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## Summary

### **【Energy Market and Policy Trends】**

#### **1. Developments in Nuclear Power**

The Fukui District Court delivered a ruling that it will not allow Kansai Electric to restart Ohi Units 3 and 4, while the safety review by the independent regulatory authority is still unfinished. This is an unprecedented situation for any advanced country that uses nuclear power.

#### **2. Recent Domestic and International Oil Situation**

Though the Ukraine situation is unlikely to directly disrupt oil supplies, it could have a negative impact on general perception of geopolitical risks. In Japan, discussions continue on reinforcing the oil supply systems in case of emergency.

### **【Global Watch】**

#### **3. China Watching: Mysteries about the China-Russia Natural Gas Deal**

On May 21, China's CNPC and Russia's Gazprom signed a long-term pipeline gas supply contract to supply Russian gas to China. However, the details of the price agreement, and the extent of separation of politics and the economy, remain unknown.

#### **4. ME Watching: National Elections End in Victory for the Likely Candidates**

New leaders have been elected in Iraq, Egypt and Afghanistan, but it remains unclear how the problems of those countries can be solved. Iran's nuclear talks are struggling, and the term of the provisional agreement is likely to be extended.

#### **5. Russia Watching: A View on Post-Election Ukraine**

Petro Poroshenko won the presidential election in Ukraine and showed a conciliatory attitude. It is not clear if Russia will accept the election result as legitimate, and it will take time before Ukraine regains stability.

## 1. Developments in Nuclear Power

**Tomoko Murakami**, Manager  
Nuclear Energy Group, Strategy Research Unit

On May 21, in a lawsuit filed by a group of residents from Fukui Prefecture, the Fukui District Court ruled that it will not allow Kansai Electric to restart Ohi Units 3 and 4. The nuclear power plants are currently being reviewed by the Nuclear Regulation Authority (NRA), which has not yet made a decision on the safety of the plants. It is unprecedented in any advanced country that uses nuclear power for a court ruling to order a plant to be stopped due to safety concerns, without considering the NRA's decision which is based on scientific knowledge. The ruling has sparked debate in the Japanese and foreign media on its legality and legitimacy, and we must closely monitor its impact on the role of public administration and the judiciary, as well as the nuclear and energy businesses.

As of June 13, the NRA has held review meetings 118 times and there has been progress at some plants. At the 114th meeting on May 23, Kyushu Electric submitted documents in reply to the "comment on the views on setting the reference ground motion" and the "response to earthquake ground motions with unspecified epicenter" for Sendai Units 1 and 2, which the company had been given as homework by the NRA and which the Authority approved accordingly. The review on earthquakes is now finished for Units 1 and 2, and by the end of June, Kyushu Electric is due to submit application documents which have been revised to reflect the issues pointed out during the reviews. Meanwhile, at the same meeting, Shikoku Electric submitted a document in which it changed the horizontal motion with unspecified epicenter for Ikata Unit 3 to 620 Gal. In response, Deputy NRA Chief Kunihiro Shimazaki requested the power company to reconsider the value, stating that "the decision should be based on higher safety, considering uncertainty", and thus the earthquake review continues. With the NRA not giving clear decision criteria and continuing to "review the conditions and analysis results presented by the power companies, and pointing out arbitrary questions as they arise", it is still unclear when the reviews will be completed.

Overseas, during the past month, a referendum held in Bern, Switzerland on the immediate closure of Muhleberg Nuclear Power Station, the country's oldest reactor, produced a significant result. The immediate closure of the plant requested by a group of residents citing "safety concerns" was rejected by a significant margin of 137,285 votes to 236,285 by the will of the residents themselves. Accordingly, the plant operator BKW decided to continue to operate the plant until 2019, as planned. In nuclear plant-hosting communities in both Japan and elsewhere, sometimes the media focuses on the views of residents that do not reflect the will of the majority. The power companies and the authorities enforcing public policies should not be swayed by the opinions of a small group, should listen objectively to local input on the actual situation, and should make decisions and publish information rationally and objectively.

## 2. Recent Domestic and International Oil Situation

**Yoshikazu Kobayashi**, Senior Economist, Manager  
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With few decisive elements affecting the international oil futures market, the most frequent cause for sale and purchase in the past few months had been the conflict between Russia and Ukraine. A sudden disruption in supplies is unlikely, however, at least for oil, even if all the oil pipelines passing through Ukraine (approximately 400,000 B/D) become unusable, since there is still abundant capacity in alternative export routes such as the Baltic Pipeline System, and since Saudi Arabia's Petroleum and Mineral Resources Minister Ali Naimi has stated that the country will ramp up supplies in the event of such disruption. More worrying is the indirect negative impact on the geopolitical confrontation in the MENA region, such as in Syria, that could arise if the relationship between the West and Russia deteriorates due to the Ukraine situation.

