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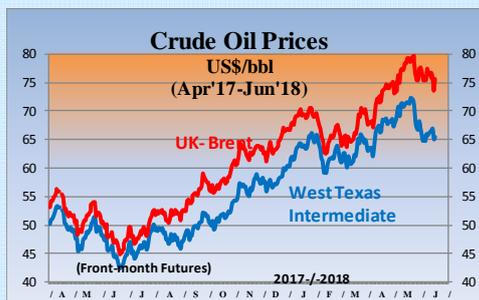
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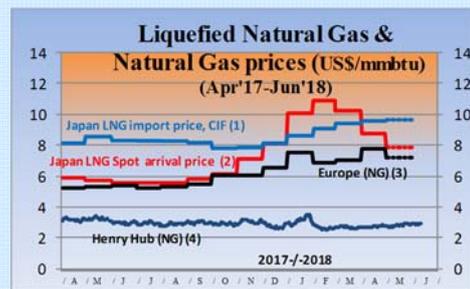
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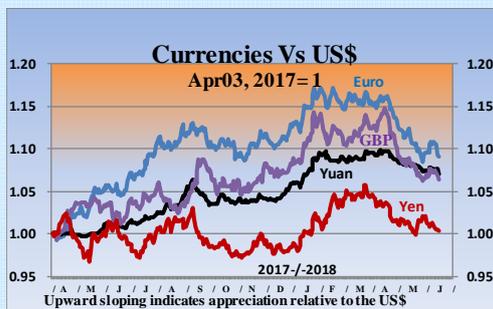


Source: DOE-EIA, Financial Times, NASDAQ



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

【World Monitoring】

1. US: Trump Administration's Non-Proliferation Diplomacy under the Global Spotlight

President Trump scrapped the Iran nuclear deal, whereas the United States and North Korea have been engaged in a denuclearization deal. Meanwhile, the development of Sino-DPRK close relationship has affected the US-China trade negotiations.

2. EU: Stance on the Iran Nuclear Deal (JCPOA)

The EU has consistently led efforts for a diplomatic solution to Iran's nuclear development issue, and has been deeply involved in the JCPOA. It remains firmly committed to maintaining the JCPOA even after the US announced its withdrawal.

3. China: Avoidance of US-China Trade War and China's Securing of LNG

The second US-China trade talks were held in Washington DC on May 17-18, and it was agreed to avoid a trade war. The agreement may boost China's imports of American LNG.

4. Russia: Russian Gas Expands Presence

Both Gazprom's pipeline gas export and Novatek's Yamal LNG project performed well in the earlier months of 2018. The Turk Stream and Nord Stream 2 pipeline projects attract attention.



1. US: Trump Administration's Non-Proliferation Diplomacy under the Global Spotlight

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On May 8, President Donald Trump announced US withdrawal from the Iran nuclear deal as promised in his campaign, and signed an executive order to resume sanctions against Iran under the National Defense Authorization Act (enacted at the end of 2011). On the same day, the leaders of the UK, France and Germany issued a joint statement urging the US to ensure that the basic framework of the deal remains intact, and to avoid obstructing its full implementation by the other parties to the deal. On May 21, State Secretary Mike Pompeo announced a comprehensive Iran strategy that would bring in "the strongest sanctions in history" and asked other countries to follow suit. While suggesting the conceivable implementation of "unprecedented sanctions," the State Secretary also clarified that the United States was prepared to lift the economic sanctions and restore diplomatic ties with Iran if the latter permanently abandons nuclear enrichment and the firing of ballistic missiles. The Trump Administration seems to have chosen this timing to declare its tough stance against Iran mainly to increase the psychological pressure on North Korea.

The denuclearization negotiation with North Korea remains tense and unpredictable. On May 9, at the time of the US State Secretary's visit to North Korea (the second including before taking office), Pyongyang released three US hostages. North Korean media highly evaluated "the alternative proposals by the US", saying that they had reached a "satisfactory consensus." On May 10, the following day, President Trump thanked Chairman Kim Jong-un and tweeted plans to hold a US-North Korea summit in Singapore on June 12. On May 13, State Secretary Pompeo mentioned in a TV news program that US private-sector companies might help develop North Korea's energy infrastructure if the country accepts complete, verifiable, and irreversible denuclearization.

However, on May 16, North Korea announced the cancellation of high-level talks with South Korea planned for the very day, angered by the country's joint military exercises with the US. Furthermore, North Korea's first vice minister of foreign affairs Kim Kye-gwan stated that "making a one-sided demand for us to give up our nukes would force us to reconsider whether we would accept the North Korea-US summit meeting." In the US administration, National Security Advisor John Bolton has suggested the possibility of the "Libya model" of denuclearization which did not trade denuclearization for a guarantee to preserve the regime. However, on May 17, President Trump made his first public reference to "guarantee of the North Korea regime" though conditional on the outcome of the negotiation.

