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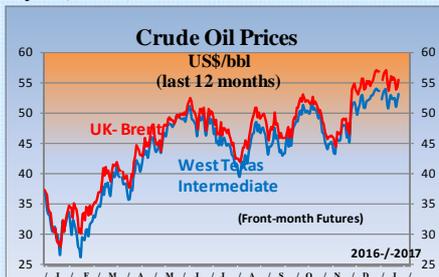
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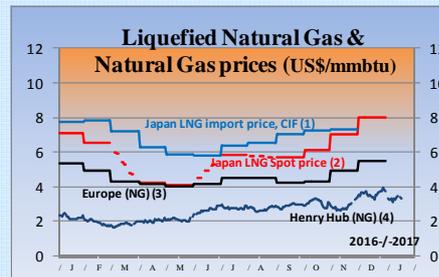
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Source: DOE-EIA, Financial Times, NASDAQ



Sources:

- (1) Ministry of Finance "Japan Trade Statistics"
- (2) Ministry of Economy, Trade and Industry (contract month basis)
- (3) Estimated by World Bank and World Gas Intelligence
- (4) DOE-EIA, NYMEX (Front-month Futures)
- (5) Investing.com



Source: x-rates.com



Source: Financial Times

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## Summary

### **【Special Feature III: Key Points for 2017】**

#### **1. Nuclear Power**

Together with the restart of nuclear power plants in Japan, the progress in licensing power plants to operate beyond 40 years and the impact of legal actions must be closely monitored. Establishing a new policy for fast reactor development is another challenge for 2017. Developments in international business by China and Russia also warrant attention.

#### **2. APEC's Energy and Environmental Issues**

Regarding energy cooperation among APEC members, fossil fuels including coal and natural gas are likely to re-emerge as a theme of regional cooperation for a revival.

#### **3. US: Controversial Trump's Policies and Their Impacts**

President Trump will be sworn in on January 20, ushering in the new government. The world is focusing on the administration's relationship with the Republican Congress, its foreign and economic policies, and the details of its energy and environmental policies.

#### **4. EU: Political Uncertainty among the Member States**

In addition to the negotiations and activities surrounding Brexit, national elections are due to be held in many major European countries in 2017. Work on the EU's collective energy and climate action policies must also be monitored.

#### **5. China: Stability as Top Priority heading for the Autumn National Congress of CPC**

A year of politics, the five-yearly National Congress of the Communist Party of China (CPC) will be held in 2017. As stability remains the top priority, decarbonization efforts will be strengthened. The launch of a CO<sub>2</sub> emissions trading market and the developments in nuclear power need to be watched.

#### **6. Middle East: Trump Administration's Middle East Policies to Be Tested in 2017**

The staffing and initiatives, and even the Tweets of US President Trump will affect the Middle East, and could even lead to instability in the long term. Tensions with Iran will rise again. Countries inside and outside the Middle East will need to stay vigilant against terrorism in 2017.

#### **7. Russia: Will Russia Change Its Foreign Policy for Economic Reconstruction?**

Given the harsh economic situation, attracting foreign investment including in the energy industry remains important for rebuilding the economy. Changes in Russia's hardline stance toward other countries must be monitored heading toward the presidential election in March 2018.



## 1. Nuclear Power

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

As of December 2016, five plants have completed the safety assessment by the Nuclear Regulation Authority (NRA), and 20 existing plants including Kansai Electric's Takahama Unit 1 and 2 and Mihama Unit 3 that have been licensed to extend operation to 60 years as well as Oma Nuclear Power Plant (new build) are undergoing the assessment. In 2017, the NRA's assessments are expected to become more rational, faster, and efficient. Attention must also be paid to whether the operators of those plants that will reach 40 years in operation during 2018-19 will apply for an extension.

In 2016 a new business risk of legal action emerged for power companies. The court for appeal against a provisional remedy at the Osaka High Court against the Otsu District Court's provisional disposition to suspend Takahama Units 3 and 4 is expected to conclude around February 2017. This case will have an impact not only on Takahama but all nuclear operators; how the operators address this new business risk must be closely monitored.

On December 19, 2016, a new policy on fast reactor development was indicated at the fourth meeting of the Council on Fast Reactor Development. A strategic working group will be established under the Council, which will start in early 2017 to formulate a strategic road map that sets a specific development policy, for completion by 2018. The strategic road map will focus on identifying the development activities for the technological demonstration phase for about the next ten years, thereby consolidating the plant's basic design philosophy and its development organization beyond the demonstration phase.

