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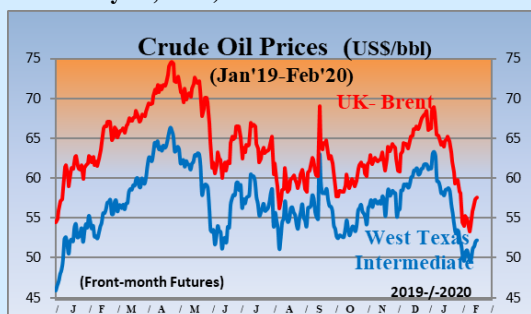
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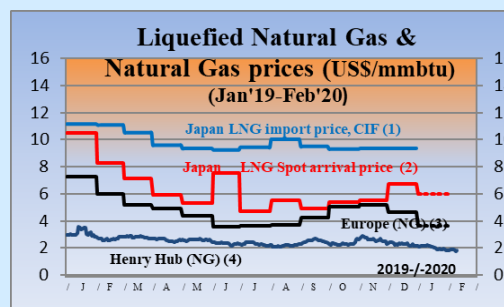
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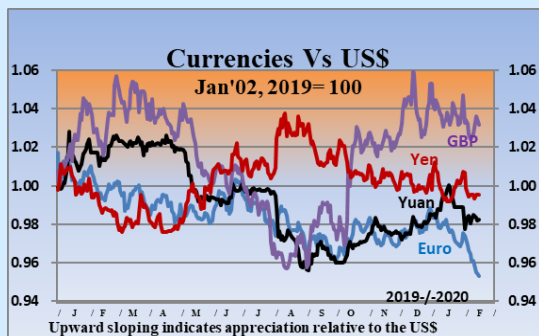


Source: DOE-EIA, Financial Times, NASDAQ

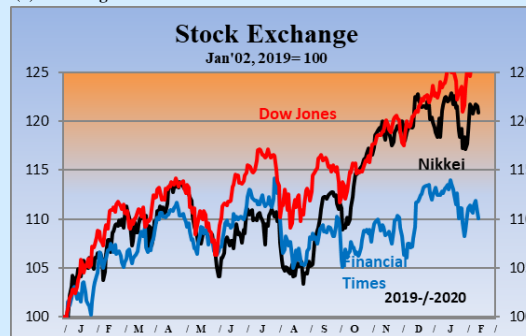


Sources:

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



Source: x-rates.com



Source: Financial Times

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Summary

【Global Monitoring】

1. US: Disclosure of Corporate Climate Risk Information

There are increasing moves to disclose the impact of climate risk on a company's finances and sales in both financial regulation as well as judicial and legislative areas. Future developments deserve attention.

2. EU: Announcement of the Just Transition Mechanism

The European Commission published the Just Transition Mechanism (JTM). The Mechanism will mobilize funds worth at least 100 billion euros between 2021 and 2027 to support those regions affected by the efforts to achieve the climate neutrality target.

3. China: Will Ceasefire Lead to End of Trade War with the US?

On January 15, the United States and China signed the phase one Economic and Trade Agreement. However, it will not be easy to end the trade war completely. Maintaining a ceasefire for as long as possible is the only realistic target for both countries.

4. ME: Risk of US-Iran Clash Subsides While Tensions Remain High

A full US-Iran clash triggered by the US military's assassination of an Iranian commander was averted. However, the nuclear deal is now on the verge of collapse, and extreme tension is likely to persist for sometime to come with the US exerting maximum pressure and Iran fighting back.

5. Russia: Gas Transit in Ukraine and Establishment of the New Cabinet

Russia and Ukraine agreed to extend the gas transportation agreement for Europe in December, thus avoiding disruption to gas supplies in Europe. A reform of the political system was announced and a new cabinet was launched in January. Developments must be closely monitored.



1. US: Disclosure of Corporate Climate Risk Information

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On December 10 last year, in a lawsuit filed by the state of New York and others alleging that ExxonMobil misled investors by disclosing inaccurate information about the risks posed by climate change on the company, the New York City Supreme Court, the court of first instance, ruled that the state has not presented sufficient evidence. The case was filed under the Martin Act, which grants the New York State Attorney General expansive law enforcement powers to conduct investigations on illegal securities and commodities trades. The Attorney General's Office launched investigations in 2015, but environmental groups were already considering in 2012 a strategy of applying the RICO Act to the energy industry. The Act allows civil damages lawsuits to be filed by a party "damaged in his business or property" by an illegal act. In 2015 environmental groups and federal lawmakers requested the Department of Justice and the Securities Exchange Commission (SEC) to investigate; however, responding to the requests, investigations were first launched by the New York State Attorney General's Office and then the California Department of Justice then led by Senator Kamala Harris, who has recently withdrawn from the race to be nominated as the Democratic candidate for the 2020 presidential election.

