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Summary

1. Discussions at the Fundamental Issues Subcommittee and Future Prospects

On November 14, METI Minister Yukio Edano stated at the Fundamental Issues Subcommittee that the decision-making process will not be delayed or accelerated by the political situation, but did not indicate any clear direction or say when the Basic Energy Plan will be finalized. The difficult political, economic and energy situations both inside and outside Japan must be considered in the upcoming policy discussions.

2. Reforms of the Electric Power System

The Expert Committee on Electric Power System Reforms met to discuss the neutral and wide-area operation of the electricity transmission and distribution department and revitalization of the electricity wholesale market based on the core principles published in July. There are concerns as to whether a well-balanced result can be obtained by the end of the year, as the discussions focused heavily on individual areas.

3. Developments and Issues in Restarting Nuclear Power Stations

Due to the confusion as to who has responsibility for restarting the nuclear power plants, the restart could be delayed till after next summer, which is the currently anticipated timing. The Nuclear Regulation Authority should quickly set out a new and scientifically rational safety standard, and the government must promptly clarify its policy on the mix of power sources.

4. European Commission Postpones Imposing EUETS on International Flights for One Year

The European Commission has announced a one-year postponement of imposing the EUETS on international aviation, which has been criticized by many countries including the U.S., China and India. The postponement is likely to be implemented early next year, but developments including the discussions in ICAO need to be monitored closely, as the EC is committed to imposing the system on international aviation.

5. Germany's FIT System Needs to Change

Germany has announced plans to set a cap on the government purchase of electricity to keep the rising feed-in premium under control. The government also plans to align the pace of introduction of renewable electricity with the strengthening and stabilization of the grid, as the longstanding concerns are becoming a reality. These moves by Germany may be important indicators for the renewable energy policy of Japan.

6. China Watching: China's Position on COP18

On November 21 immediately ahead of COP18, the Chinese government announced its stance in the international negotiation: to give highest priority to the agreements of the Second Commitment Period of the Kyoto Protocol, and to decide when to accept a binding emissions cap in the framework negotiations on the Durban Platform. This move shows that China intends to take the initiative in COP18 by being the first country to declare its stance in the international negotiations.

7. ME Watching: Rising Tension subsequent to Military Clashes

Military attacks by Israel have shifted the focus of attention from the civil war in Syria to Gaza in the Palestinian territories. Egypt showed strong presence in achieving the ceasefire, but is itself experiencing violent protests against the possible return of authoritarian rule. Jordan is becoming unstable due to deficit-ridden finances, and Iran's nuclear activities is raising the concerns of Israel.

8. Russia Watching: Pipeline Strategy of the Putin Administration

Russia's plans to construct export pipelines reflect the energy strategy of the Putin administration. While carrying out massive projects to build pipelines to both Europe and Asia, Russia is now paying close attention to Asia, including Japan. Building a mutually beneficial relationship with Russia on energy could be an important option.

1. Discussions at the Fundamental Issues Subcommittee and Future Prospects

Akira Yanagisawa, Senior Economist

Energy Demand Supply and Forecast Analysis Group

On November 14, the day on which Prime Minister Yoshihiko Noda expressed his intention of dissolving the House of Representatives, the Fundamental Issues Subcommittee held a meeting, the 33rd, for the first time in almost two months. In the interim, the Cabinet endorsed the “Future Policies on Energy and the Environment”, which was formulated based on the “Innovative Strategy for Energy and the Environment” adopted by the Energy and Environment Council of Cabinet members.

The Innovative Strategy for Energy and the Environment advocates “creating a nuclear-free society as soon as possible” as its foremost policy. However, the statement that was actually adopted at the Cabinet meeting stated: “The future policy on energy and the environment will be implemented based on responsible discussions with the municipal authorities involved and the international community based on the Innovative Strategy for Energy and the Environment, while winning public understanding and verifying and reviewing the policy constantly and flexibly.”

