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IEEJ e-Newsletter Editor: Yukari Yamashita, Director

IEEJ Newsletter Editor: Ken Koyama, Managing Director

Inui Bldg. Kachidoki, 13-1 Kachidoki 1-chome, Chuo-ku, Tokyo 104-0054

Tel: +81-3-5547-0211 Fax: +81-3-5547-0223

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Summary

1. Review of Energy Policies Commenced in the General Subcommittee

In the General Subcommittee meeting on March 15, it was proposed that the future direction of the energy policy should focus on supply stability and cost reduction mainly. Although the General Subcommittee is expected to reach a conclusion by year end, the Chairman stated that the Subcommittee will not commit to quantifying a new energy mix by then.

2. Cabinet Adopts Amendment of the Act on Global Warming Countermeasures

Regarding global warming countermeasures beyond 2013, Prime Minister Abe and his cabinet approved a partial amendment of the Act on Promotion of Global Warming Countermeasures, which outlines the plan for dealing with global warming in Japan. The government has indicated that it will implement global warming countermeasures while leaving room for necessary adjustments to accommodate future developments in energy and the environment.

3. Suntech Power Files for Bankruptcy; Chinese Solar Panel Manufacturers Continue to Struggle

Suntech Power, one of the leading global manufacturers of solar panels, filed for bankruptcy. Though the business is expected to continue, Chinese solar panel manufacturers will likely continue to struggle. The bankruptcy will erode confidence in Chinese manufacturers in the Japanese market, amid other problems such as the European lawsuit against dumping by Chinese manufacturers and lack of progress in streamlining domestic production capacity in China.

4. Recent Developments in the International Natural Gas Market, Focusing on North American LNG

Several important deals have been announced lately with respect to LNG projects in the United States. Canada's West Coast has observed some progress in export permitting and project shareholding formation. 2012 preliminary figures show a vivid contrast between gas markets in Europe and the United States.

5. China Watching: Developments in Energy Prices and Administrative Reforms

On March 17, the new leadership under Xi Jinping and Li Keqiang was officially launched. Accordingly, reforms of energy prices such as the deregulation of coal prices for electricity generation will be officially started. We must closely monitor how thoroughly the planned reforms of the electric power system are actually executed, including the separation of electricity, transmission and distribution.

6. ME Watching: Implications of President Obama's First Visit to Israel

The summit meeting between the US and Israel did not bridge the gap in the countries' policies on Iran's nuclear program. The Syrian anti-government forces have been strengthening their organization both politically and militarily and are gaining increased recognition and support among Arab nations. Meanwhile, turmoil over the political process in Egypt and Libya is worsening.

7. Russia Watching: Russia Accelerates LNG Diplomacy

Russia is quickly ramping up its LNG projects in East Asia, and has several plans running in parallel in the Russian Far East. Japan needs to build a new far-sighted energy strategy towards Russia, while taking into account the diplomatic relationships with the US and other countries and weighing the economic feasibility of each plan.

1. Review of Energy Policies Commenced in the General Subcommittee

Akira Yanagisawa, Senior Economist
Energy Demand Supply and Forecast Analysis Group

Following the dissolution of the House of Representatives and the launch of the new Abe administration, a comprehensive discussion on the energy policy was held on March 15 for the first time in four months. The discussions formerly had been held in the Fundamental Issues Subcommittee under the DPJ administration, but had been unable to reach a conclusion even after holding thirty-three meetings. Considering the importance of the issue, the forum for discussions was upgraded to a comprehensive subcommittee, and the number of committee members of the Fundamental Issues Subcommittee was reduced from twenty-five to fifteen. The subcommittee will continue to be chaired by Mr. Akio Mimura, adviser to Nippon Steel & Sumitomo Metal Corporation, who also chaired the Fundamental Issues Subcommittee.

At the first meeting, the organizer reviewed the current situation and then each member presented their views and requests without in-depth discussions. The meeting handout compiled by the organizer, which categorised various energy-related issues into production and procurement, distribution, and consumption, was highly evaluated by the committee members.

During the discussion, it was suggested that the future energy policy should focus on supply stability and cost reduction mainly. In response, the committee members noted that it was important to maintain a broad view and to produce separate time plans for the short term and for the long term. METI Minister Motegi stated that “utmost efforts must be made to stabilize the supply and demand of electricity”, and requested the Subcommittee to “present as wide a variety of options as possible, rather than the pros and cons of particular areas.” Nevertheless, many of the members’ comments focused on electricity and nuclear power. There was also a request for in-depth discussion on the back-end of nuclear power (the opinion was actually a part of the “main topics” presented in the meeting).

