

## **Reviewing Japanese and International Energy Situations in 2016**

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Five days are left before the end of 2016. The year saw more important events or developments than usual in the Japanese and world energy situation and the overall international situation. Regarding them, I would like to summarize the impressive points for me.

First, 2016 was the year of surprises. The biggest among various surprises this year was Donald Trump's victory in the November U.S. presidential election. Trump, treated as a minor candidate in the initial phase of presidential election campaigns, became the Republican Party's presidential candidate despite criticisms against his radical remarks. In the final stage of the campaigns, Trump was persistently behind Democratic presidential candidate Hillary Clinton in polls and ratings by major media organizations and experts. After all, however, he achieved a come-from-behind win. The surprise came as a great shock shaking not only the United States but the whole world.

It is significant that the result was a surprise. It is also significant that Trump, elected as a result of the surprise, is destined to steer the United States, which is the world's only superpower. In international politics, security, the world economy and all other fields, every action by the incoming Trump administration will attract global attention. In the energy and environment field, global attention focuses on how the new administration would address the Paris Agreement, the Iran nuclear agreement, the Clean Power Plan, and energy industry deregulation and infrastructure development, including shale oil and gas development. The world is also paying attention to policy directions, including how "America First" and other key policy words would influence the energy and environment field and how the United States' inward-looking attitude and isolationism would influence its external energy policy. When specific developments are analyzed, the new president's process for making and implementing actual policy plans, the appointment of major cabinet members and policy staff, and their actual actions would be great matters of interest to the world. Ultimately, the U.S. presidential election result leading to the Trump administration may be the world's most important news in 2016.

The second surprise this year was the United Kingdom's decision through a national referendum in June to secede from the European Union, known as Brexit. The referendum result came as a great shock because British voters had widely been expected to finally make an economically reasonable decision to avoid the exit from the EU. The unexpected referendum result generated great fear and uncertainty about the U.K. economy, the whole of the EU economy and the EU itself. We must pay attention to some common factors behind the abovementioned Trump

whirlwind and the Brexit decision, including opposition to the establishment, the growing inward-looking attitude, fear and concern about immigrants, widening economic and social divides, and increasingly emotional opinions.

The fate or specific results of Brexit after U.K.-EU negotiations are still uncertain. At a time when Brexit is expected by some people to have a hard landing and deal a severe blow to the U.K. and the EU, the surprise referendum decision is undoubtedly viewed as one of the very important developments. Key national elections are scheduled for 2017 in major European countries such as the Netherlands, France and Germany. Depending on election results, the stability of Europe could be seriously affected, with the stage for surprise coming back from the United States to Europe. It will be important how the social, political and economic factors behind the Brexit decision would influence these elections, indicating the graveness of the referendum decision.

The third major surprise concerning the energy field in 2016 was a decision by the Organization of the Petroleum Exporting Countries to reduce oil production. Behind the crude oil price plunge since the second half of 2014 was a loose supply-demand balance resulting from a substantial increase in U.S. shale oil production. Another major factor behind the oil price weakness was Saudi Arabia's policy choice to avoid playing as a supply-demand coordinator and adopt a market share strategy, leaving the market to determine oil prices even if they fall further. Saudi Arabia maintained the policy before reversing it clearly in 2016. The reversal came as OPEC announced a production cut plan at its extraordinary meeting in September in Algeria and reached a production cut agreement including country-by-country production quotas at a regular ministerial conference in November. Until the September announcement of the production cut plan, most of the oil market players in the world believed that a wide difference between Saudi Arabia and Iran over production adjustment would make it very difficult for OPEC to strike any production cut agreement. The September and November decisions came as a surprise to move the market, with OPEC attracting global attention again.

Behind the surprise OPEC decisions was the prolonged oil price weakness that deteriorated oil producing economies and paved the way for OPEC countries to reach compromise to avoid any more decline in oil prices beyond their differences in stances or opinions. Although some doubts are left about the effectiveness of coordinated oil production cuts by OPEC and Russia, the OPEC decisions have brought about an important change for us in analyzing crude oil prices and the international oil market expected to go in the direction of rebalancing. In this sense, the OPEC surprise was one of the surprises representing 2016.

The year 2016 also saw various other important developments. International developments included important events for predicting the future Middle Eastern situation, such as Iraq's operation to take back Mosul from Islamic State insurgents, Syria's recapture of Aleppo from rebels and Iran's fast comeback to the international oil market after the Iran nuclear agreement. In Northeast Asia, there were key developments that exerted direct impacts on Japan. China enhanced its maritime expansion, while North Korea repeated nuclear and ballistic missile launching tests. In South Korea, political turmoil deepened with the assembly passing a resolution to impeach President Park Geun Hye. Highlighted energy-related developments in 2016 included the accelerated loosening of the

supply-demand balance in the international liquefied natural gas market, the start of new Australian and U.S. LNG production projects behind the acceleration, renewable energy's growing presence in the energy market under policy support and falling power generation costs, and energy policy debate focusing on coal, which is a competitive electricity source while having an environmental load problem. In regard to climate change, it may be needless to point out that the Paris Agreement took effect in November to enhance global carbon reduction efforts.

In Japan, various challenges for the achievement of a target energy mix emerged in 2016, including the restart of nuclear power plants, the issues related to economically reasonable promotion of renewable energy and numerous coal power plant projects. April's electricity retail deregulation symbolized the full-fledged start of energy market deregulation in Japan and became an important milestone for considering the deregulation's influences on the energy mix achievement, the Japanese energy market and the industry sector. With the key developments in 2016 in mind, I would like to closely watch how 2017 will be.

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