Based on the Cabinet’s decision, the Subcommittee members commented and asked questions on how the Strategy relates to the Basic Energy Plan, the details of the Plan, and when it will be finalized. METI Minister Yukio Edano said that the decision-making process will not be delayed or accelerated by the political situation, but did not indicate any clear direction or say when the Basic Energy Plan will be finalized. The Minister also made two notable comments. The first was that reaching a single final policy has never been the goal of the Fundamental Issues Subcommittee meetings, indicating that the Minister does not consider it essential to reach a consensus. The other comment was that although the Cabinet did not adopt any numerical commitments this time, a target should be set whether it is achievable or not, and that achieving zero nuclear power by the 2030s is such a target. This comment could simply mean that the Minister doubts whether the Strategy is feasible.

Meanwhile, IEEJ Chairman & CEO Masakazu Toyoda commented that a reasonable approach would be to first clarify any uncertainties in the Innovative Strategy before drawing up the Basic Energy Plan. The past two months have seen many changes outside the country that confirm the importance of nuclear power for Japan.

One example is the rising tension in the Middle East. Iranian oil exports have dropped from the normal level of 2.5 million b/d to one million b/d due to the economic sanctions, and the risk of traveling through the Strait of Hormuz might be rising again.

In the U.S., the Presidential election has ended, and Democratic Senator Ron Wyden, who opposes the U.S. export of LNG, is highly likely to take office as the Chairman of the Senate Committee on Energy and Natural Resources. Japan must continue its efforts to import LNG from the U.S., but it may be difficult.

The U.S. decision to impose an anti-dumping tax on Chinese solar panels, which was followed by the start of investigations by the EU, is likely to divert the supply of solar panels shut out from these markets to Japan, undermining the potential for renewable energy to boost employment in Japan.

The recent international developments in energy suggest that Japan may be forced to proceed with its nuclear policy. When the discussions on the Innovative Strategy are over, I hope that the need for nuclear energy will be made clear to the public in an understandable way.

2. Reforms of the Electric Power System

Junichi Ogasawara, Senior Economist, Manager
Electric Power Group, Electric Power & Coal Unit

On November 7, the Expert Committee on Electric Power System Reforms held its ninth meeting to discuss, among the detailed designs drawn up based on the policies published in July, the neutral and wide-area operation of the electricity transmission and distribution department, revitalization of the electricity wholesale market, and the reforms which will be implemented in advance (such as partial supply to PPS, full-time backup supply to PPS and disclosure of grid information).

With regard to the neutral and wide-area operation of the electricity transmission and distribution department, the organizers presented specific proposals for the legal and functional unbundling of the department based on the examples of Europe and the U.S. Although most of the members supported legal unbundling, some pointed out the advantages of functional unbundling such as strengthened wide-area operation resulting from the participation of Independent System Operators, and the members did not reach a consensus. In addition, concerns were raised over the financial impact that could result from changing the role of general electricity utilities now while it remains unclear when and how the nuclear power stations will be restarted, such as the downgrading of credit ratings and adverse effects on the financial situation. The conclusions to be drawn by the organizers are keenly awaited.

As for the revitalization of the electricity wholesale market, there was a suggestion to increase the sale of electricity by general electricity utilities to the electricity wholesale market (equivalent to sale offers of 37 billion MWh or more with a 24-hour average of 4,200 MW) as a voluntary initiative of the utilities, but none of the members commented directly on this suggestion. There were, however, requests to strengthen the near-term engagement of the Japan Electric Power Exchange and to make its governance more neutral. Proposals were also presented on the reforms that will be implemented in advance, such as formulating guidelines for partial supply (supply of electricity by general electricity utilities to complement the supply capacity of PPSs) and principles for the disclosure of grid information, but no specific comments were made.

Going forward, the meetings will focus on reviewing the detailed designs for implementing the Basic Policy published in July. In this particular meeting, members tended to comment on the larger picture of the system rather than specific proposals, as was the case with the meetings until July. As a participant, I tried to make specific comments that would help substantiate the new system, but other comments in the meeting tended to be vague or partial, such as “forward-looking or backward-looking” and “the governance of the electricity transmission department and the electric power exchange should be neutral”. I am concerned whether or not all the issues have been addressed, and whether a well-balanced conclusion can be reached.

