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Summary

【Energy Market and Policy Trends】

1. Discussions on the Review of the Energy Policies in the Basic Policy Subcommittee

The themes of the eighth through tenth meetings were: Lecture by Dr. John Hamre, President and CEO of CSIS, technological development, views of suppliers, procurement of LNG, challenges for renewable energies, and preferred means of communication.

2. Situation of Restarting the Nuclear Power Plants, and the International Nuclear Energy Forum

The review for restarting the nuclear power plants is taking time in order to respond to additional requirements from the Nuclear Regulation Authority. Experts from both Japan and abroad engaged in fruitful discussions at the International Nuclear Energy Forum.

3. Overview of Results of COP19 – Have the International Negotiations on Climate Change Moved Forward?

COP19 saw some progress towards agreeing on a new framework in 2015. However, the negotiations involve many sources of conflict between the developed and developing countries, such as aid to developing countries, which could affect the outcome.

【Global Watch】

4. ME Watching: Agreement in Nuclear Talks with Iran in Geneva

A provisional agreement was reached in the nuclear talks with Iran, promising an easing of economic sanctions in exchange for concessions in Iran's nuclear development program. The US and Afghanistan are in a standoff over the security agreement. The civil war in Syria, the turmoil in Libya and the confrontation between Turkey and Egypt continue.

5. US Watching: Background and Implications of Revision to Rules on Senate Proceedings

To solve the impasse in Congress caused by partisan conflict, the Democrats took drastic measures and changed the Senate proceedings. This increases the degree of freedom when appointing district judges, and is expected to boost the influence of the environmentalists.

1. Discussions on the Review of the Energy Policies in the Basic Policy Subcommittee

Akira Yanagisawa, Senior Economist

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On October 28, November 12 and 18, the eighth to tenth meetings of the Basic Policy Subcommittee were held to discuss the Basic Energy Plan. The themes of the meetings were “a lecture by Dr. John Hamre, President and CEO of CSIS” and “the long-term strategy for the development of energy-related technologies” for the eighth meeting, “views of energy suppliers” for the ninth meeting, and “the direction of new joint procurement of LNG to strengthen bargaining power”, “challenges and incentives for renewable energies” and “how to communicate better with various segments of the population”.

The highlights of Dr. Hamre’s lecture in the eighth meeting were: (1) The disputes in the Persian Gulf will continue to affect the US through prices even after the US becomes less dependent on the Middle East due to the shale revolution; (2) There is a strong consensus in the US that nuclear power will remain a part of the energy mix; (3) Exporting coal to China where energy efficiency is low is not good for climate change; and (4) The price of natural gas is likely to rise, as it is currently too low even for upgrading infrastructure.

Regarding hearing the views of suppliers at the ninth meeting, there were presentations by speakers from the city gas, electricity, LPG, oil and solar photovoltaic industries. This was a valuable opportunity both for the suppliers, who had not had a chance to give their views in the political discussions of the committee since October 2011, and for the committee. For those discussions, it is important to gather sufficient information on the latest situation and feasibility from the suppliers, who are involved in implementing the policies, and not rely too heavily on consumer policies.

The tenth meeting discussed strategies for becoming more competitive in procuring LNG. This is one of the most urgent policy issues as Japan remains highly dependent on fossil fuel, particularly LNG, due to the shutdown of the nuclear power plants. The importance of strengthening negotiating power in a broader sense, including considering specific means for joint procurement, was highlighted. Regarding renewable energies, the effect of the FIT system and the problem of the discrepancy between the number of licensed facilities and those that are actually operating were discussed. Regarding communication, many pointed out the importance of communication and public relations concerning the nuclear power issue, as expected.

IEEJ CEO and Chairman Masakazu Toyoda commented in the meeting as follows:

- In order to have more options, the development of diverse technologies should be promoted. We can make better use of the roadmap by clarifying the role of the government, the private sector and international cooperation.
- Has the GHG reduction target of 3.8% from FY 2005 levels been approved by the Cabinet? Please explain its background. Does the committee think it can be achieved without nuclear power?
- Please clarify the definition of the term “energy reduction”. Does it mean impossible energy saving efforts? What are the grounds for the stated 5% reduction margin in industry?
- Japanese education tends to teach risk as being either 0 or 100, and there is little awareness of acceptable risk. The concept of risk communication should be included in the school curriculum.
- It is essential to abolish the Destination Clause; cooperation should include the whole of Asia. The spot market should also be built by the whole of Asia.
- It is necessary to include nuclear power in the energy mix. It is important to strengthen the bargaining power of the energy mix as a whole, because it is not sufficient to consider only LNG.

2. Situation of Restarting the Nuclear Power Plants, and the International Nuclear Energy Forum

Tomoko Murakami, Manager
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As of the 10th December, 14 nuclear power plants (the 12 plants which applied for review in July, plus Kashiwazaki Kariwa Units 6 and 7 of Tokyo Electric) are being reviewed by the Nuclear Regulation Authority (NRA) for compliance with the regulatory requirements. Furthermore, Chugoku Electric's Shimane Unit 2 is also requesting Shimane prefecture and Matsue city to grant preliminary approval prior to applying for review. As four months have passed since the new regulatory requirements have gone into effect, all power companies are almost ready for applying for review and so there is likely to be a rush of applications and requests to local authorities for preliminary approval for other plants in the near future.

