



IEEJ e-NEWSLETTER

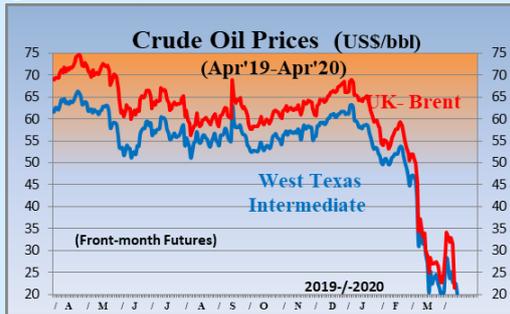
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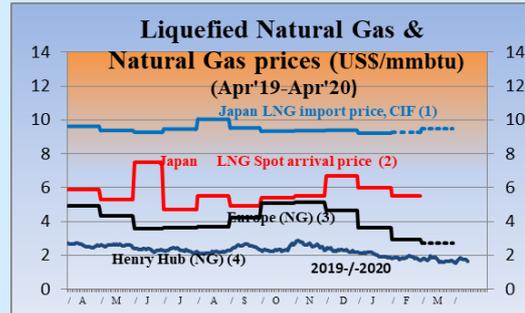
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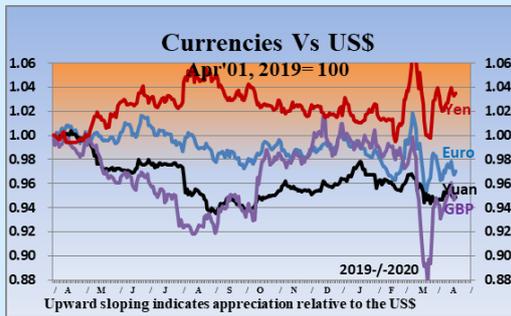


Source: DOE-EIA, Financial Times, NASDAQ



Sources:

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



Source: x-rates.com



Source: Financial Times

Contents

Summary

【Global Monitoring】

1. US: Impact of the Coronavirus and the US Response
2. EU: Release of the European Climate Law and the New Industrial Strategy
3. China: Success in Curbing Contagion and the Strengthening of Economic Recovery and International Cooperation
4. ME: Coronavirus Spreads in Countries in the Region
5. Russia: Coronavirus Outbreak Rocks the Putin Administration



Summary

【Global Monitoring】

1. US: Impact of the Coronavirus and the US Response

A state of emergency was declared following the rapid spread of coronavirus infections, and the administration and Congress agreed on a \$2.4 trillion rescue package. The impact on the administration's popularity, Democratic candidate nomination, and the presidential election must be watched.

2. EU: Release of the European Climate Law and the New Industrial Strategy

The European Commission presented a bill for the European Climate Law and a new industrial strategy. Regarding the former, a cost-benefit analysis of raising the 2030 climate target has started.

3. China: Success in Curbing Contagion and the Strengthening of Economic Recovery and International Cooperation

The number of coronavirus cases is subsiding in China. The country is lifting city lockdowns and restarting business aiming for a full-scale economic recovery, and is strengthening international cooperation to curb infections in other countries.

4. ME: Coronavirus Spreads in Countries in the Region

The coronavirus has severely affected Iran which has been strengthening ties with China amid sanctions, and is spreading throughout the Middle East. Oil-producing countries in the Gulf are being hit also by the oil price crash, causing growing concern over their finances.

5. Russia: Coronavirus Outbreak Rocks the Putin Administration

Amid plunging oil prices triggered by the fallout with OPEC, there has been an alarming rise in coronavirus cases in Russia as well. Public frustration with the Putin administration is mounting as it struggles to combat the prolonged economic slowdown.



1. US: Impact of the Coronavirus and the US Response

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In the United States where the impact of the coronavirus grows by the day, on March 27 the President signed and enacted a \$2.4 trillion (¥270 trillion) rescue package that had been approved by Congress. Congress had also passed an \$8.3 billion government aid package into law almost unanimously on March 6. It is reported that the President was reluctant to declare a state of emergency as of March 11 and was seeking smaller aid measures not requiring Congressional approval, but changed his stance quickly and issued a declaration on March 13. The next day, media reports emerged that the administration and the lower house Democrats had reached basic agreement on a stimulus package that has ballooned from the initial \$85 billion to \$2.4 trillion.

