

Three Geopolitical Risks Shaking International Energy Situation

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The international energy market always contains various destabilization factors that influence market trends. I may say that the absence of destabilization or disturbance factors in the market would be unusual. In the recent international energy market, however, multiple geopolitical risks that are likely to exert very great impacts due to their scales, significance and future uncertainties have coexisted as market destabilization or disturbance factors. This situation is also unusual.

It may be needless to say that the geopolitical risks represent a new development in the Ukraine situation, the tense Gaza situation and the Iraqi situation. All three risks can respectively become top news for the world. As these risks are developing simultaneously, a decline in developments for one risk leads mass media to reduce their coverage of the risk, making it relatively unremarkable. In fact, however, each of the risks is chaotic and could destabilize the whole international situation depending on future developments.

Regarding the Ukraine situation, Malaysia Airlines Flight 17 was shot down on July 17, shocking the entire world. More than a week after the tragic incident in which all 298 passengers and crewmembers were killed, efforts to settle the incident and identify the cause are failing to make smooth progress. Western countries and the Ukraine government have claimed that pro-Russia rebels in control of eastern Ukraine shot the aircraft down. The international community might have increasingly come to feel that this claim is plausible. But pro-Russia rebels have denied the claim, leaving the details of the incident unspecified. The Netherlands, which accounted for the largest share of the victims in the incident, has taken the initiative in organizing an international investigation team, launching full investigations at last. Thorough investigations and clarification of the incident are necessary.

In response to the incident, the international situation has been changing, even though the cause of the incident has not yet been found. Pro-Russia rebels, and Russia suspected to be their supporter, have come under growing fire from the international community. The Netherlands and other European countries could toughen their sanctions on Russia. In fact, the European Union

Council of Foreign Ministers at its July 22 meeting pointed to the significance of thorough investigations and Russia's relevant cooperation and considered enhancing economic sanctions on Russia depending on future developments. It has been pointed out that EU members would have difficulties in uniting to impose sanctions on Russia due to differences in their economic relations with Russia. While such basic situation is expected to remain unchanged, their attitude against Russia is likely to toughen due to the incident. Given that the United States has taken a very tough stance against Russia over the Ukraine problem, the latest incident is expected to lead Russia to become further isolated. Rising tensions over Russia will inevitably shake the international energy situation because of Russia's importance for the international energy market.

The rapid deterioration of the Gaza situation is a problem that cannot be ignored. On July 6, Israel launched retaliation against the Islamic fundamentalist group Hamas that was suspected of killing three Israeli boys who went missing and were later found dead on the West Bank of the Jordan River. On July 8, Israel started full attacks on Gaza. Since Israel mobilized ground troops to move into Gaza on July 17, Israel's clash with Hamas has expanded and escalated. More than 700 people have died in Gaza, with more than 30 Israelis killed. As I write this report, despite the large number of victims, no move is seen to settle the dispute. The Financial Times described the situation as raising hurdles to clear before the bloody tragedy is stopped. The Israel-Palestine problem has been one of the deep-rooted and fundamental destabilization factors in the Middle East. The problem has newly been ignited. It has become important to watch how the whole of the Middle East would be affected.

Major developments in the Ukraine and Gaza situations have overshadowed the Iraqi situation that had dominated media coverage recently. In early June, the ISIS (Islamic State of Iraq and al-Sham) militia organization took control of Mosul and launched a march to Baghdad, surprising the world. Since then, the situation has been stalemated due to counterattacks by Iraqi government forces. But heavy clashes between ISIS militants and government forces have continued, with the future situation remaining unpredictable. Even if Iraqi government forces sharply recover losses, it may be difficult for them to exterminate the armed extremist rebels in Iraq and its neighbors including Syria and eliminate their influence. The heavy clashes have indicated a centrifugal force expected to work in Iraq in the future. How will such centrifugal force work in the future? How will terrorist attacks and military clashes escalate amid growing uncertainties? How will the Iraqi oil sector be affected over a short to long term? These important questions will be left unanswered. In this sense, the Iraqi situation can be expected to become top news again depending on future developments.

In addition to the three major geopolitical risks, the international energy market includes various geopolitical risks that are not necessarily small. Among them are the Libyan and Nigerian situations. Interestingly, European and American experts have recognized problems in the South and

East China Seas as major geopolitical risks involving energy. Japan, with a vulnerable energy structure susceptible to developments in the international energy situation, is required to enhance its resilience to various developments in view of the unpredictable, uncertain international situation.

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