The General Subcommittee is expected to reach a conclusion by year end. However, since the new regulation standards of the Nuclear Regulation Authority are unlikely to be established until July, Subcommittee Chairman Mimura stated that they will not commit to quantifying a new energy mix by year end, saying “we cannot say whether we will or will not”.

IEEJ CEO and Chairman Masakazu Toyoda commented in the meeting as follows:
Regarding production and procurement, the goal of the existing Basic Plan to double the proportion of Japan’s domestic and self-developed energies should be maintained as much as possible. Whereas China has independently developed one million b/d of crude oil in the past 20 years, Japan has developed only 0.7 million b/d in 50 years. Regarding nuclear power, we must align our safety scheme with the international standards established by international organizations, especially the IAEA. Regarding distribution, while cheap LNG is important, the construction of pipelines and hubs is beyond the capacity of the private sector alone. Some nuclear power must be retained to strengthen our negotiating position. The government has a duty to abolish the Destination Clause of LNG. As a general comment, the market mechanism and supply security are not always mutually compatible, and we must learn from the successes and failures of other countries. The ability to gather and utilize information is also important, as evidenced by the terrorist incident in Algeria.

2. Cabinet Adopts Amendment of the Act on Global Warming Countermeasures

Hiroki Kudo, Assistant to Managing Director
Global Environment and Sustainable Development Unit

At the cabinet meeting on March 15, the Abe Cabinet approved the bill for partial amendment of the Act on Promotion of Global Warming Countermeasures (“the amendment”). On the same day, the Global Warming Prevention Headquarters determined the near-term policy and direction of discussions on global warming countermeasures. The existing law requires the formulation of a Kyoto Protocol Target Achievement Plan in line with the GHG reduction targets of the Kyoto Protocol. As work on the Plan will finish at the end of FY2012, this decision on the near-term policy reaffirms the government’s stance to continue with the efforts beyond FY2013.

Japan will not set an emissions reduction target for the Second Commitment Period of the Kyoto Protocol, but has announced to the international community that it will continue to combat global warming beyond 2013 till 2020 based on the Cancun Agreements of the UNFCCC. The amendment defines a new plan for combating global warming that will replace the Kyoto Protocol Target Achievement Plan. Meanwhile, regarding the international announcement by the former DPJ administration to reduce GHG emissions by 25% by 2020, the present government has made no comment except that the target will be reviewed from scratch in view of the energy supply and demand situation after the Great East Japan Earthquake, but has not yet announced emissions targets needed to draw up detailed measures.

The key issue is the restarting of the review of the Basic Energy Plan on March 15. The discussions on reviewing the plan will be conducted by the General Subcommittee of the Advisory Committee for Natural Resources and Energy. The Subcommittee will discuss how to deal with the various policy issues that have arisen since the earthquake, including the future position of nuclear power and the reforms of the electricity market system, while also discussing broader issues such as new targets for global warming countermeasures and their details. The results of the policy discussions on nuclear power, renewable energy, energy conservation and the possibility of purchasing fuels such as shale gas will significantly affect the GHG emissions target.

The existing Basic Energy Plan is based on the GHG emissions target for 2020. However, with the growing need to give higher priority to economic recovery and response to energy supply risks, efforts to fight global warming may need to be relaxed. The amendment requires the government to “review the targets and measures defined in the global warming countermeasures plan, considering the status of GHG emissions and the measures that are being implemented” at least every three years. The amendment will therefore focus on how the central and local governments and the utilities will respond to such process.

3. Suntech Power Files for Bankruptcy; Chinese Solar Panel Manufacturers Continue to Struggle

Hisashi Hoshi, Board Member, Director
New and Renewable Energy & International Cooperation Unit

Suntech Power, one of the world's leading manufacturers of solar panels, went bust. More precisely, it was a syndicate of banks that filed for protection of Suntech's cell manufacturing subsidiary in Wuxi (Jiangsu Province) to the local court under the bankruptcy law (March 18), but the bankruptcy effectively applies to the entire Suntech group as Suntech itself has announced a default of 540 million USD (approx. 51 billion yen).

