

# IEEJ e-NEWSLETTER

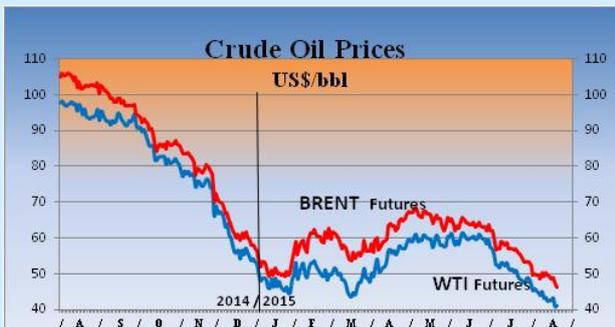
No. 68

(Based on Japanese No. 143)

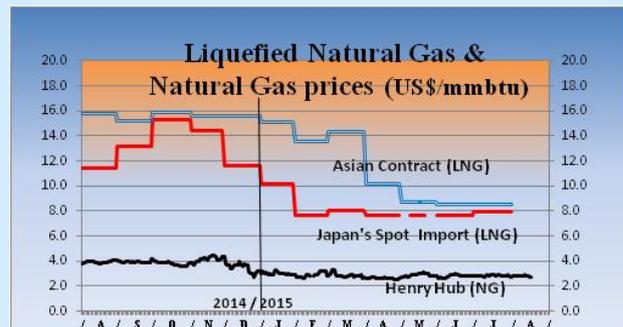
Published: August 21, 2015

The Institute of Energy Economics, Japan

(As of August 20, 2015)



Source: Financial Times



Sources: NG/DOE-EIA, LNG spot/METI, LNG contract/WB



Source: x-rates.com



Source: Financial Times

## Contents

### Summary

#### 【World Monitoring】

1. (US) US Monitoring
2. (EU) EU's Energy Union Strategy
3. (China) Accelerating Smart Grid Construction for Completion in 2020
4. (Russia) Expectations for Cooperation with BRICS
5. (Middle East) Unrest Continues despite Iran Nuclear Agreement

## Summary

### **【World Monitoring】**

#### **1. (US) US Monitoring**

The Obama Administration's diplomatic achievements, including the Iran nuclear agreement, are being criticized by Congress, and the direction of the domestic discussions must be closely monitored. Meanwhile, the Supreme Court ruling that the EPA's mercury regulation is inappropriate will not necessarily lead to restrictions being lifted.

#### **2. (EU) EU's Energy Union Strategy**

The Energy Union Strategy, which was announced in February 2015, is a high priority for the current European Commission. A new policy package has been released, showing the Commission's active commitment.

#### **3. (China) Accelerating Smart Grid Construction for Completion in 2020**

In July, the government decided to accelerate construction of the smart grid, aiming to take the first steps toward completion of a SG system by 2020. The purpose is to expand the use of renewable energies and next-generation vehicles, as well as to help boost the economy.

#### **4. (Russia) Expectations for Cooperation with BRICS**

At the BRICS Summit, the launch of the BRICS New Development Bank and an emergency foreign currency reserve (total combined contribution of 200 billion USD) was announced. Currently facing economic sanctions by the West, Russia has high hopes for cooperation with the BRICS.

#### **5. (ME) Post-FIT: Unrest Continues despite Iran Nuclear Agreement**

A historic nuclear agreement with Iran has been signed. The parties in the region which aim to overturn the agreement are cautiously monitoring the moves of the US Congress. Meanwhile, Turkey launched military strikes against not only Islamic State, but also against Kurdish forces fighting Islamic State.

## 1. US Monitoring

Ayako Sugino, Senior Researcher

Coal & Gas Subunit

Fossil Fuels & Electric Power Industry Unit

With the approval of the Iran nuclear agreement by the UN Security Council and the re-establishment of diplomatic relations with Cuba, President Obama's 2008 election campaign promise of moving away from the old doctrine, in which America identifies imaginary enemies and serves as the world's policeman, is finally starting to deliver. However, prior to the review of the nuclear deal in Congress, National Security Advisor Susan Rice disclosed the existence of an unpublicized deal between Iran and the IAEA, putting the Administration in the line of fire for hiding information. Some lawmakers are now demanding a freeze of the review until the information has been fully disclosed, as well as an extension of the current sanctions against Iran. Some conservative activists are even considering filing a suit against the Administration. Whether the President will manage to build a diplomatic legacy is still unclear, even at the domestic politics level.

