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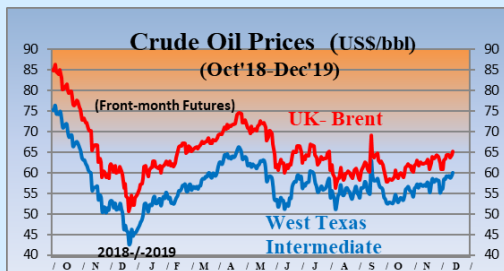
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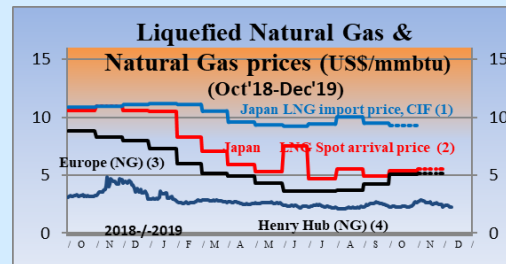
The Institute of Energy Economics, Japan

(As of December 13, 2019)



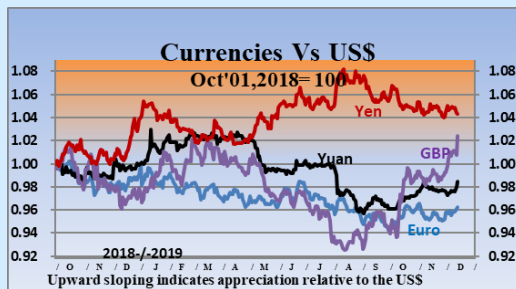
Sources:

- (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

1. US: Demographic Change in Texas and Its Impact

Texas is seeing growing resistance to pipeline construction at the municipal level as environmental awareness rises with the change in demographics. Such changes may affect the political power map.

2. EU: Decarbonizing the Transport Sector

European think-tank Farm Europe released its analysis of the decarbonization target for the EU transport sector. The report pointed out that member states' proposals may not be effective as none of them includes any calculation of cost effectiveness.

3. China: Stepping Up Efforts to Uphold the Paris Agreement

As the US heads to leave the Paris Agreement, China is stepping up international cooperation and domestic measures to uphold it. The two countries are coordinating with a view to signing a phase one trade deal.

4. Russia: Recent Developments in Russian Gas Exports

As Russia's international gas pipeline projects head toward completion by the end of 2019, Poland has broken away from its reliance on Russian energy by not renewing an import contract. The gas contract negotiations with Ukraine remain stalled.



1. US: Demographic Change in Texas and Its Impact

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In November, a resolution opposing the construction of a pipeline in a region susceptible to environmental change was proposed by the San Antonio City Council in Texas. The resolution itself opposed plans by Houston company Enterprise to build oil and gas pipelines running from the Permian Basin in the heart of the shale boom to Houston. However, the resolution adopted by the City Council represents opposition against any such pipeline projects in the future even if the initial project was withdrawn. Already 19 surrounding cities and towns have filed similar resolutions. For an area that has traditionally hosted many pipelines and is known to be pro-oil industry, this movement is certainly surprising.

Behind such opposition lies the rising environmental awareness of local residents, but the state government of Texas considers oil to be a key industry and is not sitting back idly. In June 2019, the state passed and implemented a law that would press criminal charges against any attempt to sabotage key infrastructure including pipelines and ports. Similar laws have been proposed in at least 16 states and approved in nine of them in the past three years amid a rise in environment-motivated opposition against energy infrastructure, symbolized by the Keystone XL and Dakota Access PL which has been deadlocked since the final days of the Obama government. The law has sparked opposition as a violation of the First Constitutional Amendment that guarantees freedom of speech, assembly, and petition as it could punish peaceful protests. It symbolizes the ideological polarization of society in America today.

The background to the rise in environmental awareness among Texans is complex. Texas has seen a sharp population increase, particularly in its cities. Six of the ten cities in the U.S. with the fastest population growth are reckoned to be in Texas. The influx of people is increasing racial diversity, and the new urban residents tend to be more liberal and environmentally aware, and to be less involved in the oil industry than traditional residents. They also participate more actively in politics than existing non-white residents of Texas. As a result, Republican candidates have been struggling in all federal, state, and municipal elections in the state in the past five years. This change in political climate associated with the shift in demographics may not only alter the business environment of the oil industry and fossil fuel-intensive manufacturing industry, but may even transform Texas, a stronghold of Republican presidential candidates for the past 30 years, into a swing state in 2020 and a Democratic state in 2024. This real possibility is finally being debated.

