in each sub-sector (about 10-20%) as the target level for that sub-sector. The system will be rolled out to cover other business areas within the next three years. Meanwhile, a roadmap was finalized at the end of 2015, which includes the definition of achieving net-zero energy for houses and buildings through energy saving and introduction of renewable energy sources (zero energy house (ZEH) and zero energy building (ZEB)). For houses, homebuilders are leading the efforts to spread ZEH for detached houses. For commercial buildings, construction costs need to be lowered to accelerate introduction, starting out with relatively low-energy buildings such as schools and public buildings.

To achieve the energy efficiency and energy savings toward 2030 in the Long-term Energy Supply-Demand Outlook, it is essential to foster the energy saving business, in addition to policy measures. With the start of full liberalization of electricity retail business, new services such as discounting tariffs by combining with other products may significantly affect the energy saving behavior of residential consumers. To maintain the energy saving efforts of consumers, measures may be needed such as requiring energy suppliers including retailers to examine the energy saving efforts of consumers and requiring them to save energy. In doing so, Japan should consider offering energy saving incentives to energy suppliers to compensate for the fall in their sales due to energy saving, and to pass on a fair share of energy saving costs to users, as is done in other countries. Further, the energy management business should also be developed so that IT-based energy saving technologies such as BEMS and HEMS can achieve their full potential.

3. Climate Change Policy

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From November 30 to December 13, 2015, COP21 was held in Paris, France, and the Paris Agreement containing 29 articles was adopted. Unlike the Kyoto Protocol which required only developed countries to cut emissions, the Paris Agreement applies to all Parties while taking into account their different national circumstances. The Agreement is a legal document that succeeds the Kyoto Protocol of 1997 and its amendments of 2012. Instead of negotiating emissions reduction targets for a certain targeted period as was previously done, under the Paris Agreement, the Parties' targets will be reviewed and enhanced every five years. In terms of content, however, in various areas the Agreement merely documents existing practices to reconcile the conflicting interests of the Parties. Further, many analyses indicate that the present reduction targets of the Parties do not even come close to the 2°C target of limiting the average global temperature rise to 2°C over the preindustrial average. Accordingly, it is crucial to monitor the review of the Parties' targets every five years as stipulated in the Paris Agreement.

With the adoption of the Paris Agreement, the important challenge is how to translate the respective INDCs into workable policies and measures and to implement them effectively and efficiently, to eventually achieve the reduction target.

Regarding the policies and measures of the Parties toward 2025 and 2030, in 2016 the EU plans to legislate its policies for the 2030 target. However, Poland, which saw a change of government in October 2015, is causing great uncertainty by demanding re-negotiation of the 2030 target. Also, regarding air pollution control, the Industrial Emissions Directive will come into effect in 2016 requiring coal thermal power plants to introduce technologies to reduce SO₂ and NO_x emissions, which will force the closure of many thermal power plants all over Europe.

Close attention must also be paid to the policy discussions in the US, where the government is being sued by various states over the Clean Power Plan (CPP) that regulates the CO₂ emissions of existing thermal power plants, and Congress is seeking ways to prevent the Plan from being implemented.

China is planning to control the total coal consumption of the power sector, but the details will not be known until the Thirteenth 5-Year Plan is finalized.

In Japan, studies on measures for the 2030 targets started in earnest after COP21, and the discussions are expected to examine various policies and measures, including the global warming countermeasures under the Act on Promotion of Global Warming Countermeasures, the voluntary efforts of the power companies, the thermal power efficiency standards for plants and companies, and energy efficiency and conservation measures. Care will be needed to avoid any redundancy between existing policies and measures and the new ones that could compromise their effectiveness or place an extra burden on industry.

1. APEC's Energy and Environmental Issues

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General Manager

Asia Pacific Energy Research Centre

In 2015, the APEC summit and ministerial meetings were hosted by the Philippines. At the energy minister talk held in Cebu in October, the country highlighted Energy Resiliency as the main topic. Having suffered severe damage to its energy infrastructure by Typhoon Haiyan and other natural disasters, it urged APEC to cooperate on energy system resiliency, and achieved agreement at the ministerial level.

