



# IEEJ e-NEWSLETTER

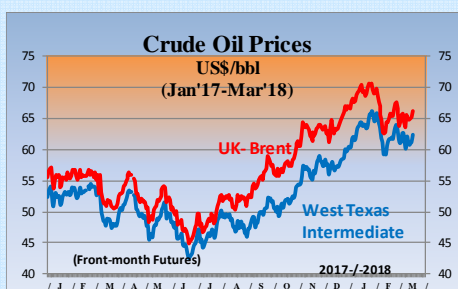
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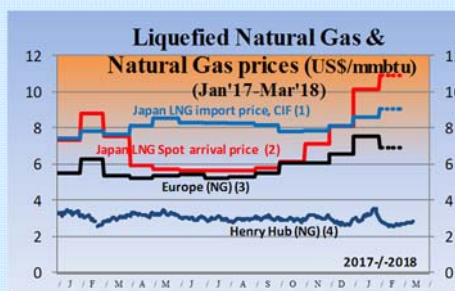
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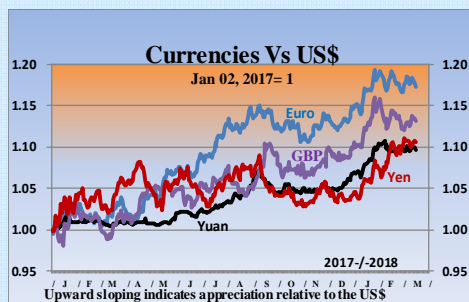


Source: DOE-EIA, Financial Times, NASDAQ

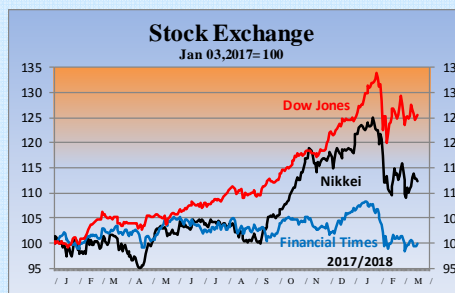


Sources:

- (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

### **【World Monitoring】**

#### **1. US: Trump Administration's Policies and the Judiciary**

Recently, the Judiciary has thwarted the Trump Administration's public promises in several cases. Meanwhile, as more judges appointed by President Trump are approved, the judiciary could lean toward conservatism. The situation must be closely monitored.

#### **2. EU: Phasing-out of Coal-Fired Thermal Power in Britain**

The British government announced actions regarding its proposal to end coal-fired power generation by plants without emissions reduction measures by 2025, following a broad public consultation.

#### **3. China: NEV Expansion Programs Revised from Long-Term Perspective**

China is reviewing and upgrading its NEV expansion program, including the regulations/credit trading system and purchase subsidies, from a mid- to long-term perspective to encourage more advanced technologies.

#### **4. Russia: Presidential Election Nears Amid Mounting US-Russia Tensions**

As the election for the Putin Administration's bid for a fourth term approaches, US-Russia tensions are mounting. With its domestic economy and society deadlocked, the next administration would likely find it hard to make a breakthrough.



## 1. US: Trump Administration's Policies and the Judiciary

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

Recently, the judiciary has thwarted the Trump Administration's public promise to revitalize the US economy and manufacturing industry through deregulation and to boost oil and gas development in several cases. On February 22, the US Federal Circuit Court in North Carolina halted the Administration from imposing a one-year suspension of the implementation of emissions standards for methane from oil and gas field drilling, promulgated by the Bureau of Land Management (BLM), Department of Interior in 2016 under the Obama Administration. Explaining its decision, the Court cited the lack of a reason for delaying the standards, which are expected to prevent the leakage of methane, a precious domestic resource, while contributing to improved public health and mitigating climate change by controlling air pollutant emissions. The Trump Administration's argument was that many states developing gas already have operating standards that help curb methane emissions, making BLM's standards redundant and an unnecessary extra cost for the oil and gas industries.

On February 15, the US Federal Circuit Court in California blocked the Administration from delaying the implementation of efficiency standards for four types of equipment including air-conditioners and boilers, promulgated by the DOE under the Obama Administration, similarly citing a lack of reason.

Many of the decisions blocking the Trump Administration's public promises, including the two above, were reportedly led by judges appointed by Democratic Presidents. However, looking forward, President Trump has already appointed 13 out of the 179 judges of the US Federal Court of Appeals which mostly handles administrative litigations. He has appointed 59 of the 684 circuit court judges, with 10 already approved. As more judges appointed by President Trump are approved, the overall judiciary could become more conservative.