Nevertheless, Suntech's factories will not be closed immediately and eventually, Wuxi City is expected to bail out the company by acquiring a stake in it. The ties between Suntech and Wuxi City are strong: on the day after announcing bankruptcy, Suntech announced plans to appoint a member of an investment bank affiliated to Wuxi City as the new president of its bankrupt subsidiary. For the sake of local industry and employment, Wuxi City cannot afford to let Suntech vanish so easily.

This bankruptcy did not come out of the blue. There is clearly a glut of solar panel production and prices are plummeting. Not only Suntech but also the other four Chinese companies that are the top five in the global solar panel market, including Yingli Green Energy, JA Solar and Trina Solar, have all announced losses of tens of billions of yen for 2012. Even without financial slip-ups, the bankruptcy of Suntech, which had been worsening the current global overproduction by expanding its operations, would have been inevitable.

Where does the solar panel market go from here? Fighting an uphill battle against sluggish demand in Europe and the anti-dumping tariff in the US, Chinese manufacturers have high expectations for the rapidly growing home market and the Japanese market which is being buoyed by the newly introduced FIT system. Indeed, sales volume is growing, even if profits are not, and business is expected to improve.

Nevertheless, Chinese panel manufacturers will continue to face tough conditions, and the bankruptcy could put Chinese panel manufacturers under closer scrutiny in the Japanese market. Suntech's bankruptcy showed that Chinese manufacturers can actually collapse and withdraw from the market, fueling ever-present concerns over the quality assurance and business continuity of foreign panel manufacturers. This will inevitably affect power producers' choice of panels and bank's attitude towards lending. The anti-dumping lawsuits in Europe against China are also a major setback. Though a decision will not officially be made until year end, there are already moves to avoid Chinese products since if the court rules in favor of the anti-dumping complaint, the ruling will be applied retroactively.

Furthermore, if the local government bails out Suntech, it would avoid the necessary process of natural selection which otherwise would have occurred. The Chinese government is aware of the excess production capacity of solar panels and has been urging the less competitive companies to withdraw. A decision to retain excess capacity in order to spare a regional economy would impede improvement of the market.

Chinese panel manufacturers will continue to struggle for some time. This slowdown of the panel market will hurt fellow traders in Japan and around the world.

4. Recent Developments in the International Natural Gas Market, Focusing on North American LNG

Hiroshi Hashimoto

Senior Analyst, Oil and Gas Unit

One of the focal points in the coming months in the global LNG markets is how many LNG projects and how much LNG from the United States will be granted licenses to export to those countries without free-trade agreements (FTAs) with the United States. Several important deals at LNG export projects in the United States were announced in recent months, including Tepco's LNG purchase deal at the Cameron project (see IEEJ e-Newsletter No. 11 of February 2013) and BP's liquefaction tolling agreement with Freeport LNG. The latter, with preceding similar tolling deals by Osaka Gas and Chubu Electric Power announced in July 2012, marked a significant step toward the project's realisation. In early April, the Cove Point project announced liquefaction capacity deals with Sumitomo Corporation and India's Gail, and advancements in the engineering and regulatory fronts.

Also in North America, Canada's National Energy Board (NEB) granted a license to LNG Canada to export up to 24 million tonnes per year of LNG in early February. In total the NEB has granted LNG export licenses of up to 36 million tonnes per year from three projects on the West Coast. As the Shell-led project has partners from Japan, Korea and China and some feedgas may be supplied from acreages operated by Japanese companies, the project is expected to be a promising supply sources to Asia. The Kitimat LNG project, which had an early lead in the federal permitting process and welcomed Chevron as the lead partner in late 2012, is expected to step up its marketing campaign in Asia. The Pacific Northwest LNG project led by Malaysia's Petronas, also in Western Canada, was joined by Japex in late February.

In East Africa recently, Mozambique is advancing in both defining reserves and LNG project development, while several partners are considering selling down stakes. Therefore, project shareholdings may be restructured in the coming months, with some possibility of participation by potential Asian LNG buyers. Eni, one of operators of the offshore blocks, announced in the middle of March that China National Petroleum Corporation (CNPC) is participating in the block. In Russia, where additional LNG supply is expected in the future, in addition to the incumbent gas and LNG exporter Gazprom, Novatek and Rosneft also have their respective LNG proposals. Thus Russian government's policy on gas exports is also in focus.