The SEC requires listed companies to report any incidents, uncertainties, and other factors that could be reasonably expected to have a substantial impact on the company's finances and business conditions. In 2010, the SEC decided that climate change should be included in the above and released guidance regarding the disclosure of climate risk. However, US corporations continue to delay in disclosing climate risk information, and the SEC was also criticized for being reluctant to disclose climate risk information. In 2018, the SEC wrapped up its investigations on ExxonMobil and concluded that no notable defects had been found in the company's information disclosure. Some believe that the SEC has become even more reluctant under President Trump, who stated in an executive order in April 2019 that for corporate information disclosure in the capital markets, it is sufficient to disclose information to the extent "there is a substantial likelihood that a reasonable shareholder would consider it important." In fact, the SEC's investigation capabilities are limited as it does not have the authority to press companies to disclose internal documents unlike the New York Justice Department and thus has no access to primary information held by companies.

To close this loophole, in July 2019, Senator Elizabeth Warren (Democratic, Massachusetts) reintroduced her climate risk disclosure bill alongside 16 Democratic lawmakers. The bill appears unlikely to get the 60 votes necessary for it to pass, and even if it did, the bill does not give any enhanced investigation authority to the SEC, but only requires it to set rules regarding the scope of climate risk assessment by companies and the form for reporting them. As such, the SEC is unlikely to become as eager to enforce climate risk disclosure as the New York Attorney General.

Senator Warren has also written to the biggest US financial institutions this month, asking them to disclose details of their assessments of and preparations for financial market risks related to climate change. She also introduced a bill that orders the Federal Reserve Board (FRB) to analyze the climate risks of the financial market alongside nine other Democratic Senators in November last year, and in the same month, the Federal Reserve Bank of San Francisco held a debate on the impact of climate change on the financial system and macroeconomy and the role of the FRB. If the FRB, as the supervisor of financial institutions, decides to issue rules on the climate risks of companies that financial institutions invest in or lend to, it could accelerate fossil fuel divestments by financial institutions, which have so far been driven by corporate social responsibility and reputational perspectives.



2. EU: Announcement of the Just Transition Mechanism

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On January 14, the European Commission published the Just Transition Mechanism (JTM). The Mechanism will mobilize funds worth at least 100 billion euros between 2021 and 2027 to help alleviate the social and economic impact of the energy transition on those regions that are most affected as the EU strives to achieve climate neutrality by 2050. JTM provides financial support through three channels: the Just Transition Fund (JTF), the Just Transition scheme under InvestEU, and a public-sector loan facility with the European Investment Bank. Among them, JTF of 7.5 billion euros comes from the EU budget and will be allocated to regions as grants (such as to help workers develop skills and competencies, assist start-ups and incubators, and support investments in a clean energy transition as in energy efficiency).

Two billion euros as the upper limit of funds were allocated to one member state under JTF, and the amount each member receives was calculated based on data such as the amount of GHG emissions, brown coal and oil shale production, fossil fuel-related jobs, and per-capita GNI. As a result, Poland is temporarily slated to receive the largest portion of JTF with 2 billion euros, followed by Germany with 877 million euros, Romania with 757 million euros, and the Czech Republic with 581 million euros. The member states cannot receive these funds automatically, but must draw up a transition plan for the region and have it examined before the funds are disbursed. According to media reports, French President Emmanuel Macron has warned that JTF will not be paid out to a member state unless it accepts the 2050 climate neutrality goal. Additional standards for the payout of JTF may be established after the European Parliament and the EU Council review the Commission's proposal. JTF will be allocated from the EU's next long-term budget currently being discussed. This will be the first long-term EU budget to reflect the UK's exit, and some member states are opposing raising the contribution by each member. Attention must be paid to the course of discussions on the budget, as well as on how JTF will actually be disbursed.

On January 16, in Germany, which is due to receive the second largest slice of JTF after Poland, the federal government and state governments signed an agreement which includes closing all domestic coal-fired power plants by 2038 and providing 40 billion euros in compensation to coal-producing regions. The German government has also pledged to secure 4.35 billion euros for RWE and other public utilities which will close some of their coal-fired power plants prematurely. While this is part of the effort to achieve the 2030 target to reduce GHG emissions by 55% from 1990 levels, environmental groups point out that the government does not really understand the climate crisis as most of the plants will not close until at least 2030 and there are plans to build smokeless coal-fired power plants. Alongside the EU's initiatives to exit from fossil fuels like JTM, Germany's domestic policies must continue to be watched.



