

**10th Japan-Russia Energy and Environment Dialogue in Niigata**

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On November 14, the 10th Japan-Russia Energy and Environment Dialogue took place at Toki Messe, an international conference facility in Niigata. Organized by Niigata Prefecture, Niigata City and the Economic Research Institute for Northeast Asia (ERINA), the annual dialogue has provided opportunities for Japanese and Russian policymakers, energy industry people and experts to discuss bilateral energy and environment cooperation since the first meeting in 2008. The 10th one became the fourth in which I participated, following the second, fifth and ninth.

Representing the organizers at the 10th dialogue were Niigata Prefecture Lieutenant Governor Morio Takai, Niigata City Mayor Akira Shinoda and ERINA Representative Director Masahiro Kawai. Russian representatives included Sergey Yasenev, consul-general in Niigata, and Alexey Karaivanov from the Trade Representation of the Russian Federation in Japan. Delivering keynote addresses or reports in the opening session were Nobuo Tanaka, chairman, Sasakawa Peace Foundation; Keiichi Shima, director, Japan-Russia Economic Affairs Division, European Affairs Bureau, Ministry of Foreign Affairs; Kazushige Tanaka, director, International Affairs Division, Agency for Natural Resources and Energy; and Karaivanov. In Sessions A and B to deal with energy resource problems and energy conservation/environment/electricity problems, a total of 12 reports were presented by Russian experts and representatives from the energy industry and some research institutes in Japan.

The meeting discussed Japan-Russia energy and environment cooperation as bilateral relations were viewed as relatively stable and steady as indicated by four bilateral summit meetings between the top leaders of the two countries a year, despite North Korean and other problems that could affect the two countries and Northeast Asia. The ninth dialogue came in November 2016 when Japan-Russia cooperation became a great matter of concern just before Russian President Vladimir Putin's visit to Japan in the next month. Based on later developments and realities, the latest meeting featured calmer, steadier discussions than at the previous one. While Prime Minister Shinzo Abe and his administration have enhanced their support base through a recent parliamentary election, Russia is set to see a presidential election in March 2018. It is important for the two countries to carefully discuss their cooperation in consideration of the coming Russian presidential election and other events from next year. The meeting might have provided an opportunity for such discussions.

The first impressive point at the meeting was how the two countries should think about bilateral cooperation in the international energy market now in a buyer's market stage. While crude oil prices have risen back above \$60 per barrel recently, the market environment at present is far

different from that during the period between 2011 and the first half of 2014 when crude prices remained above \$100/bbl. The natural gas/LNG market, on which Russia places great hopes, has retained oversupply particularly in Asia including Japan. While the market is expected to go in the direction of rebalancing with oversupply being eliminated, a mainstream view is that the natural gas/LNG market will take five to six years to be rebalanced. Russian energy supply, particularly oil and gas/LNG supply, has various advantages for Japan and the whole of Asia, including the reduction of dependence on the Middle East, the diversification of energy supply sources and shorter transportation periods and distances arising from geographical proximity. At a time when Japanese energy demand is growing more uncertain amid the gradual restart of nuclear power plants, the expansion of renewable energy, and power and gas market deregulation amid an oversupply market, however, Russia has no choice but to face severe competition from other energy suppliers. In such situation, Japan and Russia must agonize over how to realize complementarity and reciprocity that can be found instinctively or potentially in bilateral energy relations.

As a matter of course, we cannot predict that oversupply or a buyer's market will remain forever. The history of the international energy market represents the repetition of market cycles. No one can correctly predict what will happen next. While keeping such uncertainties in mind, Japan and Russia are required to explore, plan and implement cooperation that can produce desirable results for both sides.

From the viewpoint of market competition, the moves of the United States are important and significant for Japan and Russia. It may be needless to say that the largest factor behind the present oversupply in the international energy market is the U.S. shale revolution. In a sense, the shale revolution is still ongoing and will continue to exert great influences on the international oil and gas/LNG market. In considering a strategy for the hopeful Asian market, or an eastward vector, Russia cannot ignore the presence of U.S. LNG regarding the gas/LNG problem. In Europe as a traditional mainstay market for Russia, potential U.S. LNG supply may be a key issue to which Russia has no choice but to be alert. For Japan as a gas consuming country, however, U.S. LNG supply expansion can be expected to provide a significantly positive effect. How to utilize U.S. LNG supply is a key challenge for the energy market and a key topic for the whole of Japan-U.S. relations. Japan and Russia must sufficiently and strategically consider these points before building reciprocally cooperative relations in the field of energy.

Regarding international relations, China's moves are also very important. While being isolated internationally through Western economic sanctions over the Ukraine crisis, Russia has strategically enhanced its approach to China. In the energy field, Russia has completed and expanded the Eastern Siberia-Pacific Ocean oil pipeline and increased crude oil supply to China. As for gas, Russia has concluded a historic gas pipeline agreement with China. As Russia depends on China or the Chinese market more and more, however, its relations with China may entail more sensitive difficulties. In going ahead with the eastward vector, Russia must consider appropriate decentralization and diversification. How to position Japan in this regard is strategically significant for Russia.

As for Chinese moves, the problem is the energy demand expansion pace. China's

economic growth has decelerated under the “New Normal” economy, affecting energy demand growth. For example, natural gas demand growth in 2015 slipped below 5%, contributing to oversupply sentiment. Since last year, however, Chinese gas demand has recovered an upward trend. Particularly, China has substantially expanded LNG imports. Chinese moves are important for analyzing the supply and demand environment for the international energy market and have various implications for Japan and Russia. Amid various uncertainties existing in the international environment surrounding Japan and Russia, the two countries are required to realize energy cooperation based on strategic thinking and various angles and concentrate their wisdom to that end.

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