It is impressive that the negotiation between the government and the Republicans on the one hand and the Democrats on the other to tackle the global crisis went so smoothly, considering that they were at each other's throats during the impeachment trial as recently as early February. Regarding the energy industry, both the Republicans' demand to rescue the oil industry which is facing crashing oil prices and the Democrats' demand to impose GHG reduction obligations on the rescued companies were removed. It is also notable that the Republican Party, an advocate of small government, led the move to increase spending, though this was also motivated by the realization that how well they tackle the virus will affect whether the President wins the election in November, as well as the number of seats. Meanwhile, right-wing Republicans in favor of an ultra-small government are critical of the enormous price tag of the rescue package, while state governors of both parties at the forefront of the fight are criticizing the delay in devising actual measures, with governors from high-income states in particular complaining that their share of the aid money is too low considering the share of federal taxes they pay.

At present, polls show that a majority of voters approve of the Trump administration's response to the coronavirus, though some complain about the delays. This reflects the advantage of being the sitting president amid a serious crisis: serving as a "war-time president" is acting in his favor. However, looking ahead to US politics in the future, the Republican Party has internal divisions as described above.

Meanwhile, in the Democratic primaries, the lead in the number of delegates between former Vice President Biden and Senator Sanders has become seemingly insurmountable. Nevertheless, Senator Sanders was yet to announce withdrawal, and many states have decided to postpone their primaries due to the coronavirus, partly switching to electronic voting. Similarly in 2016, Senator Sanders did not withdraw until the Democratic National Convention. The aim behind this, presumably, was to include as many demands of the left-wing as possible in the Democratic platform and, paradoxically, to prevent the party left-wingers from feeling too defeated which in turn could have split the party. Regardless, even if Joe Biden is nominated soon, the Democratic Party has a tough road ahead toward the general election as public interest in the primaries is now diminishing.

One of the most notable responses by the US to the coronavirus crisis is the declaration of a state of emergency, which was recently legislated in Japan as well. The first state of emergency in US history was declared by President Lincoln during the Civil War. It was subsequently declared by many presidents at times of national crisis until the 1970s when, out of concern over the limitless expansion of presidential authority, Congress legislated the 1976 National Emergencies Act which stipulated the procedures that the president must take and the scope of presidential authority during a state of emergency. The "declaration" is an extremely strong measure that can limit the private rights of citizens, as was discussed also in Japan. Once the current crisis has subsided, we need to review the lessons to be drawn from such a long and careful legislative process. (As of March 30)



2. EU: Release of the European Climate Law and the New Industrial Strategy

Kei SHIMOGORI, Senior Researcher
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On March 4, the European Commission presented a proposal to incorporate the EU's political promise to become climate-neutral by 2050 into law. The European Climate Law is proposing a legally-binding target to reach net zero GHG emissions by 2050, which will require the EU organizations and member states to take necessary steps to achieve that target. The Law also includes measures to check the progress of efforts by member states and coordinate them as necessary under multiple existing systems. A bill for the Law will be submitted to the European Parliament, European Council, European Economic and Social Committee, and the European Committee of the Regions for deliberation.

Under the bill, the European Commission is set to propose a new 2030 EU target for GHG emission reductions based on a comprehensive impact assessment. In connection with this assessment, on March 19 the Commission announced that they have started a cost-benefit analysis concerning raising the 2030 climate target. The analysis will evaluate the pros and cons of various options and is scheduled to produce a conclusion in September 2020 after gathering opinions. Currently, some consider that the spread of the coronavirus may affect raising the climate target. By signaling that a policy statement will be released in Q3 of 2020 together with the impact assessment, the European Commission is affirming its intention of going ahead with raising the target in 2020.

Further, on March 10, the European Commission presented a new strategy to help Europe's industry lead the transition towards climate neutrality and digital leadership. Comprehensive measures were addressed in the energy area, including modernizing and decarbonizing energy-intensive industries, supporting sustainable and smart mobility industries, promoting energy efficiency, strengthening current carbon leakage tools under EU-ETS, and securing a sufficient and constant supply of low-carbon energy at competitive prices. Specifically, the Commission aims to achieve the above through individual strategies and approaches such as a new sector integration strategy that links different sectors in order to use electricity, gas, and liquid fuels more efficiently, the EU strategy on offshore wind power, and the EU strategy on clean steel which supports the development of a technology that decarbonizes the steel production process.

