

**Viewpoints for Looking at Growingly Uncertain International Energy Situation:  
Middle East, U.S. and China**

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On July 18, the Institute of Energy Economics, Japan, and the James A. Baker III Institute for Public Policy, Rice University, cosponsored an international workshop on the theme of "Growingly Uncertain International Situation and Global Energy Markets." The U.S. institute's founding director, Ambassador Edward Djerejian, and famed U.S. energy experts Amy Jaffe and Steven Lewis made speeches and held panel discussions with IEEJ experts.

Since the year 2011 began with the "Arab Awakening", the international situation and global energy markets have been shaken by such developments as the Great East Japan Earthquake, the tense Iranian situation and the resurging European credit fears. The workshop focused on the Middle East, the United States and China as particularly important points cited in the title of this report.

Japanese media coverage of Arab Awakening developments other than the tense Syrian situation has been declining. But workshop participants noted that the Arab Awakening is a very grave, deep-rooted problem with no fundamental solution being put forward. An important point made at the workshop was that the roots and causes of the Arab Awakening should be viewed from the historical context of the modern Middle East, including the by-effects of major Western powers' colonial rule in the Middle East, as symbolized by the 1916 Sykes-Picot Agreement on international relations after the Ottoman Empire breakup. While complex historical, racial and religious problems have been intertwined, grassroots discontent with Middle Eastern political systems has grown due to prolonged suppression and corruption problems. Then, a burst of discontent spread like wildfire more rapidly and widely than expected, supported by the development and diffusion of the Internet and other telecommunications means. The Arab Awakening problem has thus grown even more serious.

In this sense, problems deriving from the Arab Awakening are expected to emerge in various forms in many Middle Eastern countries. Following the Tunisian, Egyptian and Libyan regimes, Syria's Bashar al-Assad government may collapse as the Syrian situation deteriorates further on the intensifying military conflict between the Assad regime and dissidents. Furthermore, workshop participants noted that no optimism can be warranted for Middle Eastern countries where no major changes or serious political instability have so far been seen.

On the Iran issue that is the most important matter of concern to us in the Middle East for the immediate future, the workshop discussed the point that attention should be paid to a further decline in Iranian crude oil exports under tougher sanctions and its impact on the international oil market. If Israel takes a stance that it cannot tolerate Iran having nuclear weapon development capabilities, the workshop also discussed the possibility that it may launch preemptive military operations some time. The potential of the region's destabilization on such Israeli action could develop into a serious problem to shake international energy markets, one participant said. Any military conflict's impacts on international energy markets would differ depending on its timing, duration and coverage of countries, another said. Given that the Middle East is a large base for supplying and exporting oil and liquefied natural gas, any military conflict there would exert grave impacts on the international situation. For Japan that has increased its dependence on LNG and oil thermal power generation since the March 2011 Fukushima nuclear crisis, particularly, developments in the Iranian situation and the fate of the overall Middle East situation could become the most important destabilizing factors for energy security. Workshop participants emphasized the importance of the Middle East problem and the severity of the present situation, calling for avoiding complacency.

As the Middle East situation grows more uncertain, the United States is increasing its presence on the energy supply side of the world. In this sense, some participant said, the center of gravity is shifting in international energy markets. The shale gas revolution has made U.S. LNG exports a major matter of concern both within the United States and in the entire world including the Asian market. But the workshop focused on analyses, consideration and discussions of oil problems. The United States, where shale oil production has been increasing substantially in addition to shale gas output, is making progress toward the goal of ending its dependence on Middle Eastern oil as advocated by both the Bush and Obama administrations. There is a bold view that the United States could become an oil exporter after emerging as an LNG exporter depending on further shale oil production. Workshop participants saw such view as still premature. But we may have to pay attention to U.S. oil supply and demand trends that could shift the global supply-demand balance, the center of gravity and the balance of power in international energy markets. If the United States reduces its dependence on Middle Eastern oil substantially and moves closer to oil self-sufficiency, its commitment to the stability of the Middle East may be affected somehow. Such development may cause problems regarding the wider international order. In this sense, we must keep close watch on U.S. trends.

As for China, it is very uncertain how an economic growth slowdown would lower growth in energy demand (imports) including oil, gas and coal. Over a medium to long term, workshop participants said, there would be two more important points: (1) how China will implement measures to achieve energy and environmental policy goals under the 12th five-year development plan and what achievements it will make in this respect, and (2) who will implement energy policy and how they will do so after a leadership reshuffle this autumn. How China will develop unconventional gas resources estimated to exceed U.S. deposits is another uncertain factor that could cause a major change in the supply-demand balance in the global natural gas/LNG market, one participant said. Another view given in the workshop was that China's shale gas development should be seen from a

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long-term perspective because of large China-U.S. gaps in infrastructure, technology and human resources. Anyway, Chinese trends that are well expected to exert decisive effects on global energy demand growth represents a major uncertainty that could affect the fate of the world.

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