Meanwhile, regarding the fast breeder reactor Monju, a meeting of cabinet ministers on nuclear power held on December 21 announced the policy of not restarting the plant as a nuclear reactor and proceeding with its decommissioning process. In 2017, the strategic working group needs to discuss how Japan will obtain the fast reactor operation technology that it was expecting to get from Monju, now that the only fast reactors in operation are in Russia, India, and China.

In the world nuclear power market in 2017, attention will turn to how Japan's competitors, China and Russia, develop their international business. China is building up construction and operational knowledge by continuing to launch a succession of plants at home, and is also deepening ties with Britain and France year by year. Russia, which is one of the traditional nuclear powerhouses, is also actively reaching out abroad, including in South America where it actively conducted marketing in 2016. Japan's nuclear industry needs to face the fact that China and Russia fully understand the situation of the host countries and are trying to meet their needs through cooperation, and rebuild its business strategy for emerging countries from the perspective of strengthening comprehensive competitiveness.



## 2. APEC's Energy and Environmental Issues

**Kazutomo Irie**  
General Manager  
Asia Pacific Energy Research Centre

Regarding the energy cooperation among members of the Asia-Pacific Economic Cooperation (APEC), 2017 is likely to witness a “revival” of fossil fuels; the quotation marks are there because fossil fuels may not increase their share in energy mix, but will become a more important theme for regional cooperation.

In the past few years, APEC's energy cooperation has focused on improving energy efficiency and promoting renewable energy. Fossil fuels received little attention except in the context of the emergency response capabilities of oil and gas and the facilitation of natural gas trade.

However, according to the Business as Usual (BAU) scenario in the sixth edition of the APEC Energy Demand and Supply Outlook published by the Asia Pacific Energy Research Centre in May 2016, fossil fuels are projected to account for more than 80% of the region's primary energy supply even in 2040. For many APEC member economies (countries and territories), securing a stable supply of fossil fuels and using them as cleanly as possible will remain an important and pressing challenge.

In this regard, the following issues are likely to emerge: how far the use of natural gas will expand in the APEC region, whether the natural gas trade will increase in the region, how to secure investment in natural gas development to secure stable medium- to long-term supplies, and what the region can do to cooperate for these issues. Japan will be expected to take the lead in APEC, as it has been promoting discussions on these topics such as by hosting the LNG Producer-Consumer Conference.

Coal will attract renewed interest. The US Obama administration has virtually banned the construction of new coal-fired thermal power plants in the US while also encouraging other countries to build fewer of the plants. However, for many developing countries including APEC members, coal is a handy and affordable fuel for generating power. Natural gas is still expensive for power generation, and converting from coal-fired to gas-fired thermal power is not easy. Building fewer coal thermal power plants would result in the older, less efficient plants remaining in operation longer, which would actually be worse for global warming.

President Trump, who swore in on January 20, 2017, had denied global warming during the election campaign and expressed support for the coal and other fossil fuel industries. If the new administration reverses the existing coal policy, it could accelerate the clean use of coal through the adoption of the latest high-efficiency coal thermal power plants in the APEC region, and stop the increase in oil and gas imports and hence the dependence on the Middle East.

Having one of the best clean coal technologies in the world, ASEAN's developing economies may ask Japan to help improve the efficiency of coal thermal power. The fossil fuel policies of the Trump administration, especially its domestic and overseas coal policies, must be closely monitored.



### **3. US: Controversial Trump’s Policies and Their Impacts**

**Ayako Sugino**, Senior Researcher  
Gas Group  
Fossil Fuels & Electric Power Industry Unit

January 20, 2017, the day on which President Trump will be sworn in, is approaching. Since his victory speech on November 9, there has been a series of good economic news, including rising stock prices in anticipation of tax reduction, deregulation, and large-scale infrastructure investments. The US economy posted 3.2% growth in the “pre-Trump” period of July-September before the election, and expects 3.5% growth for October-December. The unemployment rate for October was 4.9%, which is almost full employment. The Trump administration will start out in a much better environment than the Obama administration, which faced the most serious recession since 1980 with a 8.2% contraction (October-December 2008) and the unemployment rate reaching 9.6% in 2010, the worst since 1982. However, this also means that even if the Trump administration manages to cooperate with the Republican Congress and delivers on its economic commitments quickly and steadily, it cannot raise the growth rate which is already high.