On the demand side, the trend in China is important. As the Chinese economy appears to be losing steam, the growth in demand for diesel oil and heavy oil, which are more susceptible to the economic situation, is starting to fall. However, the demand for oil as a whole is likely to continue to grow, as demand for gasoline continues to grow steadily and as the country continues to procure oil for its national stockpile. As for the Asian petroleum products market, the decrease in imports due to improved domestic refining capabilities in China will ease the supply-demand balance for petroleum products in the region.

In Japan, the Petroleum and Natural Gas Subcommittee of the Natural Resources and Fuel Committee has been discussing its future petroleum policy since the beginning of the year. As for the government notification on the refining facilities under the Act on Sophisticated Methods of Energy Supply Structures, which is the key agenda issue, only the basic direction has been indicated, and the details are yet to be revealed. While the notification is expected to be more flexible than the previous one, it must not merely accelerate the diminishing equilibrium of the domestic industry. The notification, even if it eventually leads to a reduction in refining capacity, must do so only after combining the reduction with measures to support the growth strategy of the oil companies, such as strengthening their export competitiveness.

On May 19, the Subcommittee discussed how to reinforce the oil supply systems in an emergency. This effort is extremely important, partly to bolster the public image of petroleum as a disaster-resistant energy source, based on the lessons of the Great East Japan Earthquake. For the future, it is important to prepare for emergencies during normal times by holding regular emergency drills involving not only the Agency for Natural Resources and Energy and the oil companies but also relevant ministries such as the Ministry of Land, Infrastructure, Transport and Tourism, the Ministry of Defense and the Cabinet Office, allocating roles clearly for dealing effectively with an emergency, and setting priorities on the actions to be taken.

### 3. China Watching: Mysteries about the China-Russia Natural Gas Deal

Li Zhidong, Visiting Researcher

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On May 21, China's CNPC and Russia's Gazprom signed a long-term pipeline gas supply contract to supply Russian gas to China, attended by Chinese President Xi Jinping and Russian President Vladimir Putin. The leaders had met on the previous day and issued a joint statement on "raising the China-Russia comprehensive strategic partnership of coordination", but the two companies had not agreed on the gas supply contract yet. The overnight resolution of the negotiations just before President Putin departed from China triggered various speculations.

The negotiations on natural gas export between China and Russia had been held as part of regular prime ministers' meetings since 1996 when the two countries signed an intergovernmental agreement on mutual cooperation in the energy area. The new agreement will involve constructing a 2,680 km pipeline from eastern Siberia in Russia to Heilongjiang Province in China, and exporting 38 billion m<sup>3</sup> of natural gas every year for 30 years. Exports will begin in 2018, from when the annual volume will be increased from 5 to 30 billion m<sup>3</sup> over five years, and reach 38 billion m<sup>3</sup> each year from the sixth year onwards. The terms of the agreement which were officially announced this time are the same as those agreed upon almost ten years ago, except for details such as the start timing.

The reason why it took so long to reach a final agreement was because the parties could not agree on the export price, which is directly linked to their interests. What price did they agree on? Though initially undisclosed, Gazprom later revealed to the media that the agreement is worth 400 billion dollars in total, after which the National Energy Administration of China announced that the total value is about 400 billion dollars on its official website. By simple calculation, this translates into a reference export price of 350 dollars/1,000 m<sup>3</sup> (\$10/MMBtu), which is lower than the export price for Europe (370-400 dollars) which Russia has been demanding, but higher than the price wanted by China (generally below 300 dollars). Regarding the pricing system, the other focus of the negotiation, while President Putin explained to the press that it is linked to oil and petroleum prices, the Chinese government and business officials are keeping silent, and the Chinese media are merely publishing the official line but without commenting on it. The true extent of the agreement between the countries remains unknown.

The signing of the long-term agreement was a groundbreaking event for both Russia, which is rushing to expand exports, and China, which wants a stable supply. After signing, President Putin commented that "China was a difficult and formidable negotiator", and on May 23, said to China's Vice-President Li Yuanchao at the 18th International Economic Forum in Saint Petersburg, Russia, that "We could not have made such a decision if President Xi had not shown an interest in the important issues of the negotiation", thanking the president. This reminds one of some comments made by President Putin in the past. In October 2011, during his visit to Beijing for the 16th Regular Prime Ministers' Meeting, in a joint interview with China's Xinhua News Agency and China Central Television, the then Prime Minister Putin said: "A buyer always wants to buy as cheaply as possible, and a seller wants to sell as high as possible. This is business between two companies, and we will not make a political bargain". Mr. Putin thus expressed his desire to separate politics from the economy concerning the energy negotiations, which then was not the case. Have the parties successfully separated politics and the economy in the final agreement? It may take a long time before the mysteries behind the agreement, including the agreed price, are revealed.

#### **4. ME Watching: National Elections End in Victory for the Likely Candidates**

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

The elections for choosing the leaders of Middle Eastern countries were won by the likely candidates, but will the governments act and make bold reforms?

