

Participation in Atlantic Council Istanbul Summit 2017

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On April 27 and 28, an international conference titled Atlantic Council Istanbul Summit 2017 took place in the Turkish city of Istanbul. This was the eighth such conference sponsored by the U.S. think tank Atlantic Council. The previous one was titled Energy and Economic Summit. The latest one also dealt mainly with energy issues and expanded discussions to economic issues. About 600 people participated in the conference on a registration basis, including Turkish President Recep Tayyip Erdogan as keynote speaker, ministerial officials and famed energy experts.

Speakers at the conference took note of Turkey's strategic importance in their discussions. The first important point is Turkey's growth potential as an energy market. Primary energy supply in Turkey has steadily increased, reaching 131.3 million tons oil equivalent in 2015, up 7% from the previous year. The robust growth contrasts with slack energy demand in neighboring major European countries. As the Turkish energy market expands, how to secure stable energy supply becomes a key policy challenge for Turkey. The second point is the geopolitical strategic importance of Turkey located at the junction for Europe, the Middle East, Russia, the Caspian region and Central Asian countries. Major energy exporting countries surrounding Turkey are planning to export energy via Turkey to European and other markets, making Turkey a strategic place for energy geopolitics.

On the first day of the two-day conference, participants made various arguments about energy security, geopolitical risks and energy governance in the world while keeping the abovementioned points in mind. I participated in two sessions as panelist. As for the international energy situation, participants made interesting arguments about the roles of the Organization of the Petroleum Exporting Countries and the future course and impacts of U.S. shale oil production regarding present and future crude oil prices. At a panel where I participated along with Qatari Energy and Industry Minister Mohammed bin Saleh Al-Sada and International Energy Agency Executive Director Fatih Birol, we vigorously discussed the future course of OPEC and non-OPEC oil producing countries' coordinated production cut from various angles while the oil market was going in the direction of rebalancing. These countries taking part in the coordinated production cut have so far been far more compliant with their respective production quotas than expected.

At the panel discussions, U.S. shale oil's performance was taken up as a key factor influencing the future international oil market. It was pointed out that the average breakeven cost for U.S. shale oil production in IEA analysis has fallen to around \$40 per barrel thanks to cost-cutting efforts in recent years, allowing U.S. shale oil production to be expanded moderately even at the present crude oil price level. In addition, the Trump administration's policy of supporting and promoting shale oil

and gas production and exports must be taken into account. U.S. shale oil is increasing its unique presence in the international oil market, holding down crude oil prices and featuring a short investment cycle (from an investment decision to actual production).

At the panel, however, it was pointed out that non-OPEC oil producing countries are bipolarized, with the United States, Canada and Brazil demonstrating production expansion potential and other non-OPEC oil producers going in the direction of reducing production. Continuous growth in global oil demand and the production fall in most non-OPEC oil producing countries have created a momentum for the oil market to go in the direction of rebalancing. Therefore, the fate of the coordinated production cut by OPEC and non-OPEC oil producing countries is significant for the speed and degree of the rebalancing.

Meanwhile, the presence of geopolitical risks as destabilizing and disturbing factors cannot be ignored when the future energy market trend is analyzed. In Turkey's southern neighbor, the Middle East, the regional situation has been tense and fluid, featuring high geopolitical risks. Interestingly, it was pointed out at the panel that the Trump administration's foreign policies including the Middle East policy have also become a new factor of uncertainty. U.S. President Donald Trump, who had indicated a stance that the United States is no longer the policeman of the world, has recently implemented military interventions that can be interpreted as representing "internationalism". He has recently ordered a missile attack on Syria and an air strike on Afghanistan and sent an aircraft carrier strike group to waters close to North Korea. These actions or interventions which can be regarded as unpredictable and unilateral, and the United States' subsequent tensions with Russia and Iran have complicated the Middle Eastern situation further. These geopolitical risks and their effects on the energy market must be closely watched. How the United States would deal with Iran in regard to the nuclear deal is also a key issue for the Middle Eastern situation. Every future action by the Trump administration will attract attention as a factor influencing the global situation involving geopolitical risks.

Vigorous discussions also came on how the governance mechanism should be for the stability and sustainable development of the international energy market. One viewpoint given at the conference was how the existing governance mechanism should be developed, enhanced and adapted to new realities. In this respect, it is important that the IEA has been expanding its association with non-IEA countries and enhancing cooperation with China, India, Indonesia, Thailand, Singapore and other Asian countries. As the gravity center of the international energy market shifts to Asia, the IEA's regional coverage expansion and governance enhancement will attract attention in the future.

It is also important that the IEA has expanded its governance coverage to include gas security and electricity security as well as oil security. Basically, sovereign countries take their respective energy security initiatives. If these initiatives are exclusionary or implemented in a zero-sum game manner, the market's stability may be affected. Therefore, the maintenance and management of international cooperation and order for the stabilization and sustainable development of the international energy market will grow even more important as the energy security environment becomes complicated. At the conference, participants also discussed other governance challenges

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including Asian energy cooperation and its contribution to energy governance, the promotion of market improvements and investment for sustainable energy market development, and relevant finance mechanisms. Initiatives to solve or overcome these challenges will continue to be a common agenda for energy policy and industry stakeholders in the world.

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