Donald Trump’s victory owes much to the votes of those left out from the benefits of growth under the Obama administration, especially the white workers of the Midwestern rustbelt. Mr. Trump must now present detailed and consistent policies to fulfill his commitment to rebuild the manufacturing industry, including taxes and fiscal policies, trade, energy, infrastructure, and immigration. As an indication of his economic policies, the president-elect intervened in the relocation of an air conditioner manufacturer to Mexico, but the intervention in the management of an individual company drew criticism even from the Republican Party. The fiscal conservative lawmakers of the Republican Party have already warned that they do not support policies that worsen the fiscal deficit. Further, regarding the selection of Cabinet members, the appointment of ExxonMobil’s CEO, who has strong ties with Russia, as Secretary of State has been criticized even by Senate Republicans. If Mr. Trump quickly exhausts his political capital, namely the advantage of a Republican president who won an overwhelming number of electors, by confronting the Republican Congress, it may become difficult for the new President to implement his policies.

Mr. Trump’s Cabinet appointments are characterized by a large number of entrepreneurs. Particularly, the President’s Strategic and Policy Forum is reminiscent of the advisory committees of entrepreneurs under the Reagan and H. W. Bush administrations that spearheaded deregulation. Meanwhile, the appointees who have held public office, such as governors, state attorney generals, and Congressmen, are experienced in congressional affairs and procedures for embedding the economic policies of the president and his advisors in the administrative bodies’ initiatives. The new administration may enjoy better communication with industry than the current one, but is likely to close its doors to labor unions and consumer protection, environment, and other public interest groups. There are concerns that those who supported Trump in the 2016 election could, if disappointed, turn to rallies and riots even before the Republicans lose the 2018 mid-term election.

Meanwhile, one of the areas of possible policy change through administrative procedures is the rolling-back of President Obama’s environmental policies. As energy companies are affected not only by federal policies but also by state policies and the market, the impact of federal deregulation is limited. However, deregulation could have a significant effect by allowing quicker expansion of resource development in response to sudden changes in oil, natural gas, and electricity markets, and quicker construction and expansion of transportation infrastructure to meet any changes in energy flow.



#### **4. EU: Political Uncertainty among the Member States**

**Kei Shimogori**, Researcher  
Nuclear Energy Group, Strategy Research Unit

First, the negotiations and activities surrounding Britain leaving the EU, or Brexit, are crucial. Believing that the government can notify the EU of its intent to withdraw under Article 50 of the Treaty of Lisbon without parliamentary approval, Prime Minister May announced a plan to submit a formal notification by the end of March 2017 and start negotiations thereafter. However, in November 2016, the High Court of Justice in London ruled that parliamentary approval is necessary to officially start the withdrawal procedure, and a decision by the Supreme Court is now awaited. If the decision, due in January, rules that Parliament must have a say, the parliamentary proceedings could take time and delay the government's plan to submit a notification by the end of March.

Meanwhile, the EU released a statement on the withdrawal negotiations after an unofficial meeting of the 27 heads of state or government in December. The statement revealed the procedure for the negotiations for the first time, and stated that the first step after Britain's notification is to define the framework of the negotiations under Article 50, and for the European Council to approve the guideline indicating the EU's position and principles in the negotiations. As a result of the referendum, the agreement that "reinforces the special status of Britain in the EU" made in February 2016 has been invalidated, and the EU has again taken a strict stance in the statement by emphasizing that the heads of state or government "reiterate that access to the Single Market requires acceptance of all four freedoms." The details and outcome of the negotiations, and whether Britain will have a hard Brexit with serious consequences, are awaited with interest.

Second, various political events in EU member states are due in 2017. The first major state to have a national election is the Netherlands (March), followed by the French presidential election in April, the French National Assembly election in June, and the German federal election in September. In the Netherlands, which rejected the Ukraine–European Union Association Agreement in April in a referendum, skepticism toward EU integration is spreading. The support for ultra-rightwing political parties in the Netherlands could affect support for the same in France and Germany; the political situation remains highly uncertain. Particularly, if the parties that are against or skeptical of the EU, the euro, and migrants gain support in countries like France and Germany that underpin the EU, it could threaten not only the existing EU policies but also the stability of Europe as a whole.

In December 2016, the President of the European Parliament, the Holder of the rotating Presidency of the Council of the European Union, and the President of the European Commission signed a first joint statement indicating the EU's objectives and legislative priorities in 2017. Based on the strategic policy of the European Council and the ten priorities of President Juncker, the joint statement identifies six areas to be given priority treatment in the legislative process, and pledges to deliver results where possible by the end of 2017. "Delivering on our objective of an ambitious Energy Union and a forward looking climate change policy" is one of the priorities, and expectations are rising that the European Commission's new policy package released in November 2016, Clean Energy for All Europeans, will be realized. However, with major issues such as jobs and migration policy still on the list of priorities, it is not clear whether the European Commission President Juncker, now in his third year in office, will be able to make significant progress in the energy and climate change policies.