China has displayed its presence and influence over the DPRK. Chinese Foreign Minister Wang Yi visited Pyongyang on May 3, and on the 7th and 8th, and Chairman Kim Jong-un paid a surprise visit to Dalian and met with President Xi Jinping for a second China-North Korea summit following the one in March this year. Meanwhile, despite holding two trade talks on May 3-4 (in Beijing) and on May 17-18 (in Washington DC), the United States and China reached a consensus on neither the proposed high tariffs and economic sanctions against China by the US nor the reduction of the US trade deficit with China, though both sides agreed to suspend imposition of the proposed massive tariffs. The denuclearization of North Korea is said to be a major bargaining chip between the two countries.

(Written on May 28)



2. EU: Stance on the Iran Nuclear Deal (JCPOA)

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On May 19, European Commissioner for Climate Action and Energy Miguel Arias Canete visited Iran for talks with Foreign Minister Zarif and Vice President and Head of Atomic Energy Organization Ali Akbar Salehi. Commissioner Canete and Vice President Salehi held a joint press conference after the talks, in which they promised the continued commitment of the European Commission and Atomic Energy Organization to the Joint Comprehensive Plan of Action (JCPOA). The joint statement mentioned joint EU-Iran nuclear safety projects including the stress test for Bushehr Unit 1, preparations for opening a nuclear safety center, and enhancement of the capability of Iranian Nuclear Regulatory Authority, once again emphasizing the EU's cooperative stance toward ensuring the safe and responsible use of nuclear power by Iran. Commissioner Canete's visit was an action by the EU to promptly demonstrate that it remains firmly committed to the JCPOA and will continue to cooperate with Iran regardless of the US' withdrawal.

The EU has consistently sought diplomatic solutions to Iran's nuclear development issue, with the UK, France and Germany being involved in the negotiations from the initial stage. A joint council of the three EU members, together the United States, Russia, and China, has been launched, and while the US and Israel did not rule out the option of military action from their negotiation policy, the EU consistently maintained its stance of seeking a diplomatic solution. The EU appointed its High Representative of the Union for Foreign Affairs and Security Policy as the negotiations coordinator with Iran and continued to seek opportunities for dialogue. This demonstrates the EU's strong will as a stakeholder which has been deeply involved first-hand in the establishment, continuation, and implementation of the JCPOA with Iran.

In response to President Trump's announcement to withdraw from the JCPOA, High Representative of the Union for Foreign Affairs and Security Policy Federica Mogherini released a statement on behalf of the EU. The statement expressed the EU's deep regret over President Trump's announcement, and declared its determination to work closely with the international community to maintain the JCPOA. The EU regards the JCPOA as a key element of the global nuclear non-proliferation architecture which is crucial for the security of the region. The EU further declared that as long as Iran continues to implement its nuclear-related commitments, the EU will remain committed to the continued full and effective implementation of the nuclear deal and to ensuring that sanctions can continue to be lifted. On May 18, with the approval of EU leaders at an informal meeting in Sofia, Bulgaria, the European Commission once again declared the EU's determination to protect the interests of European companies investing in Iran and the JCPOA.

While recognizing the US as an important partner and ally, the EU's position that the JCPOA is irreplaceable has not wavered. If the EU is to move closer toward the US, the US will have to take the first step by presenting a viable alternative to the JCPOA and what it can achieve, but this would not be easy. The EU will continue to face difficult choices so long as the US maintains its hard-line stance.



3. China: Avoidance of US-China Trade War and China's Securing of LNG

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On April 3, President Trump declared that the US would impose an additional 25% tariff worth 50 billion dollars (approx. 5.3 trillion yen) on Chinese products due to violation of IP rights, attempting to target 10 focus industries including industrial robots which China is developing under a national strategy. In response, the next day China announced the imposition of additional tariffs at the same rate on the same amount of US products, targeting soy beans which depend heavily on China and would significantly affect the November mid-term elections, which is of utmost concern for the President. Faced with the willingness of the US to start a trade war if necessary, China delivered a clear message that it will not bow. However, in fact, both countries want to avoid a damaging trade war, and their tough stances are merely bluffs to win concessions from the other party. Indeed, high-level trade talks have begun. The first meeting convened in Beijing on May 3-4, and both parties stated their views. Meanwhile, at the second meeting and the true start of negotiations on May 17-18 in Washington DC, a joint statement on avoiding a trade war was issued the day after the meeting.