In February, the White House released a strategic plan on infrastructure investment, which features the following measures to expedite the licensing of infrastructure construction plans: (1) The current delay in processing due to overlapping of decision-making agencies is to be solved by centralizing authority to the primary organization in charge. (2) The right of the Environmental Protection Agency to comment on environmental assessments is to be abolished. (3) Stricter requirements are to be imposed on stakeholders in filing litigations on environment assessments. The proposal shows the Republican Party's impatience with litigations filed by environmental groups and liberal states that smother investments necessary for clearing bottlenecks in energy supply, and the so-called "sue and settle approach" in which environmental regulations are effectively reinforced without Congressional amendment by drawing settlements from the energy companies and the government being sued. The judiciary reforms will have long-term policy repercussions even on administrations after the sitting President, and their developments must be closely monitored.



## 2. EU: Phasing-out of Coal-Fired Thermal Power in Britain

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

In January 2018, Britain's Department for Business, Energy and Industrial Strategy announced the actions to be taken by the government regarding its proposal to "end coal-fired power generation by plants without emissions reduction measures by 2025", following a broad public consultation on the matter. After being announced in November 2015, the proposal was put to public consultation from November 2016 through February 2017. This report outlines the government's actions that have been announced. Prime Minister May confirmed in September 2017 that the government will end all "unabated" coal-fired power plants by 2025, underlining the strong intention of the British government to phase out coal.

Based on opinions filed during the consultation, the government decided not to require existing coal-fired power plants to introduce CCS technologies. This is because installing CCS technologies in relatively inefficient aged plants can be exorbitantly costly, and the time schedule for making investment decisions, agreement, construction, and starting operation may run well beyond 2025. An emissions limit of 450 gCO<sub>2</sub>/kWh, similar to the existing emissions performance standard (EPS) introduced by the Energy Act of 2013, will be applied to all existing units with a thermal output of over 300 MW that burn coal, brown coal, and other solid fossil fuels.

When the British government proposed an exit from coal power without abatement technologies in November 2015, there was concern over securing a stable supply of electricity. However, the government believes that the capacity market system will ensure sufficient installed capacity to cover the closing of unabated coal power plants, although sufficient monitoring and continued revision of the capacity market as necessary will be required. The government estimates that 1.5 GW of unabated installed coal power capacity will remain in 2025, but considers that there is no need to impose emissions limits and other regulations ahead of 2025, in view of the significant drop in coal power output at present.

Going forward, the government will debate a bill to apply a new emissions limit from October 1, 2025. By introducing a stricter emissions limit, the government plans to bar unabated coal power plants from participating in bids in the capacity market scheduled for around end-2021 to early 2022, for capacities operating in 2025/26. Accordingly, the government will prepare necessary laws at an appropriate time ahead of the bids in 2021 or 2022. Regarding decarbonizing technologies, the British government terminated its contributions to a CCS commercialization program in the past. However, through its Clean Growth Strategy and Industrial Strategy White Paper, the government has also emphasized strong policies in recent years to achieve cleaner growth through decarbonization technologies. Britain's fossil fuel energy policies will have a significant impact on the success or failure of these strategies, and thus must continue to be monitored.



### 3. China: NEV Expansion Programs Revised from Long-Term Perspective

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

China is shifting from gasoline vehicles to electricity-driven next-generation vehicles (New Energy Vehicles (NEVs), which include EVs, PHEVs, and FCVs). This shift is a crucial step for achieving sustainable development and building a low-carbon society, and for transforming from a major car manufacturing country to a car manufacturing powerhouse. The government has not clarified when it will ban the production and sale of gasoline vehicles, but announced goals in October 2016 to boost the ratio of NEVs from 1.3% in 2015 to 40-50% in 2030. Simultaneously, the shift began in earnest from purchase subsidies and other support programs launched in 2009 to a combination of regulations and the credit system. The government announced the introduction of the NEV regulation and credit trading system as the core long-term initiative (see the November 2017 edition of this Newsletter) in September 2017, and the extension of acquisition tax exemption for NEVs (ad valorem duty, 10%) till 2020 in December. Further, on February 12 of this year, four ministries including the Ministry of Finance jointly released a notification on adjusting and improving the soundness of the financial subsidy system for expanding NEVs. The notification sets a framework for the purchase subsidy system for three years until it ends in 2021, and the key points are as follows.