Such a demographic change is in fact occurring throughout the country, and is one of the reasons why formerly Republican southern states such as Arizona and Georgia have become swing states while traditionally Democratic northern cities like Philadelphia and Detroit are becoming more conservative. How will the political parties adjust their policies to respond to the transformation of American society brought about by demographic change? How will the power map of the parties change as a result? The dynamic change in U.S. politics deserves attention.



2. EU: Decarbonizing the Transport Sector

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Under the ambitious decarbonization target of the EU, decarbonizing the transport sector has become a key issue to be addressed. Each EU member state is required to submit the final version of its National Energy and Climate Plan (NECP) for 2021-2030 to the European Commission by the end of 2019. Regarding the NECP, an interesting report was published by Farm Europe, a think-tank specializing in the farming sector, analyzing the NECPs of the member states to determine whether they can achieve the EU's decarbonization targets for transport.

The report points out that the member states' proposals stated in their draft NECPs may not be effective as none of them includes any calculation of cost effectiveness. According to the report, only seven countries (Czech Republic, Finland, France, Greece, Hungary, Italy, and Slovenia) considered all of their transport options realistically, while three countries (Finland, Italy, and Spain) presented clear decarbonization plans for their transport sectors. While cost is key in transport decarbonization, none of the NECPs contains a calculation of carbon abatement cost or a ranking based on the costs of transport decarbonization options. Furthermore, none of the NECPs clearly answered the question of how much transport decarbonization will cost up to 2030. The report points out that many member states including Germany, Sweden, the Netherlands, and Poland are relying on electromobility without specific measures.

Farm Europe presents a calculation of the carbon abatement cost based on the current NECPs. On average, the cost in the EU came out at 521 euro/tCO₂, with the lowest being for Finland (225 euro/tCO₂) and the highest for Cyprus, Portugal, and Sweden (772 euro/tCO₂), though these results are merely for reference. However, the thrust of the report that there is inadequate discussion of cost by the EU or member governments is reasonable. The member states and the European Commission are expected to conduct realistic analyses that would underpin the feasibility of the ambitious targets for the final version of the NECPs scheduled for the end of the year.

The outcome of the December 12 UK general election is likely to significantly affect the course of Brexit. A poll released on November 20 shows 42% support for the Conservative Party led by Prime Minister Boris Johnson, far above the Labor Party at 31%. Apart from the heated issue of Brexit, the Oil and Gas Authority (OGA) of the UK published a report on November 2 concluding that today's technologies cannot accurately predict the possibility of weak earthquakes associated with hydraulic fracturing. Based on this report, the UK government decided to halt all further hydraulic fracturing. Along with the elections and Brexit, the domestic energy policies of the UK must also be monitored.



3. China: Stepping Up Efforts to Uphold the Paris Agreement

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Despite both having played a key role in forming an international consensus on the Paris Agreement and its prompt entry into effect, the United States and China have taken separate paths since the US Trump Administration came into power. As the US heads to leave the Agreement, China is stepping up efforts to uphold it.

President Trump first announced the withdrawal of the US from the Agreement in June 2017. In response, the Chinese government stated that “the Agreement embodies the broadest consensus of the international community, and should be followed by each country in good faith,” and declared that China would “fulfill its Nationally Determined Contribution 100%.” On November 4 this year, three years after the Agreement went into effect, the Trump Administration notified the United Nations of the US’ withdrawal from the accord. Two days later, on November 6, President Xi Jinping and President Emanuel Macron jointly issued the Beijing Call for Biodiversity Conservation and Climate Change in Beijing. In this statement, the two leaders state that the Paris Agreement is an irreversible process for strong action on the climate and called on the international community to ensure full and effective implementation of the Agreement, to update their nationally determined contributions in a manner reflecting their highest possible ambition, and to publish their mid-century long-term low greenhouse gas emissions development strategies by 2020. Then, on November 14, the BRICS Summit of five emerging economies (Brazil, Russia, India, China, and South Africa) convened in Brazil’s capital Brasilia and adopted the Brasilia Declaration, which stipulates that the countries should implement the Paris Agreement in light of their different national circumstances. Through these actions, China has demonstrated to the international community its unwavering commitment to the Agreement and is stepping up its presence as the driver of global warming prevention.