Due to the delay in establishing the Nuclear Regulation Authority and the discussions on restarting, the nuclear power plants are not likely to be restarted for some time. This means that the management base of the electric power companies will remain unstable and that the supply and demand of electricity will continue to be tight. It is also not clear whether the members will reach a consensus, including whether the reforms of the electric power systems and nuclear power should be treated as separate issues. With the Lower House elections approaching, it is not at all clear what the proper conclusion should be.

3. Developments and Issues in Restarting Nuclear Power Stations

Tomoko Murakami, Group Manager
Nuclear Energy Group, Strategic Research Unit

Restarting the 48 nuclear power stations in Japan that are currently shut down has made no progress even after the launch of the Nuclear Regulation Authority in September, and the prospects are growing more uncertain due to the confusion over who has the responsibility for restarting and the developments in the fault investigation at some Nuclear Power Stations.

Since being appointed as Chairman of the Nuclear Regulation Authority(NRA), Mr. Shunichi Tanaka has firmly held his position of judging the safety of nuclear facilities based on scientific facts, and has stated that “either the electric utility or the ministry in charge of energy policy should be responsible for giving necessary explanations to the plant-hosting communities when restarting the nuclear power plants.” Thus, views on restarting differ between the government which thinks that it is the utilities’ responsibility to explain, and the plant-hosting municipalities which are demanding that the government should explain the safety and necessity of the nuclear power plants.

The immediate issue in judging safety is whether the crashed zone under the plant premises is a fault or not. Regarding the investigations at Tsuruga Nuclear Power Station of the Japan Atomic Power Company(JAPC), NRA has concluded that the crashed zone under the Unit 2 is obviously an active fault and, therefore, that the Unit 2 should not be restarted anymore. JAPC has submitted an open inquiry to NRA to ask for a clear explanation for the sudden and unreasonable judgment. There are some other stations which have some crash zones in the premises, such as Higashidori, Ohi and so on. While NRA are investigating these, the decision for restarting any nuclear power plants would not likely to be made before next summer.

The restarting of nuclear power plants in Japan, as well as Japan’s nuclear policy, has been vacillating constantly since the Fukushima Daiichi accident. Normally, electric utilities are allowed to start load-following operation of the plants after periodic inspections are completed. However, in July 2011, an “administrative directive” was issued by then Prime Minister Kan as a tentative procedure requiring that all plants must “undergo a stress test and an evaluation by the regulation authority, and obtain the approval of the host municipality and the official approval of three Cabinet members including the Prime Minister in order to be restarted.” The tentative procedure became ineffective with the establishment of NRA in September, but it is still not clear who should make the final decision.

In 2011, due to the drastic fall in nuclear power output, fossil fuel imports by Japanese power companies, which constitutes an outflow of national wealth, increased by 2.5 trillion yen from last year, and became the main cause of the largest trade deficit in the country’s history. Consequently, the country’s eight general electricity utilities (excluding Tokyo and Okinawa Electric) lost 1 trillion yen of retained earnings. With the result for the fiscal year ending next March expected to be even worse, the deteriorating financial situation of the power companies is becoming yet another threat to the stable supply of electricity. Under such circumstances, NRA must urgently establish a safety standard based on scientific rationality, and the government must clearly define the country’s generation mix policy together with a feasible plan. Meanwhile, the U.K. is considering applying to new nuclear power plants a FIT system which employs a margin settlement system; we should also pay close attention to this approach.

4. European Commission Postpones Imposing EUETS on International Flights for One Year

Hiroki Kudo, Assistant to Managing Director
Global Environment and Sustainable Development Unit

On November 20, the European Commission (EC) announced that it will postpone until September 2013 the imposition of EUETS on international flights departing from or arriving in EU territories, which was introduced in January this year. The proposed revision is likely to be approved by the European Parliament and EC early next year.

The imposition of EUETS on international aviation has been strongly criticized by the governments of many countries such as the U.S., China and India, as well as private airlines since its launch in January this year, resulting in the adoption of a bill opposing it by the U.S. Congress, and the confrontation was intensifying. The recent decision by the EC temporarily delays the imposition of EUETS in exchange for “progress” in acceptance of the system by the International Civil Aviation Organization (ICAO).