The formulation of specific forms of cooperation was entrusted to officials; accordingly, an Energy Resiliency Task Force was set up in the Energy Working Group. The first Task Force meeting was held in December, which introduced the efforts of each APEC economy, discussed future actions, and highlighted the important role of Japan.

The first role is collaboration with the APEC Oil and Gas Security Initiative (OGSI), which is organized by the Asia Pacific Energy Research Centre (APERC) led by Japan to ensure the security of oil and natural gas supplies. Traditionally synonymous with dealing with geopolitical risks, the meaning of energy security is now expanding to include responding to natural and human-made disasters, and overlaps with energy resiliency. Accordingly, the emergency exercise conducted in December as part of OGSI assumed damage to gas and oil infrastructure caused by maritime disasters and typhoons. At the Task Force meeting, the participants expressed hopes that OGSI's future achievements in emergency response will contribute to Energy Resiliency.

The other role is drawing up a guideline for electric power infrastructure, which is also led by Japan and for which APERC serves as secretariat. The purpose of this guideline is to develop specific measures in the energy area based on APEC's Guidebook on Quality of Infrastructure Development and Investment adopted in 2014. The proposed items for determining the quality of electricity infrastructure include, in addition to life cycle cost, facility fitness and other "availability" factors, resilience to natural disasters and accidents, and security against such factors as terrorism, which overlap with the Energy Resiliency requirements. In comparison to Energy Resiliency, the electric power infrastructure guideline focuses on tangible, preventive measures of preparing buildings and equipment to withstand incidents, while OGSI, particularly the emergency exercise, addresses the more intangible, post-incident aspects.

Japan's leadership in both tangible and intangible measures to help improve Energy Resiliency and consequently shape the energy security framework of the Asia Pacific will be important for APEC's energy cooperation in 2016.

2. US: Left and Right Candidates Highlighted in Presidential Race

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On February 1, the election to decide the president for the next four years will kick off at the Iowa Caucus. Recent presidential elections have been historic, such as the 2000 election fought between G.W. Bush and Al Gore that ended in chaos over vote counts, and the 2008 election in which Barack Obama became the first-ever African American president of the country. One of the characteristics of the 2016 election is that some of the top contenders represent the ideologies of both the left and the right.

For the Democratic Party, former Secretary of State Hillary Clinton has a solid lead. However, several polls suggest that Senator Bernie Sanders is leading in terms of public appeal, and many worry whether Ms. Clinton can actually defeat the Republicans at the November ballot. Sanders is a socialist who was once a member of the Young People's Socialist League. Meanwhile, in the Republican Party, renowned businessman Donald Trump is becoming unstoppable. Trump initially became popular by attacking the political establishment of Washington DC, sparking uproar with his sexist remarks and controversial proposal to ban Muslims from entering the US, and has even been compared to Hitler by some media. The Republican Party is increasingly concerned about the “Trump Trap”, that should Mr. Trump win the nomination thanks to his popular appeal, the party will not only lose the November ballot but will be branded as far right and lose the concurrent Congressional election as well as lose its majority in the Senate. Promising contenders other than Mr. Trump include Senator Marco Rubio (Florida), Senator Ted Cruz (Texas), and former New Jersey Governor Chris Christie. The former two are competing for the Hispanic vote and conservative support, while Mr. Christie’s strength is his experience in public administration and the fact that the first primary is held in his home state. The highlight in the first half of 2016 will be the nomination of the candidates of both parties.

For President Obama, 2016 is the year to cement his accomplishments of the past eight years. In December 2015, Congress lifted the 43-year ban on US oil exports in response to strong pressure from the oil industry. However, analyses suggest that relatively little US oil will actually be traded in the international market as the price gap between Brent and WTI is closing. Meanwhile, in exchange for lifting the ban, the Democratic Party won a five-year extension of the tax break on wind and solar power. Considering that Congress has only allowed one- or two-year tax breaks and that the investment environment is unstable, the five-year extension will be a huge boost for wind and solar power investment.

