



# IEEJ e-NEWSLETTER

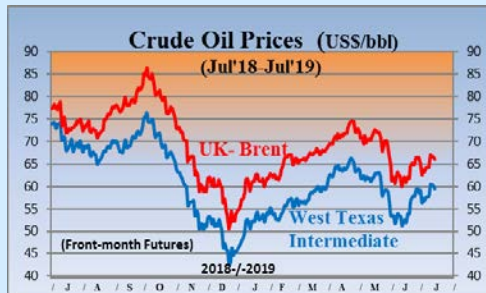
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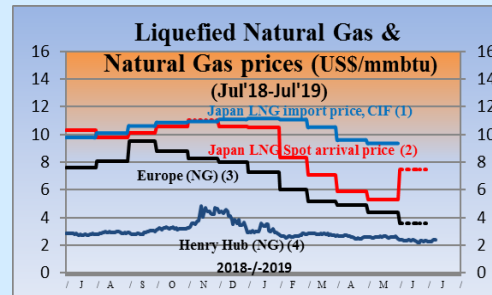
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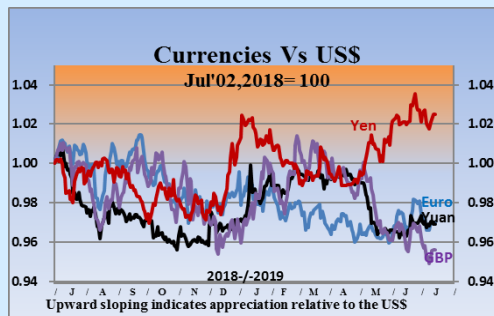
(As of July 15, 2019)



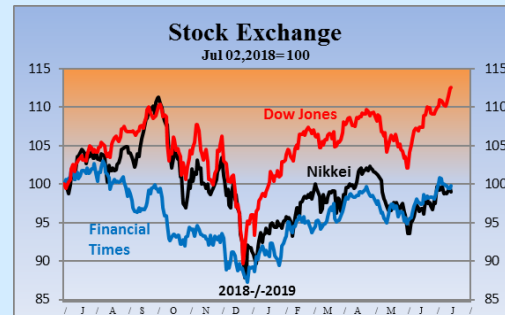
Sources:  
(1) DOE-EIA  
(2) Investing.com



Sources:  
(1) Ministry of Finance "Japan Trade Statistics"  
(2) Ministry of Economy, Trade and Industry (arrival month basis)  
(3) Estimated by World Bank (Netherland Title Transfer Facility)  
(4) DOE-EIA, NYMEX (Front-month Futures)  
(5) Investing.com and Finance.Yahoo.com



Source: x-rates.com



Source: Investing.com and Finance.Yahoo.com

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## Summary

### **【Global Monitoring】**

#### **1. US: Reaction to the Shooting-down of Its Drone**

The shooting-down of a US drone by Iran on June 20 escalated the tensions between the two countries. What action will the Trump administration take next?

#### **2. EU: Energy Union Takes a Step Forward**

Four new rules regarding the redesign of the EU electricity market were published in the EU Official Journal. The European Commission disclosed its assessment of member states' draft integrated national energy and climate actions and has requested the states to review and raise their targets.

#### **3. China: Preparing for a Battle of Endurance in the US-China Trade War**

China is preparing for a full-scale battle of endurance in the US-China trade war by considering introducing an unreliable entities list, banning rare earth exports, and adopting a “national technical safety management inventory”.

#### **4. Russia: Recent Developments in Gas Trade with Russia**

While Eastern European countries are reducing their dependence on Russian gas, a sanctions bill against Nord Stream 2 was submitted to the US Senate. The impact of the bill on the project and on gas transportation contracts through Ukraine must be closely monitored.