## 5. China: Stability as Top Priority heading for the Autumn National Congress of CPC

**Li Zhidong**, Visiting Researcher  
Professor at Graduate School, Nagaoka University of Technology

2016 was the first year of the first 5-Year Plan drawn up under the Xi Jinping-Li Keqiang leadership, the thirteenth such plan. The economic growth rate remained steady at 6.7% up to the third quarter. This was slower than last year's 6.9%, but exceeded the minimum line of 6.5%. Further, for January-September, consumption contributed to 71% of economic growth, the share of the tertiary industry in GDP jumped 1.6 percentage points year-on-year to 52.8%, the per-GDP energy consumption (energy intensity) dropped 5.2%, and the share of natural gas and non-fossil energies in primary energy consumption rose 1.7 percentage points to 19.3% in total. This is an auspicious beginning for the leadership which aims to improve the quality and efficiency of growth and achieve "stable development".

2016 also saw China strengthen its presence in the international community. It chaired a G20 Summit for the first time (Hangzhou Summit), which proceeded smoothly. It collaborated with the US to ratify the Paris Agreement in September, paving the way for the Agreement to become effective in November. Under the leadership of China, the Asia Infrastructure Investment Bank (AIIB) was established with 57 founding member countries. Amid concerns over its governance capability, AIIB decided to provide a loan to eight projects in six countries including Bangladesh, Tajikistan, and Oman worth 1.13 billion dollars in total, including joint loans with the World Bank (WB) and the Asia Development Bank (ADB) (no loan was provided to China).

2017 is a year of politics, in which the five-yearly National Congress of the Communist Party of China (CPC), the 19th, will be held in the autumn. At the Central Economic Work Conference last December, the leadership set "seeking progress while maintaining stability (穩中求進)" as an important principle of governance, and pledged to continue to take "a proactive fiscal policy and a moderate monetary policy" to maintain stable growth. One of the urgent issues is to nip any risk of financial instability in the bud, including the collapse of the property bubble in large cities and the accumulation of bad assets resulting from curbing excess production capacity. On this point, the leadership is committed to "not causing financial system instability by boldly dealing with any risks, controlling the asset bubble, and strengthening supervision." The effectiveness of its measures must be closely monitored.

Decarbonization including further energy conservation and use of renewable energy is expected to be enhanced. Regarding comprehensive measures, attention must be paid to whether China can launch a nationwide CO<sub>2</sub> emissions trading market this year, as it has promised the international community. In terms of energy, coal demand is expected to slow while natural gas consumption and the use of renewable energy will increase. Meanwhile, the prospects for nuclear power development are becoming uncertain. Despite the target to build 30 GW of new capacity in five years, no new construction had begun and no construction permits had been issued as of December 20 last year. This is reportedly due to the drop in electricity consumption as the "New Normal" settled in, the fall in operating revenues due to lower availability of nuclear power (operating hours for January-November 2016 were 6,378 hours, down 385 hours or 5.7% year-on-year), and concerns for nuclear plant safety<sup>1</sup>. The efforts of the leadership in the energy industry, including nuclear, must be closely monitored.

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<sup>1</sup> For instance, see "The Outlook of China's Nuclear Power Industry in the Thirteenth 5-Year Plan (2016/11/10)" by Chen Rong and Zheng Yuhui, <http://www.china-nea.cn/html/2016-11/37081.html>



## **6. Middle East: Trump Administration's Middle East Policies to Be Tested in 2017**

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

The greatest concern of the Middle East in 2017 is the policies and the orientation of the US Trump administration. In addition to the impact of the President's discriminatory remarks against Muslims in general, attention is also being paid to the appointment of Cabinet members that will be in charge of diplomacy and national security. Saudi Arabia is somewhat hopeful, as the Trump administration has picked Iran-hawks for the Cabinet to replace the Obama administration, including State Secretary Kerry, who offended Saudi Arabia with "pro-Iran" maneuvers. However, as any resolution of the Palestine issue remains a distant prospect, the Arab nations cannot ignore the appointment of a US ambassador to Israel who speaks publicly about moving the US embassy to Jerusalem, which is likely to cause enormous tension. This, combined with the thawing of the relationship between the US and Russia, whose presence has grown through the Syrian civil war and the recently convened Astana peace conference, could mean that the entire Middle East will be affected by the "Trump Doctrine" from the start of 2017.