Further, in December, the Department of Energy significantly raised the efficiency standards for air conditioners. This follows a series of tougher device efficiency standards, and is expected to considerably reduce the overall increase in power demand in the future. In the same month, the President ignored and thus defeated the resolution to reject the regulation on CO2 emissions by power plants passed by the Republican-led Congress based on the Congressional Review Act. Regarding climate action, the Obama administration has experienced the defeat of the climate change bill in Congress, changing the interpretation of the existing Clean Air Act that had been approved by Court, and reducing emissions through administrative rules that reflect this change. This shows that the President has a variety of tools for executing policies, despite their limited authority under the Constitution. The election will decide the person who will wield this great power, and its developments must be closely watched.

3. EU: Can the EU Implement EU-wide Policies?

Kei Shimogori, Researcher

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In the short term, the EU is concerned about Brexit, Britain's exit from the EU. At the EU Summit held in December 2015, the leaders discussed Britain's EU reform proposal, and agreed to work together at the EU Summit in February 2016 to reach solutions for all four proposed areas of reform that would satisfy both Britain and the other countries. Prime Minister Cameron interpreted this outcome as progress and announced that he seeks to hold a referendum in 2016 to vote on whether to stay in the EU. Britain's proposed EU reforms include changes that would certainly be strongly opposed by other members, such as excluding migrants from in-work benefits unless they had lived in Britain for four years, and Britain wanting out from an "ever closer union" of the EU. Whether an agreement will be reached in February 2016 is the first key point.

Another issue is the progress of the Energy Union Strategy, the EU's medium- to long-term target, in 2016. In November 2015, the European Commission released the State of the Energy Union Communication, which set the following major action areas for 2016 and encouraged policies to be set at member state and regional levels: Decarbonizing the economy (requiring the members to take action toward their GHG reduction and renewable capacity goals for 2020), improving energy efficiency (also requiring the members to take similar action), accelerating the integration of the Euro zone energy market, establishing new EU regulations and revising existing ones for stronger energy security, and reforms of the member states' tax systems to concurrently achieve the Energy Union and higher competitiveness. The Communication names those countries with insufficient commitment. It will be interesting to see how much action the member states actually take toward the EU targets in 2016.

The international situation has become more complex for the EU since the second half of 2015, with the crisis in Syria and the influx of refugees across EU borders, and the tension between Russia and Turkey after the shooting down of Russian military jets. In December, the EU leaders met with Turkey and agreed to adopt a joint action plan to respond to the migrant crisis and to resume the process toward Turkey's membership of the EU. These negotiations on EU membership began in 2005 and have been stalled for a long time. However, stronger ties with Turkey are natural for the EU, which seeks to reduce its energy dependence on Russia and is considering extending the economic sanctions on the country. To diversify natural gas supply sources, the European Commission is currently focusing on the South Gas Corridor Project, which will carry natural resources from the Caspian Sea and Central Asia to the EU, passing through and using embarkation points in Turkey. The EU has made steady progress toward its goals of reducing GHG, introducing renewables, and achieving market integration despite the changing international situation. To continue to do so, greater efforts and collaboration by member states are essential. As the gap in members' attitudes to problems widens, particularly concerning the refugees, the EU will face serious difficulties in implementing EU-wide policies in 2016.

4. China: Thirteenth 5-Year Plan Puts Leaders to the Test

Li Zhidong, Visiting Researcher
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2015 saw various efforts to cement the “New Normal”. Economic growth slowed from the previous year’s 7.3% to 7% for Q1 and Q2, 6.9% for Q3, and 6.9% for January-September. This slowdown was anticipated by the leadership, which had set the target growth rate at around 7%, 0.5 points lower than the previous year. At the end of last year, a spokesperson of the National Bureau of Statistics announced that based on the latest data, the whole-year target will be met. Considering that for January-September, as consumption accounted for approximately 60% of economic growth, the ratio of the tertiary industry in GDP increased by 2.3 points year-on-year to 51.4%, and energy consumption per unit GDP (energy-GDP intensity) dropped by as much as 5.7%, the New Normal is apparently being firmly established.