Also concerning domestic politics, two Supreme Court rulings issued in June have brought the President's social policies closer to fulfillment: the rulings determining tax subsidies under the Affordable Care Act (Obamacare) as legal and same-sex marriage as constitutional. Since the midterm election in November 2010, Congress has been gridlocked by partisan strife. Since then, the support of the judicial branch has been a driving force behind the Administration's liberal policies, which the President has been advancing using executive orders, and the healthcare reforms, the Administration's greatest achievement. This can be viewed as a great victory, considering that five out of the nine Supreme Court justices are conservative and were appointed by a Republican president.

Given the President's near-perfect winning streak in the conservative Supreme Court, the ruling in June pointing out problems in how the EPA formulated the mercury regulation on power plants may appear to be a defeat for the Administration and a possible change in tide. The regulation requires coal thermal power plants to introduce, based on the Clean Air Act, "the best available technology" to control mercury, which is a toxic pollutant designated by law. "Securing maximum safety irrespective of costs" has been the legal interpretation used by the EPA since at least the Clinton Administration regarding emission control of toxic pollutants. However, based on the requirement of laws other than the Clean Air Act that governmental regulation should not generate excessive burden, the EPA conducted a cost-benefit analysis of the restriction on mercury and concluded that the social benefits of the regulation should be greater than its social cost when considering unquantifiable social benefits, and accordingly, implemented the regulation.

The Supreme Court ruled that there are mistakes in the EPA's interpretation of the Clean Air Act on cost estimation, and that the EPA should have assessed the costs and benefits when it devised the mercury regulation. This means that the Court upheld a legal interpretation that is favored by both conservatives and industry, which takes the cost burden very seriously, and in that sense, the ruling was a defeat for Obama. However, the mercury regulation will not be withdrawn immediately; it will remain in force if the EPA can demonstrate that the costs were properly estimated when the regulation was first drawn up, based on the procedural issues indicated by the Court. Further, the electricity industry already made the necessary investments as soon as it was clear the regulation would be implemented, and has closed those plants judged economically unviable due to aging degradation and fuel costs, so the impact on the electricity and coal markets should be limited.

However, the political repercussions of the rulings are not negligible. Disappointed by the liberal rulings from the conservative judges, some Republican lawmakers are calling for reform of the system of appointing and dismissing judges, and judicial reforms could thus emerge as a major issue in the 2016 presidential election.

## 2. EU's Energy Union Strategy

**Kei Shimogori**, Researcher

Nuclear Energy Group, Strategy Research Unit

The EU has three main targets for its energy policy: securing energy supplies, energy supply under a competitive environment, and reducing GHG emissions and fossil fuel dependency. The key policy for achieving these targets is the "Energy Union Strategy", which was announced in February 2015 by European Commission President Jean-Claude Juncker as a priority action.

The Energy Union Strategy is based on the Energy Security Strategy which was established by the European Commission in May 2014. The European Commission clearly had the deepening Ukraine crisis and Russia in mind at the time. Thirty-eight European countries including EU members began a stress test postulating a disruption of gas supplies from Russia or passing through Ukraine, and based on the results, the European Commission decided that Europe needed to strengthen its collective energy security. The Energy Security Strategy established long-term actions such as improving energy efficiency; increasing energy production within the zone and diversifying source countries and channels; completing an intraregional energy market and solving the segmentation of infrastructure; introducing a mechanism for cooperation among countries in an emergency; and strengthening the protection of key infrastructure to counter the risk of various threats, disasters and accidents, including cybersecurity measures. The Energy Union Strategy emphasizes the need to complete an intraregional market, decarbonize the economy, and conduct research and innovation (R&I) for ensuring energy security, sustainability, and competitiveness.

Further, to ensure consistency in the long-term energy policy, the European Commission has developed energy strategies targeting 2020, 2030 and 2050. The Energy Strategy for 2030 set up in January 2014 includes a target to "reduce GHG emissions by 40% from 1990 levels, raising the ratio of renewables in energy consumption to at least 27%, and improving energy efficiency by at least 27%, all at the EU-level." The 2030 target is mentioned in the Energy Union Strategy, and efforts are being made to achieve the ambitious target, in addition to energy security.