Being international in nature, the method of calculating greenhouse gases (GHG) is a major hurdle in tackling their reduction in the international aviation sector, whose economic activity spans international borders. Whereas systems based on country-specific targets such as the Kyoto Protocol require each country to measure its GHG emissions, it is extremely difficult to calculate the country-specific GHG emissions of international services such as international aviation and marine transportation, and all countries need to use a common system. In fact, Article 2.2 of the Kyoto Protocol excludes both international aviation and maritime transportation from emissions calculations, stipulating that “the member states should strive to control and reduce GHG through the means provided by the ICAO and IMO (International Maritime Organization)”.

Nevertheless, the provisions of the Kyoto Protocol do not prohibit a member state from placing restrictions on those sectors. In a document related to the recent decision, the EC clearly states that the target to reduce emissions by 20% by 2020 includes the contributions of the international aviation sector. However, this policy is unique to the EC and has not been approved internationally.

Considering the developments in international negotiations so far, it is unlikely that any country will accept the EC’s independent decision to impose EUETS on international aviation, and thus the non-EU countries have been at odds with the EC, with each country concerned about the impact on the economy and competitiveness of its airline sector.

Regarding this decision, the EC has expressed hopes that the ICAO will confirm the effectiveness of market-based GHG reduction measures in the international airline sector at its Assembly which is to be held in the autumn of 2013. If the ICAO fails to meet the EC’s expectations, what will be the next step? Although nothing specific has been said, the EC is expected to hold firm and impose the system on the international aviation sector, since airlines have already been advised to measure, verify and report their respective GHG emissions. We need to closely monitor the discussions at the ICAO.

5. Germany's FIT System Needs to Change

Hisashi Hoshi, Board Member, Director
New and Renewable Energy & International Cooperation Unit

Germany is once again revising its renewable energy policy. On October 11, Environment Minister Peter Altmeier outlined plans to set a cap on the accumulated installed generation capacities for Feed-in Tariff for wind power and biomass. The government also seeks to moderate the pace of deployment of these energy sources to keep the market from overheating. This move complements the measures taken this June to set a 52 GW cap on the total capacity of solar power electricity. The decision is causing serious concern in the renewable energy industries which will be affected.

The new policy comes after an unstoppable rise in the surcharge. In the German FIT system, the gap between the market prices and the generous rates of FIT is paid for by consumers as a surcharge. The recent unexpected growth in installed capacity of renewable electricity has pushed up surcharge from 2 euro cents/kWh in 2010 to 3.6 euro cents in 2012, and according to recent forecasts, it might rise by 50% from current levels to 5.3 euro cents in 2013. Being environment-conscious, German households have so far been relatively tolerant toward paying surcharge, but the same is not true of industry, and concerns have been raised ever since the system was first launched. Frustration has turned into criticism as it has become clear that electricity consumers' extra burden will be much higher than the 3.5 euro cents previously anticipated by Chancellor Angela Merkel, causing concern over weaker international competitiveness and businesses leaving the country. Setting caps on the capacities would be the only option to mitigate criticism making the level of surcharge within a predictable range.

Another issue is the balance between the pace of introduction of renewable energy and upgrading of the electricity grid. So far, the German government has prioritized the amount of deployment of renewable energy, but from now on, it would consider the pace of deployment to be in line with construction of transmission lines and progress of measures for output stabilization. In fact, destabilization of electricity grid due to the rapid increase in renewable energy is becoming an urgent issue in Germany, and curtailment of wind power output has been happening to maintain the quality of electricity. The poor quality of electricity can be just as much of a threat to industrial competitiveness as its price. This situation has long been envisaged, and is now becoming a reality in Germany.

Unlike previous measures which were limited to lowering the purchase price, these new approaches by the German government may significantly affect the pace of introduction and volume of renewable electricity. In particular, a meticulously designed system and complicated operation will be required to maintain the balance between the number of power generation facilities, which can be installed quickly, and the more time-consuming grid optimization. The policy of promoting renewable energy is entering a new stage.

Under "the Innovative Strategy for Energy and the Environment", Japan is moving toward raising the level of renewable electricity to at least 300 million MWh per year by 2030, or approximately 30% of national electricity consumption. Unlike Germany, which has the ambitious target of 50% share by 2030, but has an option of importing electricity from neighboring countries, Japan must achieve the target with its independent grid system, which will be quite challenging even with lower target. Sooner or later Japan will face the difficulties which Germany is now experiencing.

