

Energy Strategy in the Era of Geopolitics



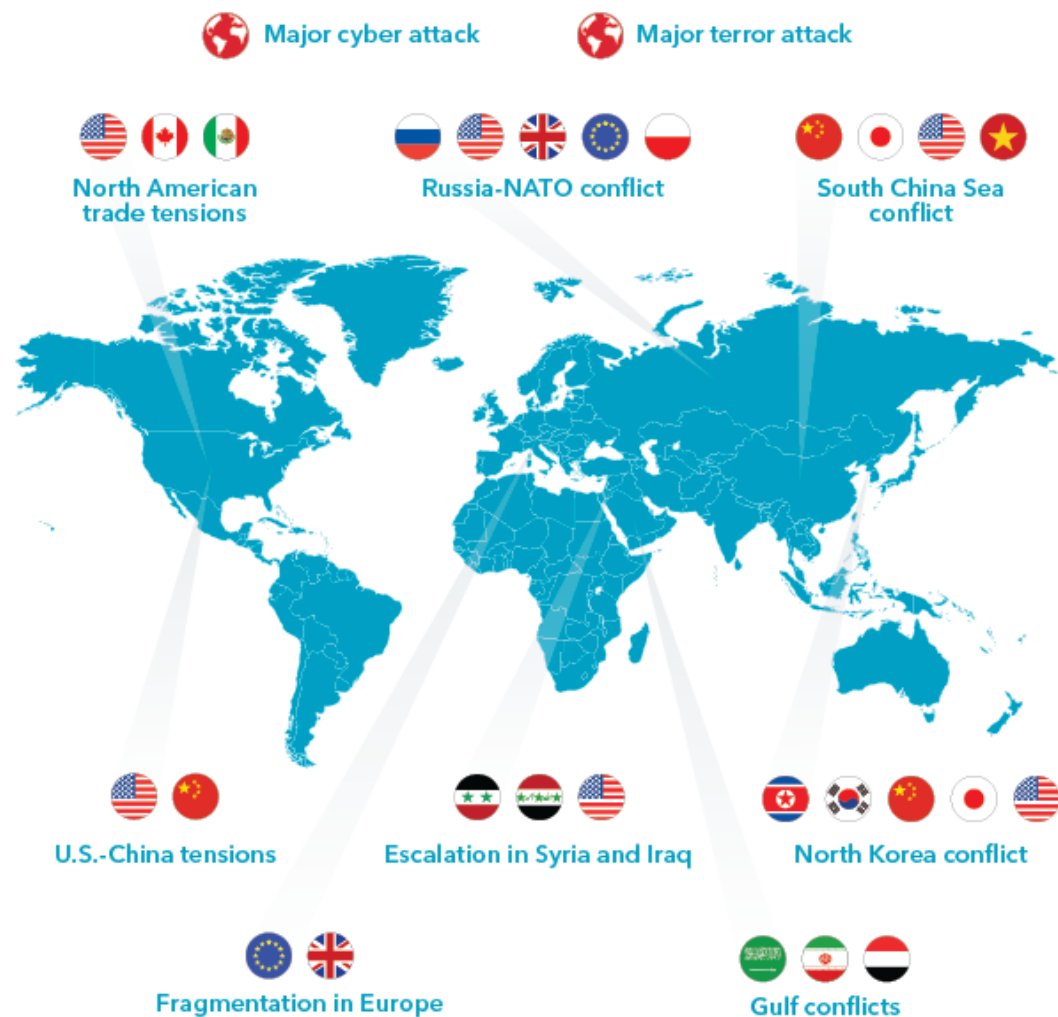
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“10 geopolitical risks we’re watching”

Isabelle Mateos y Lago
Chief Multi-Asset Strategist
BlackRock
October 19, 2017

A world of risk

BlackRock's top-10 geopolitical risks, September 2017



Source: BlackRock Investment Institute, September 2017. Notes: The graphic shows the top 10 geopolitical risks BlackRock tracks. Flags denote key nations exposed to these risks; major cyber attack and major terror attack are global in nature. This is for illustrative purposes only.

Who Coined “Geopolitical Risks”?



- By FRB Chairperson Alan Greenspan, At the Congressional Hearing, on September 2002
- His Other Famous Lines:
 - “Irrational exuberance” Dec, 1996
 - “Conundrum” Feb. 2005
- The World of Sept. 2002
 - One Year After the 9/11 Terror Attack
 - President G. W. Bush Accused Iraq at the UN Assembly
 - Japan- N. Korea Summit (Pyongyang/2002.9.17)
- The Iraq War on Mar, 2003
 - Markets Responded Favorably (Stock Up, USD Up, Oil Price Down) and “Geopolitical Risks” Disappeared.



