

# ***IEEJ e-NEWSLETTER***

*No. 24*

(Based on Japanese No. 121)

Published: October 30, 2013

The Institute of Energy Economics, Japan

IEEJ e-Newsletter Editor: Yukari Yamashita, Director

IEEJ Newsletter Editor: Ken Koyama, Managing Director

Inui Bldg. Kachidoki, 13-1 Kachidoki 1-chome, Chuo-ku, Tokyo 104-0054

Tel: +81-3-5547-0211 Fax: +81-3-5547-0223

## **Contents**

### **Summary**

#### **【Global Watch】**

- 1. China Watching: Full-scale Promotion of New Energy Vehicles**
- 2. ME Watching: US Focusing on Middle East Diplomacy This Autumn**
- 3. Russia Watching: Will the Dismissal of the Far East Development Minister Strengthen the Regional Development Policy?**
- 4. US Watching: Federal Debt Crisis and the Keystone XL Pipeline Issue**
- 5. EU Watching: London's Approach to Building a Low-carbon City**

## Summary

### **【Global Watch】**

#### **1. China Watching: Full-scale Promotion of New Energy Vehicles**

The Chinese government is mobilizing all of its available policy resources to develop new energy vehicles (EV, PHV, and FCV) and to increase their use. This marks a big step forward toward achieving the goal of increasing cumulative production and sales of such vehicles to 500,000 units by 2015.

#### **2. ME Watching: US Focusing on Middle East Diplomacy This Autumn**

The Middle East diplomacy of the US, and particularly its stance toward Syria and Iran, is undergoing a major transformation. As hopes mount for improvements in US-Iran relations, the dialogue is stimulating the GCC Arab states' anxiety about being abandoned in the region.

#### **3. Russia Watching: Will the Dismissal of the Far East Development Minister Strengthen the Regional Development Policy?**

Victor Ishayev was dismissed from his post, and two of President Putin's confidants were installed as Minister of Development of the Russian Far East and Presidential Plenipotentiary Envoy to the Far Eastern Federal District. Whether the Far East development policy of the central government will be ramped up must be closely monitored.

#### **4. US Watching: Federal Debt Crisis and the Keystone XL Pipeline Issue**

In the bill for raising the federal debt ceiling, the construction of the Keystone XL pipeline is required as a "condition". Negotiations continue both inside and outside the country concerning the pipeline.

#### **5. EU Watching: London's Approach to Building a Low-carbon City**

In order to reduce GHG in a densely populated megalopolis like London, it is effective to link energy policies covering the greater urban area with city planning.

## 1. China Watching: Full-scale Promotion of New Energy Vehicles

Li Zhidong, Visiting Researcher  
Professor at Nagaoka University of Technology

Since 2010, the Chinese government has been fostering the new energy vehicle industry, including electric vehicles that run only on electricity (pure EV), plug-in hybrid vehicles that run mainly on electricity (PHV) and fuel cell vehicles (FCV), as a strategic emerging industry, and has been expanding the market. Running government-subsidized model projects in 25 cities to encourage introduction, cumulative sales of new energy vehicles reached 39,800 units as of March this year and cumulative production reached 47,800 units as of July. However, it will be difficult to achieve the target of the Twelfth 5-year Plan, which is cumulative production and sales of 500,000 units by 2015. In urban areas, car exhaust emissions are becoming the greatest air pollutant.

Under these circumstances, the State Council announced the “Opinions on Accelerating the Development of the Energy-Saving and Environmental Protection Industry” (the “Opinions”) on August 1 and the “Action Plan for Preventing Air Pollution” (the “Plan”) on September 10. On September 13, the Ministry of Finance, the Ministry of Science and Technology, the Ministry of Industry and Information Technology and the National Development and Reform Commission jointly issued the “Continuous Promotion and Application of New Energy Vehicles” (the “Notice”). The government is committed to mobilizing all of its available policy resources to foster and expand the new energy vehicle industry.

The “Opinions” of the State Council require the cities such as Beijing, Shanghai and Guangzhou to purchase new energy vehicles for at least 60% of their new and replaced public transportation vehicles. The “Plan” sets the target of reducing the concentration of PM10 by 10% from 2012 levels in cities nationwide by 2017, and reducing the concentration of PM2.5 by 25% in Beijing, Tianjin and Hebei (the Jing-Jin-Ji belt), by 20% in the Yangtze delta, and by 15% in the Zhujiang delta, and strongly promotes the use of new energy vehicles.