3. China: Will Ceasefire Lead to End of Trade War with the US?

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On January 15, US President Donald Trump and Chinese Vice Premier Liu He signed the phase one Economic and Trade Agreement at the White House. Immediately afterwards, the US released the Agreement document and the fact sheets in English, while China released the Chinese and English versions of the Agreement. Through the media reports on the signing ceremony and the release of the Agreement document, the two countries declared to their people and the international community that the US-China trade war, which began in July 2018, has reached a ceasefire.

The Agreement consists of chapters on (1) intellectual property, (2) technology transfer, (3) trade in food and agricultural products, (4) financial services, (5) macroeconomic policies and exchange rate matters and transparency, (6) expanding trade, (7) bilateral evaluation and dispute resolution, and (8) final provisions. All are areas which the US considers problematic, and there are debates on whether the Agreement is fair for both parties. For example, regarding the protection of intellectual property, the Agreement provides that both countries shall agree to strengthen cooperation on trade secret protection, and regarding technology transfer, that neither party shall require or pressure persons of the other party. Regarding the most closely-watched area of trade expansion, the Agreement states that China will increase its purchases of American goods and services by no less than 200 billion dollars on top of the 2017 baseline in the next two years. It goes on to set numerical targets for the annual increases for each product category, for example, 32.9 billion dollars for manufactured goods, 12.5 billion for agricultural products, 18.5 billion for energy, and 12.8 billion for services, totaling 76.7 billion dollars for 2020. It may seem as though the US has forced these targets on China which is reluctant to set numerical targets due to concern over the competitiveness and supply capabilities of American products, but this is not necessarily so. The Agreement addresses China's concern by clearly requiring the United States to take appropriate steps to supply high-quality, competitively priced goods and services in sufficient quantities to China, and both Parties will make purchases at market prices based on commercial considerations.

On January 21, the United States officially announced that it will lower the "fourth round" of additional tariffs imposed on 120 billion dollars of Chinese products in September 2019 to 7.5% from 15%, reducing it by half, as of February 14 when the Agreement becomes effective. According to China's statistics, the total amount of US-China trade decreased by 14.6% year-on-year to 541.2 billion dollars in 2019, with exports to the US decreasing by 12.5% to 418.5 billion dollars and imports from the US declining by 20.9% to 122.7 billion dollars. The intensifying US-China trade war was the main reason for the decline. As such, US-China trade should hopefully expand in both imports and exports from this year after the Agreement takes effect and the US lowers the additional tariffs.

However, this Agreement is still a "phase one" deal. The United States is still maintaining the 25% additional tariff it has imposed on approx. 250 billion dollars of imports from China leading up to the "third round." In the upcoming trade negotiations, China will aim to abolish all of the additional tariffs currently imposed on 370 billion dollars of Chinese products, including the 120 billion for which additional tariffs will be lowered through the phase one deal. China is also likely to continue to reject the US' technological blockade against China intended to maintain US technological hegemony or any interference in China's internal politics including the development of technology and industry. Accordingly, it is difficult to predict when or how the trade war will end; maintaining the ceasefire for as long as possible is the only realistic target for both countries. China must faithfully implement the Agreement while deepening its reforms and opening-up, maintaining stable growth, and building up national power.



4. ME: Risk of US-Iran Clash Subsides While Tensions Remain High

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The assassination of an Iranian military commander by US forces on January 3 and Iran's retaliation on January 8 led to global fears of a full clash between the US and Iran. Escalation of the conflict was averted, however, as President Trump withheld from striking back against Iran's retaliatory attacks on its military base in Iraq, and merely tightened economic sanctions against the country. However, the situation remains volatile and the overall picture has not changed, with the US applying maximum pressure on Iran through economic sanctions, and Iran fighting back by whatever means possible.

In fact, the extreme tension has already caused an incident. The Islamic Revolutionary Guard Corps of Iran mistakenly shot down a Ukrainian civil aircraft, killing all 176 passengers and crew onboard. The Iranian regime initially tried to cover it up but failed, reigniting the people's anger toward the Iranian regime. Iran had just suffered nationwide protests over a raise in gasoline prices which resulted in more than 300 people being killed in clashes with security forces in mid-November last year. The assassination of Major General Soleimani helped unite the Iranian people against the United States as an "outside enemy," but the accidental shooting-down of the Ukrainian aircraft has exacerbated people's growing distrust of the Iranian regime.