6. China Watching: China's Position on COP18

Li Zhidong, Visiting Researcher
Professor at Nagaoka University of Technology

On November 19 and 20 immediately before COP18 in Doha, Qatar, the four BASIC countries held the 13th Ministerial Meeting on Climate Change in Beijing, and issued a joint statement. The next day, the Chinese government published a White Paper titled "Policies and Actions for Addressing Climate Change: 2012", clarifying the position of the country in COP18.

The White Paper once again emphasized that China will remain the principles of fairness, common but differentiated responsibilities and respective capabilities, and specified four goals.

The first goal is to make definite arrangement for the implementation and enforcement of the second commitment period of the Kyoto Protocol, and ensure that the second commitment period is implemented in a timely fashion on January 1, 2013. The second goal is to make substantial progress in the areas of interest to developing countries, including mitigation, adjustment, financial assistance, technology transfer and capacity building. To achieve this, developed countries must fulfill their commitments to reduce emissions and provide assistance to developing countries. The third goal is to appropriately handle issues concerning fairness, trade and intellectual property rights, and to complete the negotiations on the Bali Action Plan. The final goal is to fully exchange opinions on basic issues concerning the strengthened implementation of the framework convention starting from 2020, establish a process for negotiations on the Durban Platform that is compatible with the Bali Roadmap negotiations, and build a strong foundation for the framework negotiations in the future.

While not mentioned in the White Paper, regarding the reduction target for developed countries for 2020, the joint statement of the BASIC meeting stated that it should be raised, and that the developed countries not participating in the Second Commitment Period of the Kyoto Protocol should make comparable reduction commitments with the participating countries. It further states that non-participating countries should not benefit from the Clean Development Mechanism (CDM).

The joint statement also emphasized that the goal of the future framework negotiations on the Durban Platform is the comprehensive, effective and sustainable implementation of the Framework Convention from 2020 onwards, and should therefore comply with the principles and rules of the Framework Convention, especially those concerning fairness, common but differentiated responsibilities and respective capabilities.

As for when China will accept a binding reduction target, Xie Zhenhua, Vice Chairman of the National Development and Reform Commission and the head of the global warming negotiations delegation, said at the White Paper presentation meeting on November 21 that "the issue should be solved through international negotiations on the Durban Platform". With regard to the outcome of the negotiations, he said: "China should not make prejudgments, and should follow the binding agreement that will be achieved at the Conference of the Parties." These moves suggest that China intends to take the initiative in the negotiations by being the first country to declare its principles and position in the negotiations.

7. ME Watching: Rising Tension subsequent to Military Clashes

Koichiro Tanaka, Managing Director &
Head of JIME Center

The situation in the Middle East and North Africa has entered a stage of military retaliation on top of the instability caused by the transition of power.

In Syria where the civil war has reached an impasse, rebel forces have reorganized at the urging of those countries that are trying to overthrow the Assad administration. The Syrian National Coalition was established to replace the Syrian National Council and take over the Assad administration. The Coalition was immediately recognized by France and Qatar. However, the European Union (EU) remains cautious, fearing that supplying weapons to the rebel forces would cause the civil war to escalate and result in more casualties. In Tokyo, The Friends of the Syrian People International Working Group on Sanctions held its fifth meeting, prior to which the Japanese government decided to strengthen its sanctions against the top officials of the Assad administration.

Israel, which has been carefully watching the developments in neighboring Syria, carried out an air strike on November 14 in response to the sporadic shelling from Gaza in the Palestinian territories, killing the military commander of Hamas. The explosion at a munitions plant three weeks before the strike is also thought to have been part of Israeli military operations against Hamas. Hamas stepped up its retaliatory shelling after the strike, and thus the situation in the area, where Syria had been the only focus, has changed dramatically.

With abundant supplies, the latest weapons, and protected by its “Iron Dome” missile interceptor system, Israel intensified its attacks on Gaza while emphasizing its right to self-defense, which the West has endorsed, while calling up a large number of reservists in preparation for sending ground troops into Gaza. As Israel dominated the battle, the international community expressed concern over civilian deaths, but the U.S. affirmed its pro-Israel stance by opposing the wording of a draft press release under the name of the Chairman of the Security Council.