2015 was also the final year of the Twelfth 5-Year Plan. Economic growth, though falling gradually from 9.5% in 2011, is expected to exceed the target 5-year average of 7% by some 0.9 points. Energy-GDP intensity and CO₂ emissions per unit GDP (emissions intensity) dropped by 13.4% and 15.8%, respectively, in 2014 from 2010 levels. Combined with the drop in 2015, the reduction will meet and exceed the binding targets of 16% and 17%. Regarding non-fossil energies, although the targets to build up nuclear plant capacity to 40 GW and to start construction of an additional 16 GW will not be met, the 11.4% target for non-fossil energy in primary energy consumption is likely to be met, thanks to wind and solar PV development far exceeding the targets. In conclusion, the overall target was achieved mostly as planned.

2016 is the first year of the Thirteenth 5-Year Plan. The overall plan will not be released until after the deliberations at the National People's Congress next March, but the fundamental policies and major targets and measures were released last November as the CPC Central Committee's "Proposal" (see the author's November article on the IEEJ website¹). The Proposal vows to speedily establish the system and method needed to cement the "New Normal", and to build a "moderately prosperous society" in 2020 through stable development with higher quality and efficient growth. Achieving this requires maintaining medium to high economic growth, and the average annual growth rate target is likely to be set to at least 6.5%. As for the growth rate for 2016, the Chinese Academy of Social Sciences released on December 16 a forecast of 6.6% to 6.8%.

2016 is expected to see even stronger measures for decarbonization, particularly in energy saving and development of non-fossil energies. Decarbonization is essential for making CO₂ emissions reach their peak quickly as pledged in the Paris Agreement, and for promptly reducing PM2.5 pollution. The key to success is whether the binding controls on the total amount of energy consumption and CO₂ emissions can indeed be executed as set in the Proposal, and whether a trading market for energy consumption and CO₂ emissions can be established. The previous administration had also attempted to control total energy consumption but failed without even releasing draft quotas (see the author's article from February 2013²). Whether the binding controls on the total amount can be launched this time will put the Xi-Li leadership to the test.

1 CPC Central Committee's "Proposal" on the Thirteenth 5-Year Decarbonization and Energy Plan (IEEJ website, November 17, 2015)

2 Overview and Feasibility of China's Twelfth 5-Year Plan on Energy Development (IEEJ Website, February 14, 2013)

5. ME: Struggling with Mutual Confrontation amid Low Oil Prices

Koichiro Tanaka, Managing Director &
President of JIME Center

The fight against Islamic State (IS) and associated counterterrorism efforts remained the world's top priority throughout 2015. In 2016, active involvement of the international community in the Middle East and North Africa (MENA) and surrounding areas will continue to be required. However, the endless regional conflicts could significantly undermine the effectiveness of joint counterterrorist operations and make the region more unstable. Further, with oil prices remaining low, the countries intervening in the civil wars of Syria, Libya and Yemen will come under both domestic and international pressure to quickly achieve results for their regional strategies.

Having the sanctions lifted or suspended, Iran will seek to swiftly increase its oil exports as early as the first half of 2016. The country will see two important elections at the end of February and the tension between various political currents are on the rise. President Rouhani, who is criticized by hardliners over the nuclear agreement, by displaying his diplomatic achievements in the nuclear negotiations, will seek to win the cooperation in the next parliament that are essential for executing his domestic and foreign policies. Meanwhile, the election of the Assembly of Experts, the first in eight years, is likely to elect the successor of the elderly Supreme Leader Ali Khamenei; the result that will greatly affect the future of the Islamic Republic. In both elections, the hardliners remain unwilling to relinquish their power to the more pragmatic camp who support the President's moderate reform.