The new US President is likely to unilaterally put pressure on Iran to implement the nuclear deal, and there are concerns that Iran may be lured into choosing provocation. Naturally, tensions are likely to rise. Further, with the GOP being less concerned about human rights than the Democrats, authoritarian rulers in the region may face lesser external pressure for reform, while frustrating the people of the Middle East in the long term.

Although the OPEC and non-OPEC countries have just agreed to jointly cut production, 2017 will test the solidarity of the Middle East oil producers as they face competition with shale resources which will likely receive federal approval for expanding supply under the Trump administration. However, the relationship between Saudi Arabia and Iran remains bitter, with no sign of improvement. This year again, these countries are likely to attack each other over the performance of Hajj (annual Islamic pilgrimage) and the civil war in Yemen. Saudi Arabia will maintain its hardline policy against Iran, as changing it could risk affecting the succession of the throne. Meanwhile, ahead of the presidential election in May, hardliners are gaining influence in Iran on regional policy after the recapture of Aleppo by the Assad administration which Iran and Russia have been supporting. Nor Iran or Saudi Arabia can afford to be lenient now.

Preventing terrorist attacks by radical Islamists remains difficult inside and outside the Middle East. While military operations against Islamic State (ISIS/ISIL) will be continued by the countries concerned and the US and Russia, a final resolution in 2017 is unlikely. It is still not possible to relax, whether in Syria and Iraq which are the center of IS's activities; in Yemen, Libya, and Afghanistan where their presence has been confirmed; in Turkey, Egypt, Jordan, and Tunisia that have suffered terrorist attacks before; or in the Persian Gulf, the Indian subcontinent, Europe, and Southeast Asia.

Once an active backer of the export of advanced infrastructure, recently Japan has had fewer mutual visits with Middle Eastern countries, and an early restart of top-level diplomacy with these countries is keenly awaited. Attention must also be paid to the details of Japan's involvement in the reforms of the domestic economy in Saudi and other countries.



## **7. Russia: Will Russia Change Its Foreign Policy for Economic Reconstruction?**

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

In 2016, Russia failed to stop its economic situation from worsening under the declining international oil prices and the West's economic sanctions. Its GDP growth rate dropped 0.7% for the third quarter of 2016, and disposal income had dropped by 5.9% as of October (both year-on-year). In November 2016, the World Bank released a forecast that Russia's GDP growth rate for 2016 will drop 0.6% year-on-year, but will rise by 1.5% in 2017 if oil prices bottom out.

On December 10, 2016, Russia announced that it will cut oil production by 300,000 barrels/day (from the levels of November-December 2016) in the first half of 2017 as part of the first joint production cut by the major OPEC and non-OPEC countries in 15 years. The government seeks to cover at least part of its fiscal deficit (expected to worsen to 3.7% of GDP for 2016 from 2.4% for 2015) by increasing oil exports. However, as an oil price of \$69/barrel is needed to balance its budget, a rebound in oil prices which remains at around \$50/barrel is not expected to help much.

Donald Trump, having expressed a willingness to improve the US-Russia relationship, won the US presidential election in November 2016 and appointed, as the next Secretary of State, Rex Tillerson, the ExxonMobil CEO who had opposed to and reluctant to impose economic sanctions on Russia (though not yet approved by the Senate). Some in Russia are optimistic that this could change America's hardline stance toward Russia. However, in the US Congress, with the announcement by the federal agencies, including the CIA and the FBI, that Russia intervened in the presidential election through cyber attacks, bipartisan concern over Mr. Trump's appeasement policy toward Russia is rising. It remains unclear how far the new administration can improve the U.S. relationship with Russia.

On December 1, 2016, President Putin remarked that Russia is prepared to pursue a reciprocal relationship with the new US administration rather than seeking enemies. However, the new Foreign Policy Concept of the Russian Federation, signed by the president and released on the same day, clearly described the US as a threat to national security for the first time since the end of the Cold War, and emphasized the importance of exercising military power in international politics.

In the course of the Japan-Russia Summit Meeting held in Nagato City, Yamaguchi Prefecture, and in Tokyo on December 15-16, a total of 80 documents regarding economic cooperation, including the field of energy, were signed in the public and private sectors. However, most of the documents remain in the form of memoranda, and the prospect of each project largely depends on Russia's own effort, including improving the environment for foreign investment.

In 2017, Russia's economic policy, domestic political strife, and foreign relations will be partly affected in view of the forthcoming presidential election in March 2018. Attracting more foreign capital is essential for rebuilding the economy, but it will be difficult if Russia remains aggressive toward other countries for the purpose of stirring up patriotism. That whether Russia can switch to a foreign policy of international cooperation even if its economy does not pick up quickly remains to be seen.



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