Meanwhile, calls for solidarity with Gaza are spreading in the West Bank, forcing President Abbas, who has been confronting Hamas, into a difficult position. Nevertheless, the President managed to have the status of the Palestinians upgraded to a “non-member observer state” at the UN General Assembly. Amidst the confusion, Egyptian President Morsi showed strong presence by acting as a mediator between Israel, Hamas and the U.S. in the ceasefire process. However, President Morsi himself is facing prolonged protests by pro-democracy forces and secular citizens against his attempts to give himself extensive new powers and strengthen the presidency. The attacks on the Muslim Brotherhood, his former home organization, show the depth of anger against the authoritarian move.

In Jordan, where four prime ministers have been dismissed in the last two years to appease the public, there have been demonstrations against the abrupt rise in price of petroleum products, as well as criticism against the King. The IAEA published a report on nuclear developments in Iran, which stated that the country’s stockpile of enriched uranium is approaching what Israel calls as a “red line.”

8. Russia Watching: Summary of APEC in Vladivostok — Achievements and Issues

Toshihiro Sugiura, Chief Researcher
Global Energy Group 2, Strategic Research Unit

Vladivostok is the largest city in Far East Russia which, as the main naval base of the Soviet Pacific Fleet, was officially closed to foreigners during the Soviet years. The name consists of two words, “Vladi” (imperative form of the verb “to govern”) and “Vostok” (the East), together meaning “Govern the East”.

On September 8, President Putin hosted the first APEC Summit in Far East Russia in the city of Vladivostok. Aiming to expand its presence as a Pacific state, Russia approached the Summit preparations with national pride, spending the enormous sum of ca.1.7 trillion yen to upgrade the surrounding infrastructure. With energy issues expected to be the focus of the Summit, Russia accelerated the construction of an 1800-kilometer natural gas pipeline Sakhalin – Khabarovsk - Vladivostok (SKV), which was completed in September last year. Russia was also planning to start natural gas production in the Sakhalin-3 gas field in time for the commencement of the APEC meeting, to start fully supplying gas to the areas surrounding the pipeline and the city of Vladivostok.

The development of Eastern Siberia and Far East Russia is of critical importance for President Putin, which is why the Ministry for Development of the Russian Far East was newly founded in May in time for the APEC Summit. The Summit in Vladivostok was expected to jump-start the development of Eastern Siberia and Far East Russia.

At the Summit, APEC leaders issued the declaration “Integrate to Grow, Innovate to Prosper”, and four priority topics, such as trade and investment liberalization and regional economic integration, and strengthening food security, were discussed. With regard to energy, “ANNEX B - Strengthening APEC Energy Security” was released, confirming the importance of natural gas, the potential of non-conventional gas resources, strengthening the response to oil and gas emergencies, and ensuring the safety of nuclear power. With Russia and President Putin’s high enthusiasm for energy issues, especially concerning gas, the Agency for Natural Resources and Energy of Japan and Gazprom of Russia signed a memorandum on September 8 in the presence of President Putin to promote the Vladivostok LNG construction plan.

Now that the consensus documents have been issued and the memorandum on the LNG construction plan has been signed off, the challenge is how to implement them. The development of Eastern Siberia and Far East Russia will require massive investment; to attract such investment from inside and outside the country, it is necessary to upgrade both the tangible elements such as the infrastructure and the intangible elements such as the institutional aspects. Despite high hopes for the development of Eastern Russia, which faces North East Asia where demand for energy is expected to grow, the future remains uncertain. Even at this early stage, the Sakhalin-3 gas field has missed its initial target of starting to produce natural gas before the APEC Summit, and is not due to start until the second quarter of next year, far behind schedule. There are other issues too, such as the failure to secure enough natural gas to be carried by the completed SKV natural gas pipeline. While the success of the first APEC Summit in Far East Russia is a great achievement, we need to watch how the Putin Administration will use energy as the basis for turning the plan to develop Eastern Siberia and Russian Far East into action.