On July 15, the European Commission announced a new draft policy package as part of the Energy Union Strategy. The package features starting to re-design the European electricity market, revising the energy efficiency indication, and reforming the EU emissions trading system, and is considered to be a critical step for implementing the Energy Union Strategy. Since May 2015, Maros Sefcovic, Vice President of the European Commission in charge of Energy Union, has been on the Energy Union Tour, visiting EU member countries and explaining the benefits of the Energy Union to each country. It is worth monitoring how far the European Commission can push ahead with the Europe-wide measures in the early stages of the current administration's term (till end October 2019), and whether domestic efforts by member countries will be able to keep pace.

### 3. (China) Accelerating Smart Grid Construction for Completion in 2020

Li Zhidong, Visiting Researcher

Professor at Graduate School, Nagaoka University of Technology

In its Twelfth 5-year Plan, the Chinese government announced that it will expand grid connection capacities and accelerate construction of the smart grid (SG), in order to enhance the country's large-volume, long-distance power transmission capacity and introduce larger quantities of renewable electricity. Accordingly, in March 2012, the Ministry of Science and Technology established the Twelfth 5-year Plan on Smart Grid Related Major Science and Technology Industrialization Projects, which aims at accelerating the development and industrialization of technologies such as grid connection of output-fluctuating power sources and large-scale electricity storage. As the process of drawing up the next 5-year Plan, which starts next year, approaches a critical stage, the National Development and Reform Commission and the National Energy Administration jointly released the Guiding Opinions on Promoting Smart Grid Development on July 7 this year.

The Guiding Opinions indicate fundamentally that the SG is a next-generation power system formed by integrating new energies, new materials and new facilities with state-of-the-art sensor, information, control and storage technologies, and will simultaneously boost the safety, reliability, economic performance and efficiency of the transmission network. It set 2020 as the target year for taking the first steps toward completing an efficient, economical and environment-friendly SG that is safe, reliable, open and supports inter-regional power interchange and demand response. By achieving this goal, the plan intends to expand both centralized renewable power generation such as mega solar and large-scale wind power and distributed electricity sources such as roof-top solar PV, to improve the control ability for supplying efficient and reliable transmission of stable voltages and currents, to strengthen bi-directional connections that can be used to charge EVs and supplying electricity from batteries, and to promote the development of an internationally competitive SG equipment industry.

Why is China in a hurry to improve the SG now? The government has already presented to the UN a target to raise the ratio of non-fossil energy in primary energy consumption to 15% by 2020 and to 20% by 2030 by decarbonizing its energy structure. More than ten research organizations, including the Energy Research Institute (ERI), released in April this year a study on "China 2050 High Renewable Energy Penetration Scenario and Roadmap Study", which advocate raising China's renewable energy ratio in primary energy consumption and in electricity output to 62% and 86%, respectively, by 2050. Further, efforts are being made to raise the cumulative production and sales of next-generation vehicles, mainly EVs, to 5 million units by 2020, under the government policy of preventing air pollution and stabilizing oil supplies. None of these targets can be achieved without the SG. Another reason for the acceleration is the downward pressure on the economy, whose growth rate dropped to 7% in the first half of the year, equal to the annual target level. With an estimated investment of 4 trillion yuan (1 dollar = 6.4 yuan), it is hoped that acceleration of the SG business will boost the economy.

Improvement of the SG, together with a low-carbon society, is gathering global attention, but also faces many issues in terms of technology, economic efficiency and standardization. China is a late-starter, but is working hard to catch up with the early-starters such as Japan, the US and Europe. Its progress must be closely monitored.

## 4. (Russia) Expectations for Cooperation with BRICS

**Sanae Kurita**, Senior Researcher  
Global Energy Group 2, Strategy Research Unit

On July 8 and 9, a summit of five emerging countries, Brazil, Russia, India, China and South Africa, or the BRICS, was held in the city of Ufa in Tatarstan Republic, Russia. The Ufa Declaration, a joint statement focusing on strengthening both political and economic cooperation, clearly stated that the BRICS will become an important engine of the global economy. According to the IMF's economic outlook, however, the GDP growth of the five countries all slowed in 2014, and although it bounced back in 2015 to 7.5% for India and 2.0% for South Africa, China continues to slow at 6.8%, while Russia and Brazil are expected to contract by 3.4% and 1.5%, respectively. Thus, the economic outlook for the BRICS countries is diverse.