## 1. US: Reaction to the Shooting-down of Its Drone

**Ayako Sugino**, Senior Researcher  
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The shooting-down of a US drone by Iran on June 20 further escalated the tensions between the two countries. As usual, each side has a different story: the United States Central Command announced that the drone was flying over international waters in the Strait of Hormuz while the Islamic Revolutionary Guard claims that the drone was in Iranian air space. Alleged video footage of the incident has been published by both sides, but the facts remain unclear. Meanwhile, the Trump administration invited the leaders of both houses of Congress to the White House soon after the incident to explain the situation. Senate Minority Leader Chuck Schumer who attended the briefing commented that the president needs congressional authorization before taking any military action against Iran. A bill to that effect was submitted to the Senate.

On June 24, the Trump administration announced additional economic sanctions against Iran including against the country's supreme leader. He also said he had issued an order to conduct retaliatory attacks on June 20 which he later canceled due to the scale of potential Iranian casualties. However, Democratic congressional leaders had not been notified of the order, and President Trump, when asked if he has the authority to take military action without congressional approval, claimed that he does. The US action this time was determined based on whether Iran had "crossed the red line." Prior to the shooting-down, an official close to the president had made a personal comment that any attack on a US vessel or citizen would trigger retaliation, and Vice Chairman Paul Selva of the Joint Chiefs of Staff had said that the definition of "the red line" may be expanded to include "attacks on US assets." After the incident, the president tweeted that it would have been a different story if the aircraft had been manned, that is, if American lives had been lost.

Behind the comments on a "red line" and the use of American military force lies the view that President Obama let the Assad administration inhumanely attack the rebels by not using force when Assad used chemical weapons, crossing the red line that President Obama himself had set. Some war-mongering members of the Republican Party believe in the appropriate use of force to ensure that indecisiveness by the United States does not lead to an expansion of conflict again. National Security Advisor John Bolton is considered to be one such person, but President Trump appears to be holding to his campaign promise in 2016 to "withdraw from endless wars."

Even some US hard-liners against Iran praise President Trump for his restraint this time. The hard-liners believe that Iran's aim is to provoke the US but without causing American casualties so as to bring the Trump administration to the negotiating table and to lift the economic sanctions which are hurting the Iranian economy. The US should not fall into this trap and should continue to apply maximum economic pressure. President Trump has stopped short of starting a war this time, but the situation remains as combustible as during the Cuban Missile Crisis with the president believing that he can order military attacks without congressional approval. Politics must address this situation through two means: the US-Iran hotline between leaders, and institutional measures in the US to require greater care in the use of military force. (As of June 26)



## 2. EU: Energy Union Takes a Step Forward

**Kei Shimogori**, Senior Researcher  
Global Energy Group 1  
Strategy Research Unit

On June 14, four new rules regarding the redesign of the EU electricity market, which is a part of the Clean Energy for All Europeans package, were published in the EU Official Journal. With the enactment of these rules, the Energy Union strategy, one of the top priorities of the sitting European Commission, took another step forward. The revised electricity regulation imposes a strict CO<sub>2</sub> emission cap on the power plants subject to a capacity mechanism system. Among the thermal power plants (fossil fuel powered) started commercial production on or after 4 July 2019, those with an emission intensity of over 550 g-CO<sub>2</sub>/kWh will not be eligible for a capacity mechanism (a conventional Japanese coal-fired power plant has an emission intensity of 867 g-CO<sub>2</sub>/kWh and a conventional LNG-fired power plant an intensity of 415 g-CO<sub>2</sub>/kWh). Further, starting 1 July 2025, the 550 g-CO<sub>2</sub>/kWh cap and an annual average emission of 350 kg-CO<sub>2</sub>/kW cap will be applicable to power plants that began operating before July 2019.