According to Eurogas' 2012 preliminary figures, gas consumption of the 27 member countries of European Union (EU) decreased for two years in a row, due to the depressed economy and shifts to coal and renewables in the power generation sector. On the other hand the United States increased gas consumption by more than 4% in 2012, according to figures from the Energy Information Administration (EIA).

5. China Watching: Developments in Energy Prices and Administrative Reforms

Li Zhidong, Visiting Researcher
Professor at Nagaoka University of Technology

On March 17, the first session of the 12th National People's Congress closed, and the new leadership under Xi Jinping and Li Keqiang was officially launched. In his opening address, President Xi pledged to work toward the goal of "a great renewal of the Chinese nation." As the key for fulfilling this goal, Li Keqiang cited "continued economic development" in his first press conference as prime minister, and pledged to continue the "reforms toward a market economy". This includes adhering to the principle of leaving the market to do what it does best, and reducing the 1,700-odd government licenses by more than one third. Reforms of energy prices and the administrative system are also starting to move.

So far, the government has kept energy prices low, citing reasons such as controlling inflation and maintaining social stability. For example, a double price system has been applied to coal for power generation, which accounts for one third of total coal consumption. The system consists of a contract price, which is applied to purchase contracts with coal companies signed under government supervision, and a market price, which is applied to free coal purchases in the market. The aim is to hold down the price of electricity by setting the contract price lower than the market price. However, with the growing need for conserving energy and securing energy supply, the pressure to liberalize prices is increasing. The price reform is also backed by the narrowing gap between contract and market prices due to the 22% slump in the market price of domestic coal last year caused by additional coal production capacity and increased imports, and by the weaker inflation pressure resulting from the rise in consumer prices being held at 2.6% last year. In the last government activity report he delivered, the then Prime Minister Wen Jiabao set this year's target consumer price increase to a relatively high 3.5%, expecting prices to rise due to the energy price reform.

The price reforms have already started. In the guideline on reforming the thermal coal price system released last December, the State Council announced that it would abolish the double price system and liberalize prices starting from 2013. It also allowed the electric power companies to pass 90% of the fluctuation in coal price onto the sales price of electricity. Regarding the limitation which prevented the price of petroleum products from being revised unless the moving average of the international oil price fluctuated by at least 4% in 22 business days, the government abolished the limitation on March 26 and now requires the price to be revised every 10 business days. Regarding the price of natural gas, the government is planning to revise the sales price which is currently kept low basing on the domestic gas price by newly linking it to the supply and demand situation of the market.

Concerning administrative reforms, although the establishment of an empowered energy ministry was deferred, a decision was taken to reinforce the authority of the National Energy Administration by absorbing the State Electricity Regulatory Commission, a higher level organization. The main goal of this is to reinvent the electric power system by separating transmission and distribution and expanding direct transactions by large-lot users and independent power distributors with power producers. In response, State Grid News, a trade paper of the electric power industry, immediately argued that electricity transmission and distribution should remain as one to operate the power grid safely. The progress of these reforms will test the ability of the new Prime Minister and the reorganized National Energy Administration.

6. ME Watching: Implications of President Obama's First Visit to Israel

Koichiro Tanaka, Managing Director &
Head of JIME Center

With the launch of Netanyahu's coalition cabinet on March 15, President Obama went ahead with his first visit to Israel on March 20. Immediately before departing, the President delivered his annual message to Iran in time for the Iranian New Year, once again at the beginning of his second Presidential term calling on the Iranian leadership to seek diplomatic means to solve the nuclear issue. The leaders of the US and Israel agreed to prevent Iran from acquiring nuclear weapons, but the President did not appear to bridge the difference in policies with Prime Minister Netanyahu, who is threatening to carry out preemptive strikes on Iran. Regardless of this visit, nuclear talks with Iran in Almaty did not yield any understanding.

Meanwhile, the two heads of state failed to highlight Israel's continuing settlement of its people on occupied lands, which is a source of conflict between the two countries in the Middle East peace efforts. Prime Minister Netanyahu managed to deflect US pressure by sticking to the Iranian issue in the discussions. Perhaps the only diplomatic achievement of President Obama during his visit was an apology from Netanyahu to the Turkish Prime Minister Recep Tayyip Erdogan for the Israeli military attack on the Gaza aid ship in May 2010, thus helping to mend the relationship between Turkey and Israel. As both countries are increasingly concerned about the volatile situation in Syria, this apology has its values.