“The Notice” defines measures for encouraging the use of new energy vehicles, particularly in the cities. The changes from the promotion project until 2012 are as follows: (1) The target areas have been expanded from “points” to “planes”, specifically, from “25 cities” to “megacities and cities especially the Jing-Jin-Ji belt and the Yangtze and Zhujiang deltas.” (2) The minimum introduction targets for 2013 – 2017 have been set at 10,000 units for megacities and high-priority cities and 5,000 units for other cities and regions; the progress of the cities will be evaluated annually, and any city failing to meet the target will not receive further subsidies. (3) New energy vehicles must be used for at least 30% of new or replaced vehicles for public transportation, public services, postal services and urban hygiene. (4) The subsidy criteria metric has been changed from cell capacity (kWh) to distance traveled by electricity-powered cars. The subsidy cap for each type of car for 2013 remains at 60,000 yuan (1 yuan = 16 yen) for pure EVs, was reduced by 15,000 yuan to 35,000 for PHVs, and reduced by 50,000 yuan to 200,000 yuan for FCVs, highlighting the emphasis on pure EVs. (5) To reflect technological developments, the Notice expressly states that the subsidy cap will be lowered by 10% in 2014 and by 20% in 2015, both from 2013 levels.

The applications for nominating target cities will officially start on October 15. The city of Beijing has already drawn up a plan for boosting the number of new energy and gas vehicles to at least 200,000 units by 2017 while keeping the total number of cars at less than 6 million. Many cities, including the 47 designated cities for strict air-pollution prevention, are expected to apply. This marks a major step toward achieving the target for 2015.

## 2. ME Watching: US Focusing on Middle East Diplomacy This Autumn

**Koichiro Tanaka**, Managing Director &  
President of JIME Center

Despite announcing the intention to launch punitive military strikes against Syria citing the use of chemical weapons, due to the sluggish response of allies and the restraining impact of the forced spending cut, President Obama was driven into cooperating with Russia to resolve the crisis through diplomacy. There are mounting hopes that the US will pursue talks with Iran, overcoming the standoff over its nuclear development. The Middle East policy of the US appears to be going through a major transformation away from the exclusive reliance on power and power projection.

With the release of the UN inspection report, there is no longer any doubt that chemical agents were released to the environment in Syria. Fearing a military response from the US and its European allies, President al-Assad accepted a proposal from the US and Russia to put its chemical weapons under international control toward eventually scrapping them, signed the Chemical Weapons Convention (CWC), and started submitting information to the Organization for the Prohibition of Chemical Weapons (OPCW). As of late October 2013, the team of inspectors has managed to conduct their assignments with little minimum resistance, but gaining access to war-torn areas remains to pose a grave challenge to them.

It is still not clear which party of the civil war was responsible for using the chemical weapon, sarin, and all judgments are merely assumptions based on circumstantial evidence. However, Russia, which had apparently produced the weapons, claims that it has confirmed from the serial number on a bombshell found in the outskirts of Damascus that the weapons had been supplied to Libya, Egypt and Yemen by the former Soviet government, then subsequently brought into Syria and possibly used by the rebel forces. Hopefully, the source of the sarin and the perpetrator of the chemical attacks will be determined by comparing the composition of and impurities in the samples as more chemical weapons are turned in for scrapping.

President Obama and Iran's President Rouhani did not get to meet during the UN General Assembly, but both called for resolving the nuclear issue through negotiations in their speeches at the General Assembly. President Obama spent much of his speech on Iran, and showed willingness to negotiate with good faith by clarifying that the US is not seeking to change the political system of Iran. As for Iran, Supreme Leader Khamenei, who has been an uncompromising hard-liner so far, voiced his open support for diplomacy from a stand point of "heroic flexibility", raising further hopes for progress in the nuclear talks which are now in the hands of State Secretary Kerry and Foreign Minister Zarif. The two have already greeted each other at the P5+1 foreign ministers meeting, making an auspicious start. This change could mean that the US message urging Iran to take action, which reportedly was conveyed by Sultan Qaboos of Oman during his visit to Tehran at the end of August, was received well by the Iranian side. Immediately before President Rouhani's departure for home, the two Presidents had a telephone conversation for the first time since the Islamic Revolution in 1979. Although US-Iran relations may be thawing, care is required as this issue also involves domestic problems on both sides, while US allies in the region, spearheaded by Israel and Saudi Arabia, are growing wary of the possible rapprochement between Washington and Tehran. The sudden announcement by the Saudi Foreign Ministry that the country will refuse to accept the two-year seat at the Security Council is widely believed to be conveying a message of its displeasure to the US about the latter's reconciliatory approach towards Iran. Many in the region suspect that the US will leave them to deal with Iran on their own, once their concerns, inter alia, the alleged nuclear weapons program, are alleviated.