The EU Energy Union strategy aims to provide stable, sustainable, competitive, and affordable energy to consumers by updating the energy and climate change policies of Europe, and requires the EU member states to formulate energy and climate plans for 2021 through 2030 to meet this goal. On June 18, the Commission published its assessment of member states' draft integrated national energy and climate plans (NECPs). According to the assessment, the collective contribution of the plans of the member states will reach neither the EU's Energy Union objective nor the 2030 objective. Specifically, the aggregated contribution will fall short of the objective by 1.6 percentage points for renewable energy and 6 percentage points for energy efficiency (final energy consumption). In view of the large gap, the Commission has required all Member States to review and raise their targets for energy efficiency. It is important to monitor how far Member States can raise their individual targets in their final plans and present specific initiatives to implement them.

Regarding climate actions, on June 12, British Prime Minister Theresa May announced that a goal to achieve net-zero GHG emissions by 2050 will be incorporated into the law. This will be done by revising the clause in the 2008 Climate Change Act, which currently sets a GHG emission reduction goal of 80% from 1990 levels by 2050, to 100%. The draft amendment is expected to be approved by parliament without problems after deliberation. The United Kingdom will thus become the first G7 country to legislate a net zero emission target for 2050, ahead of other major economies.

Meanwhile, domestic politics in the UK remain in chaos. With the resignation of Prime Minister May in early June as Conservative leader, a leadership battle is now under way. As of June 20, the race is led by former foreign minister Boris Johnson, who does not rule out taking the UK out of the EU without a deal. MP Johnson claims that the UK can continue to trade freely with the EU for up to 10 years based on Article 24 of the GATT, but according to an explanatory statement from the House of Commons Library, application of Article 24 requires a trade agreement to be in place, which would not be the case if Britain leaves without a deal. It is not clear whether the new party leader, who will be elected on July 22, will be able to solve the parliamentary deadlock over Brexit. (As of June 26)



### **3. China: Preparing for a Battle of Endurance in the US-China Trade War**

**Li Zhidong**, Visiting Researcher  
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On June 2, the State Council issued a white paper “China’s Position on the China-US Economic and Trade Consultations.” In the report, the State Council argued that the trade war initiated by the United States has done serious damage not only to the two economies but also to the entire global economy, and held the US solely responsible for the inconclusive US-China trade talks in early May. Further, China reiterated its stance that “China does not want a trade war, but does not fear one and will fight one if necessary,” “will not bow under pressure from a foreign country,” and “will conduct consultations based on equality, mutual benefit, sincerity, and trust.” The report also clearly presented prerequisites for reaching an agreement: removing all additional tariffs imposed by the US, setting rational numerical targets regarding the expanded imports of US goods, and ensuring a proper balance in the text of the agreement. This strong message is unprecedented, declaring that there will be no deal unless these conditions are met. Accordingly, newspapers such as the Global Times, which is linked with the Communist Party’s official newspaper, the People’s Daily, said that the US aims to halt China’s continued rise and argued that China must stand up to the US at all costs to secure its right to develop. China has made it clear that it will fight a full-scale battle of endurance against the US if the US continues to turn the screws by expanding the scope of additional tariffs and strengthening the technological blockade against Chinese high-tech firms.

As a specific measure for direct confrontation, on June 1, China raised its additional tariffs imposed on \$60 billion worth of US goods from a maximum of 10% to up to 25%. This retaliation was in response to the US raising additional tariffs on \$200 billion worth of Chinese goods from 10% to 25% on May 10. In addition, at the end of May, the Ministry of Commerce began to consider implementing an “unreliable entity list” to prohibit trade with foreign companies that undermine the interest of Chinese companies and cause serious damage to them, while in early June, the National Development and Reform Commission suggested the establishment of a “national technology and safety management list” which could ban exporting rare earths and advanced technologies including the refining of rare earths. This measure, which would counter the US ban on the telecom company and new 5G leader Huawei, would deal a heavy blow to highly China-dependent US telecom manufacturers as well as other high-tech industries and the military industry for which rare earths are essential. This would naturally also hurt China through reduced exports and more unemployment, but the country has chosen to push back against US pressure even if it comes at a price.