However, the reviews themselves are not proceeding as quickly as the power companies had hoped. As a measure of progress, in mid-October, the NRA disclosed the status of submission of explanatory materials on 29 inspection items, including severe accident countermeasures and measures against internal fire and tornadoes, for the ten units of the six sites of the four power companies that applied for review in July.

According to the NRA, even the top units, Hokkaido Electric's Tomari Unit 3 and Ikata Unit 3 of Shikoku Electric, have submitted explanatory materials for only 10 inspection items (as of that time), and the number is even lower for the other plants. Though the power companies plan to submit explanatory materials for all items for Tomari Unit 3 and Ikata Unit 3 in the near future, considering that the NRA has pointed out many additional issues during the past reviews, the NRA is unlikely to declare that the reviews have ended and approve the plants as compliant simply because all the materials have been submitted.

Some cite the delay of the power companies in submitting documents as the reason for the sluggish pace of the review process. However, it is also true that the "interpretations" of the new requirements are too detailed, and that the NRA reviewers have requested many additional materials in between frequently-held review meetings and hearings. Responding to these additional requirements is one of the reasons for the lengthy reviews; the slow response of the power companies cannot be the only reason for the delay. Accordingly, it is uncertain whether the plants can be restarted within this fiscal year, let alone within calendar 2013. While safety must remain the overriding priority, the reviews must not be delayed interminably. The NRA should consider and clarify the minimum items required for compliance when requesting additional explanations during the reviews.

On November 5, the IEEJ held the International Nuclear Energy Forum, at which experts from Japan and abroad, including US NRC Commissioner William D. Magwood, discussed how to regain public trust in the nuclear industry of Japan and address major challenges such as the nuclear backend and ensuring safety. The following is a summary of the major opinions and discussion points:

As the sole independent regulating authority, the NRA should indicate clear requirements based firmly on scientific knowledge, and should ensure transparency in its regulatory activities and make its decision-making process visible to the public. In particular, regarding long-term policy issues such as waste disposal, the government must state the long-term direction and fully exchange views with the public. In that sense, waste disposal should be considered as a political issue (of gaining public trust) rather than a technological one.

3. Overview of Results of COP19 – Have the International Negotiations on Climate Change Moved Forward?

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

The 19th Conference of the Parties (COP19) to the UNFCCC and the 9th session of the Meeting of the Parties to the Kyoto Protocol (CMP9) held in Warsaw, Poland closed on November 23, one day over schedule. These meetings focused on whether the current direction of international negotiations can be maintained for reaching an agreement in COP21 (planned for 2015) on the framework beyond 2020, in which all countries will have a GHG reduction target. In conclusion, COP19 did make some progress toward reaching an agreement in COP21, including agreeing on communicating the emissions reduction target for each country by the first quarter of 2015.

However, in the discussions leading toward the agreement, some issues were identified that could affect the direction of future negotiations. For the new framework to be agreed in COP21, the Parties are seeking to set the target for each country through a “bottom-up” approach, in which each country sets its own target based on its own circumstances, rather than the “top-down” approach used for the Kyoto Protocol. Accordingly, the EU is proposing to introduce a process for reviewing and adjusting each target, and thus is suggesting that each country set its target as early as possible. On the other hand, many developing countries, which lack the target-setting capability, are arguing that it is difficult for them to set a target early, and are pressing the developed countries for assistance and funding for such capacity building.

This situation has affected separate negotiations on developed-country aid for developing countries. As a result, issues such as long-term financial aid and response to the impact of climate change (for which a new mechanism for responding to climate change called the Warsaw International Mechanism for Loss and Damage was established during COP19) remain unresolved and were put off, together with the target-setting deadline of the countries. Consequently, in order to be approved by the countries, the wording of the agreement in ADP had to be modified from “commitment” to “contribution” to emphasize the voluntary nature of the targets, and the countries that must present their targets by the first quarter of 2015 were described as “the Parties who are ready to do so”.

The greatest challenge in establishing the framework beyond 2020 is how to build a workable mechanism under which developing countries, in particular emerging countries, specify targets, while ensuring the participation of major emitters such as the US. While the Parties did agree to some extent in COP19, it also became clear once again that smooth negotiations will depend largely on developing countries who seek to extract as much aid as possible from developed countries. Although COP19 has apparently made progress, there are many sources of conflict between developed and developing countries, which will affect the outcome of the negotiations.