The joint statement contained the following six items on which the parties agreed: (1) substantial increase of imports from the US by China to surly and effectively reduce the US trade deficit with China, (2) expansion of exports of US agricultural products and energy to China, (3) continued discussions on how to expand the trade of manufactured goods and services, (4) closer cooperation to protect IP rights and upgrading China's relevant laws including amending the "patent law," (5) accelerating mutual investment and creating a level playing field for competition, and (6) continuation of high-level talks to actively seek solutions to the trade issue which is a shared concern.

Regarding the high-level talks, Vice Premier Liu He, who led the Chinese delegation, told the state-run Xinhua News Agency on May 19 that the "greatest achievement was that the parties reached a consensus to not start a trade war or mutually impose tariffs." Meanwhile, Secretary of Treasury Steven Mnuchin, who led the US delegation, told US television CNBC that "both US and China agreed to suspend" the tariff war, acknowledging that a trade war has been avoided, though temporarily. Regarding gains from the talks, many experts in China gave credit to the fact that the US did not mention the 200 billion dollar reduction target for the trade deficit that the US has been strongly demanding, while China managed to protect China Manufacturing 2025, the pivotal industrial development strategy for the country's future, and thanks to external pressure, it is now easier to implement the existing policies of easing foreign direct investment regulations and reinforcing the protection of IP. Meanwhile, some are concerned that intensified competition and friction between the two countries is inevitable in the high-tech industry which is expected to grow.

The agreement to boost China's imports of American energy will help secure the supply of LNG in China. At the same time, the withdrawal of the US from the JCPOA in May amid objections from the international community may also work in China's favor in securing LNG. For example, according to media reports, French oil major Total may give up its 50.1% interest in the South Pars gas field off the Iranian coast of the Persian Gulf because of the US sanctions, in which case Chinese state-owned oil major CNPC, as Total's business partner with a 30% interest in the gas field and extensive experience in importing US LNG, may have a chance to buy the interest, conditional on exemption from US sanctions.



4. Russia: Russian Gas Expands Presence

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Ahead of the 2018 FIFA World Cup™ in June, Gazprom briefed in the middle of April that the company is expanding refueling infrastructure for natural gas vehicles (NGVs). In 2017, Gazprom constructed and renovated 23 NGV refueling facilities. The company's gas sales in the NGV market grew by 9.5% against 2016 to 526 million cubic meters (based on Russian unit of conversion). In 2018, Gazprom continues to build new CNG stations, with a total of 47 CNG stations expected to be active in the host cities of the event. According to the international industry association NGV Global, Russia has 145,000 NGVs, ranked 18th in the world. The enhanced infrastructure is expected to encourage wider penetration of such vehicles in the country.

At the end of April, Gazprom announced that the deep-water pipelay for Line 1 (out of four lines) of the TurkStream offshore gas pipeline, which will run from Russia to Turkey via the Black Sea, was completed. In the middle of May, Nord Stream 2 AG announced that it had started the offshore preparatory works for pipelaying in the Bay of Greifswald. In addition to Germany, offshore preparatory works have also started in Finland. So far, Germany, Finland and Sweden have granted all the necessary permits for construction and operation of the pipeline. The national permitting procedures in Russia and Denmark are still proceeding. Accordingly, scheduled construction works are to be implemented in 2018. On the background of revival of European gas demand, and developments of other gas supply including LNG imports, developments of additional pipeline capacity to import Russian natural gas to Europe attract attention.

According to the company's operational data, from January to May 2018, Gazprom increased gas exports to Europe by 5.8% compared to the same period one year earlier, following the healthy growth of pipeline gas exports to Europe in 2016 and 2017. Especially in late February and early March, when Europe was gripped by the extremely cold snaps, the company's daily gas flows to Europe established new records for ten straight days.

As one of the main contributors of the enhanced performance, Gazprom points to its own efforts to add more market-based instruments to its core portfolio of long-term contracts, offering its clients more flexible pricing and delivery conditions, responding to the evolving European gas market. In late May, the European Commission concluded its long-running (since 2011) antitrust investigation into the company's marketing practices in Central and Eastern Europe, requiring the company to allow free flow of gas at competitive prices in the regional gas markets. Meanwhile, the higher oil prices in 2018 are expected to pull up Gazprom's long-term contract gas prices with six- to nine-month time lags. An important question is how the company will respond to the developments, or potentially offering more flexibility.

The Yamal LNG project, led by Russian independent gas producer Novatek, shipped the second million tonnes of LNG produced at its first LNG train by early May, after starting operation in December. As the company had already indicated its plan to make a final investment decision (FID) on the Arctic LNG-2 project in early 2019, Total signed a binding agreement with Novatek to enter the project in late May. This represents another development to solidify Russia's position in the global gas market.



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