Regarding the civil war in Syria, which has reportedly claimed more than 70,000 lives and is spreading across the Iraq border, the foreign ministers meeting of the Arab League adopted a resolution to allow the supply of weapons to opposition forces. In addition, the UK and France have proposed a review of the EU weapons embargo, while the US, UK, and France are thought to have organized secret military training for opposition forces in Jordan, improving the Free Syrian Army's combat capability. There have been allegations of chemical weapons being used near the hub city of Aleppo in northern Syria, and the U.N. is planning to investigate the facts. Meanwhile, fearing that weapons could end up in the hands of Islamic extremists, Europe and the US are trying urgently to identify possible security risks, and it is rumored that they could strike extremists' camps using drones, as has been done in Yemen and Pakistan. The National Coalition for Syrian Revolutionary and Opposition Forces, which consists of Syrians in exile, declared the establishment of a provisional government to replace the Assad regime and picked Ghassan Hitto, an unknown Syrian American, as interim prime minister. Reportedly, this immediately prompted the resignation of Moaz al-Khatib, the chairman of the Coalition who has been dissatisfied with the reluctance of Europe and the US to supply arms.

In Egypt, where clashes between the protesters and the authorities continue, the government was forced to postpone the parliamentary election which was planned for April. Discontent among the public with President Mursi is on the rise. Also in neighboring Libya, the selection of members of the Constitution Drafting Committee is being delayed. The constitution is unlikely to be established in 2013, and as regional discord grows, the Libyan people are becoming increasingly dissatisfied with the transitional government.

7. Russia Watching: Russia Accelerates LNG Diplomacy

Shoichi Itoh, Manager, Senior Analyst
Global Energy Group 2, Strategy Research Unit

Russia's energy diplomacy towards North East Asia is accelerating dramatically. On February 13, President Putin summoned the presidential energy commission to a meeting, and expressed dissatisfaction with Russia's 4% share of the global LNG market, warning that unless it acts more quickly, the country could lose its competitiveness in the market as demand grows. To boost Russia's competitiveness, he disclosed his intention to consider the possibility of gradually opening up the gas export license, which is currently given only to Gazprom, to other companies such as Rosneft. In response to this announcement, Igor Sechin, president of Rosneft, commented that liberalization of LNG exports would help secure the position of the Russian gas industry in the global market, and would not damage the profits of Gazprom, Russia's largest gas producer.

On the same day, immediately after signing an agreement with ExxonMobil to start joint feasibility studies on new LNG projects in the Russian Far East, Mr. Sechin flew to Northeast Asia, where he discussed the possibility of cooperation with Kogas in Seoul on February 16, with CNPC, Sinopec and CNOOC in Beijing on February 17-19, and visited Japan on February 20 for discussions with INPEX Corporation, JAPEX (Japan Petroleum Exploration Co., Ltd.), and Marubeni Corporation, Itochu Corporation, and SODECO (Sakhalin Oil and Gas Development Co., Ltd.). Besides, on March 13, Energy Minister Alexander Novak visited Japan with the representative of Novatek, a non-national gas company, for discussions with METI Minister Motegi.

There are three reasons why Russia is ramping up its LNG diplomacy: (1) the impact of the shale gas revolution in the US on the global market, (2) the gradual decline of Russia's gas exports to the European market, and (3) the need to activate the gas industry of the Russian Far East and Eastern Siberia to develop the local economy. As regards (1) in particular, the window of opportunity for Russia's new LNG projects to secure buyers and business profitability is getting narrower, given that LNG exports from the Lower 48 states to Japan and the Republic of Korea (ROK) are projected to start within several years in addition to increases of LNG supplies from Australia, etc.

Currently, there are several proposed LNG plans between Japan and Russia including the construction of an LNG base in Vladivostok, on which Gazprom is currently taking the lead of conducting a feasibility study, selection of the means and route to transport gas from Sakhalin-1, construction of the third train in the Sakhalin-2 project, and development of the Sakhalin-3 project. Japan needs to urgently build a long-term strategy for its energy diplomacy towards Russia based on long-term and multifaceted perspectives, while carefully examining its relationship with other countries including the US, China and the ROK.

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