The European Commission also mentioned an EU-wide hydrogen alliance project under the new industrial strategy. The Commission said that "the alliance will build on existing work to identify technology needs, investment opportunities and regulatory barriers and enablers (for hydrogen usage)." The Clean Hydrogen Alliance is set to be modeled on the European Battery Alliance and expects participation by companies, member state governments, and research institutions. While the actual schedule for its establishment has yet to be presented, the initiative will provide a basis for the EU to strengthen activities on hydrogen. (As of March 30)



3. China: Success in Curbing Infection and the Strengthening of Economic Recovery and International Cooperation

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On March 11, the World Health Organization (WHO) declared that the coronavirus-induced pneumonia had become a global epidemic, or “pandemic.” Just 17 days later, the 28th, the coronavirus had spread to 183 countries and regions, infecting over 640,000 people and causing over 30,000 deaths. With more than 80,000 of its people infected, China has declared the epidemic a “people’s war,” fought hard to overpower the disease, and has achieved a certain level of success.

The number of new cases in Hubei Province, which includes Wuhan City, the epicenter of the outbreak, peaked at around 15,000 on February 12, then started to decrease, and reached zero for the first time on March 18. The cases had already peaked outside of Hubei on February 4, so the number of cases for the whole of China began to decrease after peaking on February 12. This is a result of emergency measures including strict city lockdowns, intensive patient care and isolation of close contacts, and restricting people from leaving their homes. The number of new cases found each day remains in the double digits as of late March, but most of them were people coming in from abroad. Accordingly, the group set up to control the virus, led by Premier Li Keqiang, met on March 23 and announced that the spread of the virus, mainly in Wuhan City, had basically been suppressed in the entire country. However, the group also said that the risk of sporadic infections and local infection clusters remains, as well as the risk of the virus being brought back in by patients from other countries as the outbreak has gone global, and therefore, cases must be “swiftly detected, reported, isolated, and treated” to avoid a second wave of infections. The development of a preventive vaccine has also made progress, and on March 16, the government gave the green light to start clinical trials.

Meanwhile, the coronavirus is seriously affecting economic activities as well as people’s health and living. According to the March 16 announcement by the National Bureau of Statistics, in January and February, total retail sales of social consumables dropped by 20.5% year-on-year (including a fall in sales of 43.1% for the food and beverage industry and 17.6% for retail products), investment in fixed assets dropped by 24.5%, and exports dropped by 15.9%. Nevertheless, economic recovery is underway as the outbreak subsides. Outside of Hubei Province, more than 90% of manufacturers have resumed operation as of mid-March, with tourism and restaurant businesses also reopening quickly. City lockdowns were lifted in Hubei Province except Wuhan City on March 25 and is scheduled to be lifted in Wuhan on April 8. Though an economic contraction is forecasted for the January–March quarter, a V-shaped rebound is expected from April onwards. The annual growth rate is estimated to fall to 4.9% (OECD outlook, March 2) or even 3.9% (IHS Markit outlook, March 19) this year from 6.1% in 2019, but the government is working steadily to achieve the set target (undisclosed but estimated at 5.6%). As exports are not expected to increase amid a global economic slowdown, boosting domestic demand led by consumer spending (58% contribution last year) will be the key.

Regarding international relations, the current focus is that China has started to provide full-scale international cooperation to beat the coronavirus. As of March 26, China has sent medical equipment such as test kits and ventilators to more than 80 countries and international organizations as emergency aid and has dispatched medical teams to five countries including Italy. The country has also exported medical equipment to more than 17 countries including Spain to help them fight the infection.



4. ME: Coronavirus Spreads in Countries in the Region

Sachi SAKANASHI, Senior Research Fellow
Assistant Director, JIME Center

The coronavirus (COVID-19) is raging in the Middle East as well, with Iran suffering particularly serious damage. As of March 28, Iran has 35,408 cases of infection and 2,517 deaths, and though the pace of spread has eased somewhat, more than 100 people are dying each day. Further, the Gulf countries have suffered a series of cases among people returning from Iran. As of the end of February, all neighboring countries have closed their borders with Iran.

However, the first case of COVID-19 in the Middle East was confirmed in Dubai in the United Arab Emirates (UAE). Four members of a Chinese family visiting Dubai from Wuhan, China were found to be infected with the virus on January 29. The rapid spread in Iran is believed to be related to the active exchanges of people between the country and China. Iran's relationship with China, which regards Iran as the cornerstone of its Belt and Road Initiative, has provided a lifeline after its economic ties with the West were severed under the US policy of "maximum pressure." Iran has been hoping to welcome more Chinese tourists, and has exempted Chinese tourists from visa requirements since June last year. The number of not only businesspersons but also exchange students between Iran and China was increasing, as was the number of direct flights between the two countries.