### 3. Russia Watching: Will the Dismissal of the Far East Development Minister Strengthen the Regional Development Policy?

**Shoichi Itoh**, Manager, Senior Analyst  
Global Energy Group 2, Strategy Research Unit

On August 31, Viktor Ishayev, Minister of Development of the Russian Far East and Presidential Plenipotentiary Envoy to the Far Eastern Federal District, was dismissed from his posts. Mr. Ishayev had served the longest tenure in the Far Eastern area, which includes 9 administrative districts equivalent to a Japanese “prefecture”, as the head of a regional government (Governor of Khabarovsk Krai from 1991 at the end of the Soviet era to 2009), and was appointed as Presidential Plenipotentiary Envoy to the Far Eastern Federal District in 2009. Based on his experience in leading the formulation of numerous development programs in the Far East, he was appointed as the first Minister of the newly founded Development of the Russian Far East by President Putin in May 2012.

While the official reason for the dismissal is the slow response to flood damages, the true reason is that he lost the trust of President Putin in developing the Russian Far East, which is one of the top priorities of the Administration. Mr. Ishayev had been sharply criticizing Moscow’s lack of interest in the Russian Far East, yet since his appointment as Minister, he was unable to come up with any new concrete ideas despite the President’s order to drastically review the Far East policy. The work continued to drag on until the “Federal Program for the Socio-Economic Development of the Far East and the Trans-Baikal Territory until 2025” was finally drawn up in March 2013 after several reprimands by the President, but the program lacked specific, realistic policies. Consequently, Mr. Ishayev could neither move away from the planned economy mindset of the Soviet era nor gain support within the federal government.

As the successor to Mr. Ishayev, Alexander Galushka, a former consultant who played a key role in President Putin’s presidential campaign, was appointed as the new Minister for Development of the Russian Far East, while a former presidential aid (and former Minister of Natural Resources) Yuri Trutnev was appointed as Deputy Prime Minister and Presidential Plenipotentiary Envoy to the Far Eastern Federal District.

The key point in moving forward is whether the federal government can hammer out a Far East policy as a team. While President Putin appointed two of his confidants for implementing the Far East development policy, Prime Minister Medvedev established a new intergovernmental committee. The Prime Minister has no real record of serious involvement in the development of the Far East, neither as Prime Minister nor as President, and has neither influenced the reluctant Ministry of Finance into investing heavily in the Far East nor taken leadership in adjusting the interests between various ministries and the Far East Development Ministry.

Will President Putin’s lone battle over the Far East policy be resolved? Future developments in Moscow’s Far East policies must be monitored closely, including whether Moscow stick the knife into the vested-interest structure which Ishayev built during his 20-odd year of rule of the Khabarovsk Krai, one of the major administrative units in the Russian Far East along with Primorsky Krai.

## 4. US Watching: Federal Debt Crisis and the Keystone XL Pipeline Issue

Ayako Sugino, Senior Researcher  
Coal & Gas Subunit

On the eve of the new fiscal year starting on October 1, Congress was still deliberating a bill to avoid a shutdown of government services by temporarily extending last year's budget, since the bill for allowing funds to be authorized and appropriated to federal agencies was not passed in time. However, the bill passed by the Republican-ruled House of Representatives contained a clause to delay the start of President Obama's new healthcare program by one year. As the Democrats cannot agree to pass a bill containing such a clause, the battle continues, with only one day left till government services start to shut down.

With the federal debt ceiling due to be exceeded on October 17, a bill for raising the ceiling is being discussed in parallel. For this bill, the Republicans are demanding a rider requiring the Obama Administration to approve the construction of the Keystone XL pipeline which would transport oil from Canadian oil sands to refineries on Florida's Gulf Coast. The tactic of forcing a concession from the President and the ruling party by tying a bill, which is unlikely to pass on its own, to an unrelated but highly urgent bill is commonly used in Congress. However, the recent strategy of the House Republicans to take the default crisis as a hostage could erode public support for the Republican members of Congress in the medium- to long-term.