4. ME Watching: Agreement in Nuclear Talks with Iran in Geneva

Koichiro Tanaka, Managing Director &
President of JIME Center

The second nuclear talks in November between Iran and the five permanent members of the UN Security Council plus Germany (P5+1) reached a provisional agreement on November 24. Through the marathon negotiations, which at one point looked set to fail, Iran made significant concessions, including setting limits on the scale and concentration of uranium enrichment, shelving the construction of its heavy water research reactor, and promising to accept detailed inspections by the IAEA and to provide more information. In return, Europe and the US agreed to allow the transfer of some of oil Iran's export revenues and to withhold motions on further sanctions as part of the "limited, temporary, targeted, and reversible" measures to ease sanctions. Regarding the right to enrich uranium, which was the most significant source of contention, there appears to be a difference in understanding between Iran, which considers that the accord gives them the green light, and the US, which asserts that it is not part of the deal. Israeli Prime Minister Netanyahu has criticized the agreement as "a historic mistake" and declared that it will not be binding on Israel, warning Iran and the US whose bilateral contacts have increased through the nuclear talks.

As the interest of the international community in ending the civil war in Syria wanes, several rebel groups merged to form a new "Islamic Front" in an attempt to set up an Islamic state after ousting the Assad administration. However, there are concerns that this alliance may be carrying the aspiration for a global jihad, as its name does not credit Syria and it includes the extremist group "Jaish al-Islam" which allegedly has links with al-Qaeda. As extremists increase their presence in the anti-Assad civil war, and as the National Coalition for Syrian Revolutionary and Opposition Forces becomes less important as a rebel organization, the UN announced that the so-called "Geneva 2" negotiations aimed at ending the civil war will be held on January 22, 2014.

In Afghanistan, a Consultative Loya Jirga of around 3000 Afghan elders and notables was held to discuss whether or not to conclude a bilateral security agreement with the US, which is a prerequisite for the US troops to remain in the country beyond 2014, as well as its details. Although the assembly voted in favor of the security agreement, President Karzai is insisting that the agreement be signed by the new President who will be elected next spring, in an attempt to exert influence on the next administration by making the agreement an election issue and indirectly assisting a particular candidate. The US was taken aback by this move and has threatened to withdraw its support for the Afghan security forces, if not signed unconditionally and immediately.

As the chaos continues in Libya due to regional conflicts, the citizens of Tripoli clashed with the militia from Misrata who had been roaming the capital. Clearly, the country's security has not improved at all. In response, at the request of Prime Minister Zeidan, the US military agreed to provide basic training to soldiers of the Libyan National Army in Bulgaria. The declaration of support for the former President of Egypt and Muslim Brotherhood protégé Mohammed Morsi by Prime Minister Erdogan of Turkey has caused relations between Turkey and the provisional government of Egypt to deteriorate, with both countries expelling each other's top diplomats.

5. US Watching: Implications of Revision to on Senate Rules

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The “ideological polarization” of the US Congress continues to worsen every year under the Obama administration, causing a prolonged stalemate in Congress and preventing it from passing important bills. The recent government shutdown in October 2013 triggered criticism of Republican leaders who failed to persuade the Tea Partiers, although they are not the only party at fault. Even with only 45 seats in the Senate, the Republicans can block the proceedings by gathering just 40 votes as there is no time limit on floor discussions in the Senate, and it takes 60 votes to trigger “cloture”, which stops an attempt to block a bill from being voted, a tactic known as a “filibuster”.

On November 21, the Senate Democrats passed a revision to the Senate rules that allows cloture to be triggered by a simple majority vote instead of gathering 60 votes, for the appointment of cabinet members and judges except for the Supreme Court. Although the direct cause of this revision was the Republican filibuster to prevent confirmation of the federal appeals court judges nominated by President Obama, the root cause is the Democrats’ frustration with the Republicans’ abuse of the filibuster that has caused Congress to be criticized as the most unproductive in history and its approval rating to drop to as low as 9%; some Democrats claim that the revised rule should be applied not only to personnel affairs but also to other issues.

The recent revision to the rules, called the nuclear option, had been one of the top issues in recent the US. Congress, and also has significant implications on future energy and environmental policies. As has been widely reported, the US Environmental Protection Agency (EPA) is currently drawing up rules for restricting GHG emissions from thermal power plants. Once published, the rules will most certainly cause industries that oppose the restriction, including coal and electricity, to take legal action against the EPA; conversely, it is equally certain that lawsuits will be filed by environmental groups if the EPA eases the restrictions to appease industry. Such administrative litigation is taken to the federal appeals court in the District of Columbia. Thus, sending pro-environment judges to the appeals court during the term of the Obama administration is an important strategic move to prevent, through judicial rulings, environmental regulations from being rescinded even if the Republicans gain a majority in Congress or Presidency through future elections. The tendency of the courts toward environmentalism could impact not only power plant standards but also various other areas, including the Interior Department’s environmental standards on hydraulic fracturing and the State Department’s environmental assessment of the Keystone XL Pipeline.

Modification of the rules was considered as far back as October 2011 when the Republicans were blocking the American Jobs Act which President Obama was extremely keen to pass. It took two years for the revision to come about because some Democrats were concerned that changing the rules on proceedings unilaterally by majority vote could infringe on the principle of democracy. Many lawmakers and political scientists expect that this recent action taken by the Senate Democrats will exacerbate the polarization of Congress. The drastic measure taken to end the political impasse could trigger a negative spiral that would worsen the stalemate in Congress, forcing the Obama administration to resort even more to its executive authority.

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