The coronavirus has hit Iran hard due to its dependence on China. In addition, the slow response by the Iranian government and cultural and societal backgrounds are also believed to have worsened the spread. There have been delays in initially responding to the virus in almost all countries, but Iran has many religious events involving large numbers of people such as prayer assemblies at mosques, and has a culture of close personal contact among people. These multiple factors are believed to have helped the virus to spread, even among the country's political elites.

Meanwhile, harsh US sanctions against Iran are denying the country access to enough medical supplies to fight the virus. The WHO and some US lawmakers have already called for the sanctions to be eased or lifted as Iran faces a humanitarian crisis. However, the Trump administration seems to view the situation in Iran as a sign that the Iranian regime is on the brink of collapse and shows no indication of easing the sanctions.

Amid forecasts for a global economic slump due to the coronavirus, Iran is not the only country facing economic difficulties. The oil price crash triggered by the collapse of OPEC Plus, combined with lower consumption, will have a devastating impact on all oil-producing countries in the Persian Gulf. It could even lead to political unrest if the finances of those countries worsen and frustration mounts. The unexpected emergence of the coronavirus, coinciding with falling oil prices, puts the Gulf oil producers in a very difficult situation.

(As of March 30)



5. Russia: Coronavirus Outbreak Rocks the Putin Administration

Shoichi ITOH, Manager, Senior Analyst
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The coronavirus pandemic is starting to hurt Russia, which did not flinch in the face of the fallout of the OPEC Plus meeting. On March 6, after Russia refused OPEC's proposal for an additional cut of 1.5 mb/d, oil prices in the international oil market plummeted. Reportedly, Russia initially hoped that US shale production would be hit hard once oil prices fell below \$40/barrel so that Russia could replace the reduction in output and recapture market share. However, these hopes were dashed, resulting in a backlash for Russia.

On March 9, Russia's Ministry of Finance confidently announced that the domestic economy could withstand oil prices of \$25–30 for 6–10 years. However, by the 18th, the price of Urals, Russia's main oil brand, plunged to just over \$19/barrel (which corresponds to a loss of \$3.0 billion/month in national revenue). On the 10th of the same month, Energy Minister Alexander Novak stated publicly that Russia has extra potential capacity of up to 500,000 barrels but in the short term, can only increase output by 200,000–300,000 barrels. This contrasts with Saudi Arabia which has abundant extra production capacity. Leonid Fedun, Vice President of Russia's major oil company Lukoil, has said that if oil prices remain at \$35/barrel, Russia's oil output will start to decrease from 2022–2023 due to serious lack of investment.

According to official sources, Russia had only one case of infection as of March 5, the day before the failure of the OPEC Plus meeting. On the 17th, President Putin said that Russia had the problem under control and there was no risk of the virus spreading. However, in a meeting with the President on the 24th, Moscow Mayor Sergei Sobyenin said there was a risk that the real number of cases must be far greater than officially announced. The official number of cases jumped from 438 on the day before the meeting to 2,337 by the 31st. A series of activists spreading information about infected people were detained, and the authorities claimed that the cases occurring in Russia were a plot by foreign countries. However, the people are rapidly becoming angry with the Putin administration over its delayed response.

On March 25, the President made an urgent televised speech for the public and announced the postponement of the referendum on a constitutional amendment scheduled for April 22 until the contagion subsides. Under the current constitution, President Putin's term will end in 2024 due to the limit of up to 12 years, or two consecutive terms. The amendment, if enacted, would theoretically allow the President to remain in office until 2036 at the longest and become a de facto lifetime president. The televised speech came just after the bill passed both houses of the Federal Assembly on March 11 and was awaiting approval at approaching referendum and confirmation of constitutionality by the Constitutional Court.

Early this year, the Central Bank of Russia estimated that Russia's GDP would grow by 1.5–2.0% in 2020, but on March 17, Russian rating firm Analytical Credit Rating Agency forecasted that growth would fall to minus 0.2–0.6%. As even darker clouds gather over the sluggish Russian economy, will the Putin administration find a way out of this crisis? (As of March 30)



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Energy and Economy Indicators of Japan

IEEJ Homepage Top

Back Numbers of *IEEJ e-Newsletter*

Back Numbers of *IEEJ Newsletter* (Original Japanese Version - Members Only)



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