Regarding approval of the construction of the Keystone XL pipeline, President Obama commented in his June 25 speech on climate change that approval will be granted only if it does not exacerbate climate change. In response, the Canadian government released a statement that it will try to reduce the GHG emissions of the oil and gas industries, causing environmental groups to pressure the parties concerned not to "trade" the GHG reduction efforts of the Canadian oil industry for obtaining construction approval. As noted, some members of Congress who support the pipeline are using the default crisis to demand approval.

Meanwhile, the Obama Administration is taking a more realistic, diplomatic approach to the issue; US Trade Representative Michael Froman has begun to urge the European Commission (EC) to permit the import of petroleum products derived from oil sands.

The EC has a target to reduce greenhouse gas (GHG) emissions within the zone by 20% from 1990 levels by 2020, and as part of the effort, has formulated the "Fuel Quality Directive" requiring emissions from transportation fuels such as gasoline and light oils to be reduced by 6% by 2020. One of the measures is to ban the import of petroleum products derived from oil sands, which is said to incur 12–40% higher lifecycle GHG emissions compared to conventional petroleum products. In the EU-US Transatlantic Trade and Investment Partnership negotiations, Mr. Froman demanded that the EU lift the ban as a discriminatory trade policy. Behind this move is the fact that given the current increase in the production of light end-rich shale oil and the gradual fall in demand for petroleum products in the US, even if the Keystone XL pipeline is completed and the volume of oil sands from American refineries increases, most of the petroleum products (including those bound for the EU) will be exported. This is a preemptive move to gain a head start in securing a potential market in the EU while watching the feasibility of pipeline construction; if agreed, the deal will be one of the rare policies of the Obama Administration that actually welcomes the oil industry.

## 5. EU Watching: London's Approach to Building a Low-carbon City

Wataru Fujisaki, Senior Researcher  
Global Energy Group 1  
Strategy Research Unit

The UK is seeking to reduce its greenhouse gas emissions by 50% by 2025 and by 80% by 2050, and in line with these goals is developing plans to build low-carbon cities at the (1) national, (2) greater urban area, and (3) council levels. Various measures have been taken for building low-carbon cities for some time, and the plan at the (1) national level was drawn up in 2012 as the National Planning Policy Framework (NPPF).

At the level of local councils responsible for city planning, a greater urban area drafts an urban policy framework, under which each council executes the policies. Thus, city planning at the greater urban area level is the key to achieving a low-carbon city. There are three pillars of the greater urban area level energy plan: LEAN (reducing consumption and saving energy on the demand side), CLEAN (expanding distributed energy such as district cooling and heating and cogeneration), and GREEN (renewable energies). Each council assigns priorities to the three to match its own characteristics. For example, GREEN is the central policy in areas suitable for building renewable energy plants as CLEAN is for large cities, while LEAN is applied to almost all councils in the greater urban area.

For London, the Greater London Authority (GLA) in charge of the plan at the greater urban area level has developed "The London Plan 2011". Regarding energy, the plan's strategic policies are to produce 25% of heat and electricity from distributed energy systems by 2025, and to give preferential treatment to the development of district heating and cooling networks at the greater urban area level. To execute these policies, the GLA requires the government of each council to (1) check the existing heat networks, (2) check the possibility of new heat networks, and (3) draw up an energy master plan for distributed energy. The reason for emphasizing the distributed energy network is because it made the greatest contribution to reducing CO<sub>2</sub> emissions during the mega-development of London in the past. Accumulated data from the past and the analysis of such data are clearly reflected in guiding future developments. Regarding CO<sub>2</sub> emissions, electricity from cogeneration will be measured by CO<sub>2</sub> emission intensity, as is the case for grid electricity, but the heat from cogeneration will be deemed to be carbon-free. Furthermore, a London Heat Map has been developed for identifying those areas that are suitable for introducing distributed energy and have high demand for heat, and the companies in charge of the redevelopment project are urged to either build a new district heating and cooling network or connect to an existing network.

Selected as the host for the 2020 Olympic games, many redevelopment projects related to the games are expected to emerge in Tokyo. As Tokyo has heat sources such as waste incineration plants and has a high demand density for air-conditioning, it has much to learn from the GHG emissions reduction measures tailored for a metropolis taken by London. Japan should follow suit and draw up GHG emissions measures linked with a city plan at the greater urban area level.

**More information on IEEJ can be found by clicking below.**

**IEEJ Calendar of Events**

**Energy Indicators of Japan**

**IEEJ Homepage Top**

**Back Numbers of *IEEJ e-Newsletter***