Furthermore, Iran's Islamic republic is also facing the collapse of the nuclear deal. Since May 2019, Iran has suspended the deal every 60 days to urge Europe to establish a framework for economic transactions between Iran and Europe despite the US sanctions. On January 5, two days after the assassination of Commander Soleimani, Iran declared a complete suspension of its commitments as its fifth step back from the deal, causing the UK, Germany, and France to trigger the dispute resolution mechanism. This could cause the re-imposition of all UN Security Council sanctions on Iran, which were suspended under the nuclear deal, if Iran does not start to fulfill its commitments. This would make life even tougher for the country.

All the sanctions currently hurting Iran, such as reducing oil exports to zero sanctions, have been imposed by the US alone. However, if the UNSC sanctions return, Iran will have to confront all the UN member states. While Iran clearly does not want such a situation, it is also difficult to change Iran's view that the pressure being applied by the US is unjust, as the US is disregarding UNSC resolution 2231, which underwrites the Iran nuclear deal, by applying "maximum pressure." Even though the US has cornered Iran with overwhelming power, this has not brought stability to the Gulf region. Tensions are expected to remain for some time to come.



5. Russia: Gas Transit in Ukraine and Establishment of the New Cabinet

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On December 30, 2019, Russia and Ukraine officially agreed to extend the gas transportation agreement for Europe, and thus disruption to gas supplies to Europe was averted. Russia's Gazprom and Ukraine's state gas company Naftogaz, the gas transportation operator, and the Ministry of Justice signed several documents on gas transit across Ukraine in 2020 and beyond based on the protocol signed on December 20. The two companies also agreed to end the arbitration and lawsuits between them and to renounce all claims in connection to the gas supply and transit agreements dated January 19, 2009. Further, based on the ruling by the Arbitration Institute of the Stockholm Chamber of Commerce, Gazprom paid 2.9 billion dollars to Naftogaz as compensation related to the suspension of gas transit through Ukraine. The parties agreed on a transit period of five years from 2020 through 2024 and a gas transport volume of 225 billion m³ (65 billion m³/year for 2020, and 40 billion m³/year from 2021 through 2024). On the next day, December 31, Gazprom and Gazprom Transgaz Belarus agreed to extend the agreement on the supply of gas to Belarus and its transit across the country till 2021, ensuring the same level of gas supply to Belarus and gas transport to Europe via Belarus in 2020 as in the previous year.

Since the Ukrainian gas crisis in 2009, Russia has been building a gas pipeline that bypasses the country. On January 8, the opening ceremony for TurkStream was held in Istanbul, attended by Russia's President Putin, Gazprom's CEO Miller, Turkey's President Erdogan, Serbia's President Bucic, and Bulgaria's Prime Minister Borissov. Meanwhile, construction of Nord Stream 2 that connects Russia with Germany via the Baltic Sea was not completed in 2019, and on January 12 President Putin mentioned that the construction period was being extended, saying he "hopes Nord Stream 2 will be completed by the end of the first quarter of 2021." When the US tightened its sanctions on Russia in December 2019, Swiss pipe-laying company Allseas, which was expected to enter the list, stopped work on Nord Stream 2. At the time President Putin stated that Russia would complete construction of the Nord Stream 2 gas pipeline without the help of foreign companies by using Gazprom's two pipe-laying ships.

In the annual Presidential Address to the Federal Assembly on January 15, President Putin announced a drastic reform of the political system which includes transferring the authority to appoint key government positions, including prime minister, from the president to the lower house of parliament, and proposed constitutional amendments which would give sweeping new powers to the State Council chaired by the president and comprised of key government posts and the governors of municipalities. Based on past precedent, President Putin is testing both national and international reactions to his political reforms, and will then make necessary adjustments.

On the same day, President Putin appointed Mikhail Mishustin, the former Head of the Federal Tax Service, as the successor to Prime Minister Medvedev who had announced the general resignation of the cabinet. The Mishustin Cabinet was established on January 21, and while most key members, including Foreign Minister Sergei Lavrov, Defense Minister Sergei Shoigu, Energy Minister Alexander Novak, Minister for the Development of the Russian Far East and Arctic Alexander Kozlov, and Deputy Prime Minister of Russia and Presidential Envoy to the Far Eastern Federal District Yury Trutnev, stayed on, Maxim Reshetnikov, former Governor of Perm in central western Russia, was newly appointed as Economic Development Minister, and will serve as the contact point for economic cooperation with other countries. Major policy changes are unlikely as most of the ministers stayed on, but developments at the heart of Russia's political power must continue to be watched.



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