China has submitted a voluntary medium-term action target for 2020 to reduce its CO₂ emissions per unit GDP (emissions intensity) by 40-45% from 2005 levels, and an NDC (Nationally Determined Contributions) to reduce the emissions intensity by 60-65% by 2030. Within the country, the government has promoted decarbonization measures by drawing up a five-year plan that guarantees “100% implementation” of the goals. As a result, China decreased its emissions intensity by 45.8% from 2005 levels by 2018 and surpassed the upper bound of the 2020 action target range two years earlier than scheduled. The focus is now on how far China will raise its 2030 NDC and what kind of 2050 decarbonization strategy it will submit. There are high expectations for China to take the initiative by setting an example and carrying out its promise.

Regarding the US-China trade talks, the two countries started final adjustments for signing a phase one trade deal after the 13th ministerial talks held on October 10-11. Meanwhile, In early November, the Chinese Ministry of Commerce announced that both sides had agreed to remove the additional tariffs imposed in phases, while stressing that the phasing-out is a prerequisite for reaching a deal. However, President Trump denied that he had made such a promise. Furthermore, in response to President Trump’s comment that the Chinese supply chain is “broken like an egg” and that China needs a deal more than the US does, Global Times, an affiliate of the Communist Party’s official newspaper, the People’s Daily, struck back in its editorial, questioning how the US could break China’s supply chain, the strongest in the world, when it cannot even break one Chinese company, Huawei, despite using public power, and argued that it is not China but the United States that is feeling under pressure. It is not clear when and what kind of deal will be reached through such diplomatic jockeying between the two sides.



4. Russia: Recent Developments in Russian Gas Exports

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According to statistics released on November 13, Russia's GDP for the third quarter of 2019 increased 1.7% year-on-year (up 0.9% from the previous quarter). Strong growth in the agricultural and industrial sectors (5.1% and 2.9%) apparently pushed up overall GDP. Gazprom's three international gas pipeline construction projects (total transport capacity of 124.5 billion m³) are all reportedly making progress, with completion scheduled by the end of the year. Meanwhile, the prospects for Russia's gas exports are threatened by the termination of the gas import agreement with Poland and the gas transit issue in Ukraine.

On October 29, Gazprom announced the completion of feeding gas into Power of Siberia (38 billion m³), the company's gas pipeline to China. The gas from the Chayanda gas field in Sakha Republic reached Blagoveshchensk city near the Russia-China border, and thus the supply of gas to China is ready to start. Thereafter, gas will be fed to the border area down the Amur River. On October 30, the Danish Energy Agency granted permission to lay pipelines in its exclusive economic zone (EEZ) to the operator of Nord Stream 2 (55 billion m³), a European pipeline of Gazprom which delivers Russian gas to Germany via the Baltic Sea. Preparations for laying the pipeline in the Danish EEZ were to start thereafter, but several months may be required from the start of laying to the start of operation (Energy Minister Novak), so the pipeline is unlikely to be completed within this year. On November 19, Gazprom announced that both "strings" of TurkStream (31.5 billion m³) have been filled with natural gas; one of them connects from Anapa on the Black Sea coast of Russia to the receiving terminal on the Turkish coast near the Kiyikoy settlement.

On November 15, Poland's state-run oil company PGNiG announced that it would end its natural gas purchase contract with Gazprom on December 31, 2022 when it expires. Based on a clause in the contract, PGNiG was required to give three years' prior notice to Gazprom by December 31, 2019 on whether to renew the contract for 2023 and beyond. In addition to starting to import LNG in 2016, Poland has secured new sources and routes for buying natural gas including the Baltic Pipe Project, which had just been given a construction permit by the Danish government on October 25 and is to be completed in October 2022. The country is at last breaking away from years of reliance on Russian gas. In recent years, the Polish government has been strengthening its energy security by diversifying its gas supply sources by signing long-term LNG contracts with countries other than Russia, acquiring an upstream development interest in Norway, and through the Baltic Pipe Project.

On November 18, Gazprom made an official proposal to Ukraine's state-run oil and gas company, Naftogaz Ukrainy, suggesting to either renew the existing agreement or sign a new, one-year agreement for both the gas supplied to Ukraine and the gas for Europe transiting through Ukraine. Withdrawal of the dispute between the countries at an international arbitration court was made the precondition for both agreements. In response, Ukrainian Energy and Environmental Protection Minister Oleksiy Orzhel stated in no uncertain terms that Russia's proposal is totally unacceptable. East European countries are increasing their gas stockpiles to brace for possible supply disruptions resulting from the collapse of the Russia-Ukraine negotiations. The gas negotiations between the two countries, intermediated by the EU, must be followed.



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