Under such circumstances, on June 18, President Xi Jinping and President Donald Trump spoke over the phone. They agreed to hold a summit in time for the G20 summit in Osaka at the end of June, and as preparations for the summit, to resume the trade talks that have been suspended since early May. The national Xinhua News Agency and others judged that China’s willingness to fight has caused the US to fear further damage and to switch directions from pressure to dialog, and praised the government’s policy of resistance. Simultaneously, they said that China should not be optimistic about the outcome of the summit or trade talks, and predicted that the US will not stop putting pressure on China regardless of whether there is a change in government in next year’s US presidential election, and that it is crucial for China to take proper action to ensure it can respond to any situation and to enhance its overall national strength and international influence.



#### 4. Russia: Recent Developments in Gas Trade with Russia

**Sanae Kurita**, Senior Researcher  
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On June 6 through 8, the Saint Petersburg International Economic Forum was held, attended by Russian President Vladimir Putin, Chinese President Xi Jinping, Bulgarian President Rumen Radev, and Prime Minister Peter Pellegrini of Slovakia and others. Leaders of Western countries did not participate. Regarding the sale of an equity stake in the LNG project Arctic LNG 2 being planned by Novatek in the Arctic Ocean, Novatek signed a stock transfer agreement with subsidiaries of the China National Offshore Oil Corporation (CNOOC) and a subsidiary of the China National Petroleum Corporation (CNPC), reconfirming the sale of a combined stake of 20%. Reports came out during the Forum that Novatek was in negotiations with Japanese companies and Saudi Aramco on the sale of an additional 10%, but no announcements followed. As of June 2019, Novatek holds a 90% equity stake in the Arctic LNG 2 project and France's Total holds 10%. Novatek apparently intends to keep a stake of at least 60% even after the transfers to the two Chinese companies and others.

With the Russia-Ukraine gas transit agreement due to expire at the end of 2019, Eastern European countries are taking measures to secure stable gas supplies including developing new transportation routes, diversifying supply sources, and increasing underground gas storage facilities. For example, Bulgaria will strengthen its gas pipeline network with neighboring countries with the support of the EU while reducing its dependence on Russian gas imports. On May 31, Energy Minister Temenuzhka Petkova said that the first ship carrying US LNG (produced by US Cheniere) had arrived at the Revithoussa LNG terminal in Greece, and an agreement has been signed with the US subsidiary of BP on a second ship. Both transactions are being handled by Dutch trader Kolmar NL.

Poland is putting top priority on reducing its dependence on Russian gas. The country has announced plans not to renew the gas purchase contract with Russia when it expires in 2021, and instead to proceed with the Baltic Pipeline plan which imports Norwegian gas and to expand LNG imports from the US and others. On June 12, during Polish President Andrzej Duda's second visit to the United States this year, Polish oil and gas firm PGNiG signed a contract with US Venture Global LNG to import 1.5 million tonnes of LNG per year. Further, President Trump has mentioned supporting the construction of the Baltic Pipeline and expanding cooperation in the use of civil nuclear power. Meanwhile, even in Eastern Europe, circumstances differ for inland nations such as Hungary and Slovakia, which plan to renew gas import contracts with Russia while optimizing the energy mix by increasing nuclear and renewables.

On June 13, the Energy Security Cooperation with Allied Partners in Europe (ESCAPE) bill was submitted to the US Senate. The bill imposes sanctions on individuals and companies involved in the Nord Stream 2 international gas pipeline project which connects Russia and Germany via the Baltic Sea. The proposed sanctions target individuals and companies that invest over \$1 million or over \$5 million in 12 months in the project, or engage in construction business worth an equivalent amount for the pipeline. The project has gained a transit approval from all countries on the route except Denmark, but developments must be closely monitored as the construction period could be prolonged and costs could rise depending on the course of deliberations on the ESCAPE bill, and could affect the gas transit negotiations between Russia and Ukraine as well. (As of June 26)



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