First, the requirements for qualifying for subsidies were raised regarding cruising distance, the energy density of the battery cell system, and electric mileage (power consumption per travel distance), and the subsidies were set in greater detail depending on the maturity of technologies. For instance, for EVs, the requirements were raised from 100 km in 2017 to 150 km for cruising distance, and from 90 Wh/kg to 105 Wh/kg for energy density. The subsidy per car was reduced by 58% from 36,000 yuan (1 yuan = 17 yen, equivalent to 610,000 yen) to 15,000 yuan (approx. 260,000 yen) for a cruising distance of 150 km and by 23% from 44,000 yuan (approx. 750,000 yen) to 34,000 yuan (approx. 580,000 yen) for 250 km, but increased from 44,000 yuan (approx. 750,000 yen) to 50,000 yuan (approx. 850,000 yen) for 400 km or more. Regarding subsidies considering electric mileage, the lower limit was cut from 20,000 yuan (approx. 340,000 yen) to 4,500 yuan (approx. 80,000 yen) but the upper limit was raised from 48,400 yuan (approx. 820,000 yen) to 66,000 yuan (approx. 1.12 million yen). These changes are intended to encourage breakthroughs in core technologies.

Next, EV, PHEV, and FCV are treated differently. Subsidies were increased for EVs for their advanced technology, were maintained for FCVs, and were reduced for PHEVs. This indicates the government's intention to set EVs at the center of NEVs whilst continuing to foster FCVs as a promising technology.

Last, NEV promotion programs by local governments were revised. So far, local governments used to provide subsidies of up to half the amount of those of the central government. The notification does not refer directly to amounts, but urges local governments to abolish their local protective programs. The notification states that the central government will reduce subsidies for building charger infrastructure to any local government recognized as taking local protective actions. The aim is to develop a unified national market and develop a competitive NEV industry as a country.

China is reviewing and upgrading its NEV expansion program from a mid- to long-term perspective. The developments and effects of the program must be closely monitored.



#### **4. Russia: Presidential Election Nears Amid Mounting US-Russia Tensions**

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

The Russian presidential election is due to be held on March 18. Eight candidates including the incumbent president are standing, but without powerful contenders, President Putin is sure to be reelected. The Putin Administration is working desperately to boost the voting rate and votes won in an effort to show the legitimacy of the election both within and outside Russia.

Alexei Navalny, initially expected to win the votes of those dissatisfied with President Putin running for a fourth term (and a 24-year reign including as Prime Minister if he completes this term), has been barred from running by Russia's Central Electoral Commission in December 2017 on account of being convicted for embezzlement in 2013 (the European Court of Human Rights doubts the legitimacy of the ruling). Mr. Navalny has been calling the election a "farce" and demanding its boycott. Rallies were held in 100 cities nationwide including Moscow at the end of January 2018 in his support, but as with the case in March and July 2017, many participants including Mr. Navalny himself were placed under temporary arrest by the security forces.

The real GDP growth rate of Russia for 2017 turned positive for the first time in three years, up 1.5% year-on-year (preliminary report of the Federal State Statistics Service). The reasons include the recovery of oil prices since the latter half of the year and large-scale public investments including those for World Cup 2018 (with the President's associates rumored to be direct beneficiaries). However, with negative growth in real disposal income of -1.7% (est.) in 2017, living conditions for the general public are far from improving. Furthermore, with the West's economic sanctions threatening to affect corporate activities, clouding the future, more than 31 billion dollars of private capital fled the country (up 60% year-on-year).

Tensions continue to rise with other countries including the United States. On February 16, US Special Counsel Robert Mueller announced charges against 13 Russian individuals and 3 related companies over alleged intervention in the 2016 US presidential election. The indictment stated that Russia has been conducting a social media campaign since around 2014 to defame the Democratic Party's presidential candidate, Hillary Clinton. On February 17 at the Munich Security Conference, US Presidential National Security Adviser H.R. McMaster accused Russia of cyberattacks and intelligence manipulation in the West as incontrovertible facts, which Russian Foreign Minister Sergei Lavrov dismissed as "blabber". The Nuclear Posture Review (NPR) released by the United States on February 2 once again categorizes China and Russia as "strategic competitors".

With no end in sight to confrontation with the West and with no vision for rebuilding the domestic economy, many believe that President Putin's power base will gradually weaken even if he wins the upcoming election. It is necessary to watch closely whether the next administration will find effective solutions within and outside the country.



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**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**



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