For Iraq, which is struggling to deal with a worsening financial crisis, the operation to eliminate IS will be the highest priority together with ending the political confusion. However, its success will continue to depend on the diplomatic efforts to end the civil war in neighboring Syria. The confrontation between Turkey and Saudi Arabia on the one hand, and Russia and Iran on the other, over how to deal with the Assad administration is likely to continue. Accordingly, the West's military actions will be unable to deliver a decisive blow to IS's existence in Syria and Iraq.

It will also be difficult to end the surrogate war in Yemen between the Arab states and Iran without first resolving the political strife between transitional President Hadi and former President Saleh. This feud between Saudi Arabia and Iran is likely to continue for several years, at the least. The instability of the Arabian Peninsula will continue to benefit Al-Qaeda in the Arabian Peninsula (AQAP) and IS, and so Saudi Arabia's security and defense policies under King Salman will become more important than ever.

In Egypt, where transition to civilian rule has been completed, financial aid from the Gulf countries is likely to shrink as oil prices fall. The Libyan peace process, which had been gathering pace, might be abandoned due to distrust over mediation by the UN. With no one taking charge, the Middle East peace process is stagnating and there is no way of stopping the cycle of violence between Israel and Palestine.

As the US presidential election draws near, the MENA countries are increasingly hoping for a Republican president who would be sympathetic to the security concerns of their allies and intervene in regional issues on their behalf. However, there is also growing concern about the Islamophobia inflamed by the Republican candidates and rising resentment and bitterness toward the US, which could lead to further terrorist attacks.

6. Russia: Will Troubled Russia Find a Way Out of International Isolation?

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On December 17, 2015, at an annual press conference with domestic and overseas journalists, President Putin admitted that the Russian economy is facing a crisis (the real growth rate for 2015 is estimated at minus 3.7% year-on-year), but said that “the crisis has passed its peak”. However, the real incomes of the Russian people in 2015 are expected to have fallen by at least 5%, the greatest fall since the start of the Putin administration in 2000 (including his premiership). On December 11, IEA announced its forecast that the supply glut in the international oil market will continue at least until the end of 2016. With oil prices remaining low, prospects for the Russian economy are bleak. The World Bank projects that the Russian economy will continue to shrink in 2016. Under such circumstances, President Putin is maintaining his hard-line stance to divert people’s frustration.

The shooting down of Russian military jets by Turkey on November 24, 2015 gave the President a chance to stir up nationalist feelings. Russia rejected Turkey’s explanation of an alleged violation of airspace, and the President immediately signed a presidential order imposing economic sanctions on Turkey. As Turkey is a member of NATO (North Atlantic Treaty Organization), problems between the two countries could spill over to other western countries.

IS’s simultaneous gun and bomb attacks in Paris on November 13, 2015, the international community pondered possibility of finding a way to collaborate with Russia, which has influence over Syria, one of IS battlefields. However, although the US and Russia have generally agreed to seek common ground to resolve the Syrian issue, the gap between Russia and the West over how to handle the Assad administration remains huge. Further worsening of relations between Russia and Turkey could undermine the international effort to defeat IS.

Meanwhile, the growing influence of IS in Russia's Northern Caucasus is becoming a serious concern. Almost 2,000 people have reportedly already left the region for IS-ruled areas as militants, and thus a serious concern about IS terrorism in Russia has emerged.

Another major challenge is Ukraine. On December 18, 2015, the EU Council confirmed the non-fulfillment of complete execution of the Minsk Agreement, and decided to extend the sanctions on Russia for another six months. This showed the importance of Ukraine amidst other urgent issues such as dealing with IS. The pro-Russian-ruled areas in Ukraine are planned to have elections in February 2016, whereas many both inside and outside Russia are pessimistic about the Agreement, including an obligation to restore border controls between Eastern Ukraine and Russia by the Ukraine government. Will Russia find a way out of international isolation, or will the worsening domestic economy cause Russia to harden its diplomatic stance? The situation must be closely monitored.

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