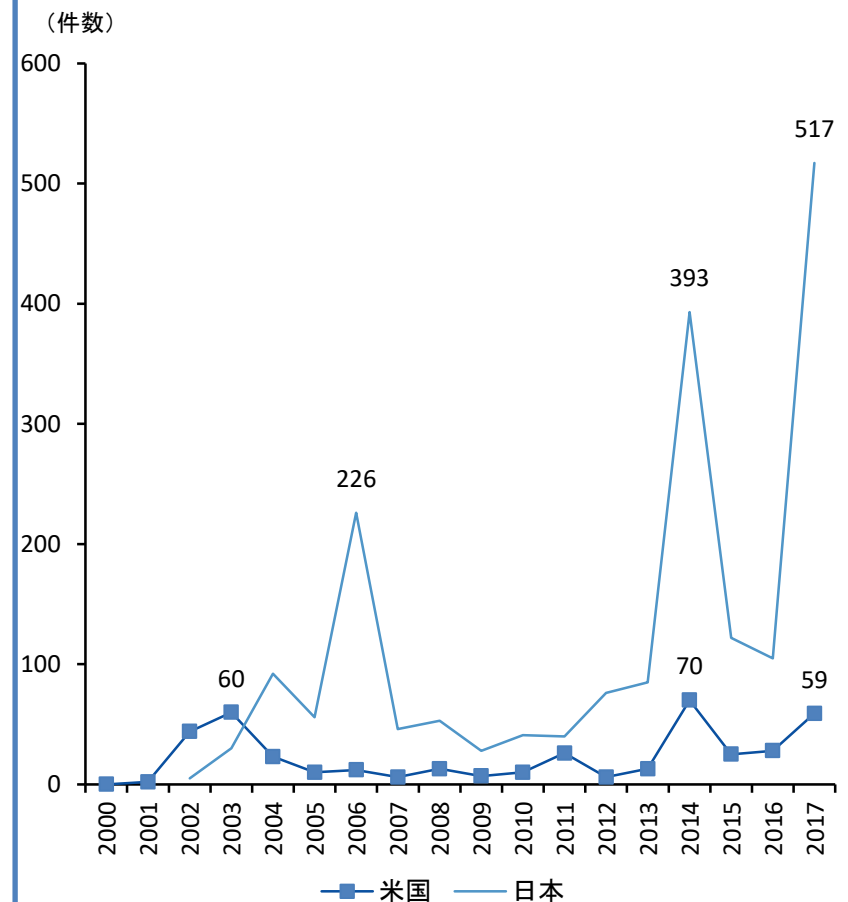
How Many Times “Geopolitical Risk(s)” are Used by Media?

Big Bang in 2014?

“Chiseigaku-Risk” in Nikkei

Year	Articles	Incidents
2002	5	
2003	30	Iraq War
2004	92	Japanese Hostages in Iraq
2005	56	Anti-Japan Movement in China
2006	226	Nuclear Test by North Korea
2007	46	
2008	53	Financial Turmoil
2009	28	
2010	41	
2011	40	Tsunami Disaster on 3/11
2012	76	“Senkaku” issue
2013	85	
2014	393	Crimea, ISIS, Oil Price Down
2015	122	70’s Anniversary End of WW2
2016	105	
2017	517	NK’s Nuclear and Missile tests

“Geo Political Risk(s)” in NYT/WP/WSJ



Foreign Affairs (May/June 2014)

“The Return of Geopolitics”

—The Revenge of the Revisionist Powers—

Walter Russell Mead

Professor of Bard College

Editor at Large of

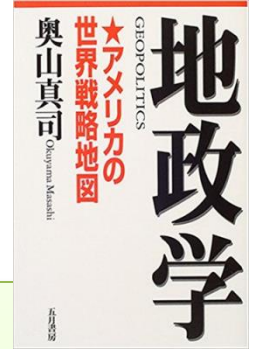
The American Interest



- When the Cold War ended, the most vexing geopolitical questions seemed largely settled.The U.S. and EU foreign policy shifted from **zero-sum** issues toward **win-win** ones.
- But Westerners should never have expected old-fashioned geopolitics to go away.All these happy convictions are about to be tested.
- **China, Iran, and Russia—“Revisionist Powers”**—are all seeking to revise the status quo.
 - Russia’s Annexation of Crimea
 - Competition Between China and Japan in East Asia
 - The Triumph of Realpolitik by Iran in the Middle East
- U.S. presidents no longer have a free hand as they seek to deepen the liberal system!

What's Geopolitics?

"Geography + Politics"

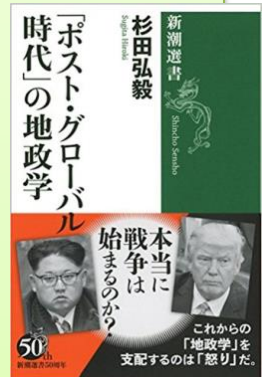


<Dr. Masashi Okuyama>

- International Relations ⊃ Security ⊃ Strategy ⊃ [Classical Geopolitics](#)
- Vision→Policy→[Grand Strategy](#)→Military Strategy→Operation→Tactics
- Notorious Science : Pessimistic, Fatalism, Studies of Wars, etc.

<Mr. Hiroki Sugita : Kyodo News>

- People's **"Anger" "Anxiety"** Drives Politics in Post-Global Era
 - Brexit, Trump Administration = "Forgotten" People's Victory
- Geopolitics: From the Study of **Elite** to the Tools of **Populism**



<My Definition>

- ①From the Perspective of **the States**, ②Analyzing **Geography**, Which Cannot be Changed by Human Efforts, ③Considering **the Strategies**, ④ Sometimes, History (**Narrative**) Matters the Most

Energy = Industry of the Geopolitics

- 1. The States:** Many SOEs, National Projects, National Interest, Coordination by International Organizations (UN, IEA, IAEA, OPEC etc.)
- 2. Geography:** Underground Resources are Omnipresent (ie Middle East), Zero-Sum Games, Haves and Have-nots
- 3. Strategy:** Energy Security, Long Term Perspective, Markets Driven, Non-Proliferation, Technological Changes (ie Shale Oil/Gas)
- 4. Narrative:** Climate Change, Renewable Energy, Fukushima, Anti-Nuclear Movement

How Should Japan's Energy Sector Respond to the Return of Geopolitics

1. The States: Enhance Energy Security

- Principled, Long Term Policy Needed More Than Ever

2. Geography: Diversify the Energy Sources

- Zero-Sum Game (Trade War?) May Return

3. Strategy: Return to Energy Mix

- Reinvent/ Reinvest in the Nuclear Power

4. Narrative: Cope with Populism

- Follow Wind (Decarbonation), Against Wind (Deregulation) To Atomic Industry