The provisional result of the Iraqi parliamentary election showed that the Shi'ite parties are as powerful as ever. In particular, Prime Minister Maliki's State of Law Coalition won by a significant margin and is expected to remain at the center of the new government. However, due to strong opposition to the Prime Minister's hard-line stance, it will take time to form the cabinet, considering the difficulty of rebuilding ties with the Kurdish parties that have moved away from the central government and finally selecting coalition partners. The violence in Syria could spread to Iraq and threaten public security.

The presidential election in Egypt, the first national election under the new constitution, was fought between Hamdeen Sabahi of the National Salvation Front, who ran for the second time since 2012, and former Defense Minister Abdel Fattah el-Sisi, who led the coup in July last year; the latter has remained extremely popular during the past year and won an overwhelming victory. While the result was unsurprising for Mr. Sisi, the government faces many issues, with no sign of recovery of the Egyptian economy. Amid criticism from the international community on the death sentences handed down to over one thousand supporters of the former Morsi administration, the new president will face a multitude of internal and external troubles from the start of his term.

Initially held in April, the Afghanistan presidential election went to a runoff between former Foreign Minister Abdullah and former Finance Minister Ghani, which was postponed from the end of May to mid-June due to lack of preparation. As both candidates take a hard-line stance toward neighboring Pakistan, tensions between the two countries could worsen over the dialog with and treatment of the Taliban. However, the conciliatory policy toward Pakistan taken by the new Modi administration of India, if successful, could ease tensions throughout the area including Afghanistan.

In the nuclear talks with Iran held in Vienna, the drafting of a comprehensive, long-term agreement to replace the current provisional agreement began in May. However, this has led to the greatest difference in position between the parties in the past few months, by once again highlighting the issues that caused conflict while drafting the interim agreement, including the scale of Iran's uranium enrichment and what to do with the heavy water reactor under construction. Iran and the U.S. held separate talks in Geneva to resolve the differences, but it is not clear if a long-term agreement can be reached by July 20. The countries must consider how to proceed, considering that the interim agreement will be extended for six months.

During his visit to Japan, Israeli Prime Minister Netanyahu pointed out the alleged military ties between Iran and North Korea, and called for defense cooperation between Israel and Japan, which are both under threat from its regional nemesis.

## 5. Russia Watching: A View on Post-Election Ukraine

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

On May 25, the presidential election of Ukraine was held one year ahead of schedule following the collapse of the Yanukovich administration in February. The poll was held even though many public agencies and voting offices in eastern Ukraine remained “occupied” and clashes continued between government forces and pro-Russian insurgents disrupting the election, and ended in a victory without runoff (5-year term) for the pro-EU former Foreign Minister Petro Poroshenko who won a majority with 55% of the vote.

On May 11, in the provinces of Donetsk and Lugansk in eastern Ukraine, pro-Russian separatists forced an illegal poll on independence from Ukraine, and the following day declared the establishment of a “sovereign state”. The provisional government led by acting President Oleksandr Turchynov and Western countries clarified their position that the referendum is invalid, as is the annexation of Crimea by Russia in March, but Russia officially announced that it will honor the result of the poll in favor of independence as the will of the people, despite having initially called for the referendum to be postponed.

One of the focuses of the Ukraine crisis in the short-term is whether Russia, like the West, will accept the result of the election. On May 23, at the 18th International Economic Forum in Saint Petersburg, President Putin stated that Russia will “honor the choice of the Ukrainian nationals, but naturally, will monitor developments”. On May 26, Foreign Minister Lavrov also stated that the result of the election will be honored, but Russia has still not clearly said whether it accepts the legitimacy of the presidential election itself. One of the short-term goals of Russia is to stop, for the time being, anything that would give Western countries a reason for further sanctions, and stall for time until Crimea virtually becomes a Russian territory.

President Poroshenko, who will be inaugurated in early June, will face many difficulties in restoring stability in Ukraine: resolving the stalemate with pro-Russian militants who seek independence from Ukraine, rebuilding the battered economy, and solving the issue of unpaid Russian gas bills. Mr. Poroshenko won because of his commitment to reconciliation for the nation, including the ethnic Russians, while retaining a pro-West policy, which was accepted even in the pro-Russian eastern Ukraine. If the civil strife intensifies or the economy worsens in the months ahead, the crack between western Ukraine, which seeks to join the EU as soon as possible, and eastern Ukraine, which wants to rebuild historical and economic ties with Russia, is likely to widen.

While Ukraine must rebuild itself, Western countries supporting the new administration, particularly the EU, have a great responsibility to help Ukraine rebuild its economy and achieve political stability. At the aforementioned International Economic Forum, Russia’s First Deputy Prime Minister Igor Shuvalov said that “the integration of the former Soviet regions is a strategic goal for the government”. Depending on the commitment of the EU, new sources of conflict could emerge such as domestic conflict within Ukraine and further interference of Russia in the country.

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