At the Summit, the launch of the BRICS New Development Bank and an emergency foreign currency reserve (total combined contribution of 200 billion USD) was announced. The BRICS New Development Bank aims to double its initial capital of 50 billion USD in the next few years. It also plans to work with the Asia Infrastructure Investment Bank (AIIB, headquartered in Beijing) to provide loans to help improve the infrastructure of developing countries. Its first investment project is due to start in 2016 at the earliest. President Putin has referred to the Bank's plans to extend loans to large joint projects for transportation and energy infrastructure and industrial development, and has high hopes for the Bank as a new source of funds for Russia, which is currently suffering under the West's economic sanctions. Finance Minister Anton Siluanov has also referred to the role, the Bank may play in relief measures for the Russian economy as its National Welfare Fund, is running out quickly.

The emergency foreign currency reserve, headquartered in Shanghai, is worth 100 billion USD, of which 41 billion USD will be paid by China, 18 billion USD by each of Russia, India and Brazil, and 5 billion USD by South Africa. The presidency will rotate among the founding member countries, starting with the former president of a major private Indian bank (ICICI Bank). The purpose of the reserve is to provide funds in a monetary crisis or financial deficit situation. The reserve will be positioned as a conditional foreign currency reserve, and at the moment, loans will be provided to the central bank of a BRICS member country if a crisis occurs. There were reports in Russia and elsewhere that the reserve is an alternative to the IMF (capital of 327 billion USD<sup>1</sup>), but there are great differences between these two organizations in terms of scale, purpose and targets.

Prior to the BRICS Summit, on July 8, a summit was held between President Putin and President Xi Jinping. President Putin emphasized that "collaboration between China and Russia will solve economic and international political issues", and the two presidents discussed possible collaboration between the Russia-led Eurasian Economic Union and the China-led One Belt, One Road (OBOR) initiative. The two countries have shared intentions and are wooing each other, at least on the surface, as Russia seeks non-Western sources of funds and as China seeks to build an economic framework that it can control. However, possible causes of discord include conflicts of interest over the energy resources of central Asia, which belong to the initiative of both countries. The effect of the new BRICS initiatives on the bilateral relationship must be closely monitored.

---

<sup>1</sup> As of March 13, 2015.

## 5. (ME) Unrest Continues despite Iran Nuclear Agreement

**Koichiro Tanaka**, Managing Director &  
President of JIME Center

The nearly two-year-long Iran nuclear talks ended with a historic signing of the Joint Comprehensive Plan of Action (JCPOA) by all parties, and its endorsement by the UN Security Council. Before the JCPOA goes into effect on October 18, 90 days after adoption by the UN Security Council, it is to be reviewed by the US Congress. Iran has also signed a roadmap agreement with the IAEA for resolving allegations of diversion to military use, and the IAEA is due to submit a final report by December 15.

Under the JCPOA, Iran will impose long-term self-regulation on its uranium enrichment and other activities, and in return, the UN and the West will lift or suspend the economic sanctions to a greater extent than under the interim agreement. The lifting or suspension of the sanctions should materialize in the first half of 2016 if Iran manages to respond properly. Prior to the lifting, a long-awaited new law to attract foreign investment in upstream oil and gas development in Iran will be announced in London in December. Germany, France and Italy have already sent ministerial level officials to Iran to penetrate the Iranian market.

As expected, Israel and Saudi Arabia are expressing either resentment or alarm over the establishment of the JCPOA. Calling the agreement an "historic mistake", the countries are concerned that permitting Iran to enrich uranium and lifting the sanctions will accelerate the country's activities outside its borders, and are focusing on influencing Congress through intensive lobbying. Meanwhile, Iran's Foreign Minister Zarif visited Kuwait, Qatar and Iraq to explain the situation to the neighboring countries.

Criticized for its ambiguous stance toward Islamic State (ISIS/ISIL), Turkey opened its Incirlik airbase to US forces, while apparently launching airstrikes in northern Syria. However, its military operation, in which it targeted the PKK Kurdish militant forces in northern Iraq as well, is causing concerns among NATO member states. Turkey views the security incidents, such as the shooting of a policeman by a Kurdish group following the ISIS/ISIL suicide bombing of a gathering of Kurdish citizens, as retaliation against the Turkish government. President Erdogan and the ruling AKP are at a critical stage in dealing with ISIS/ISIL and the Kurds simultaneously, when Turkey is heading for new elections in November.

As the UN's attempts at a ceasefire failed, Saudi Arabia has called for a 5-day ceasefire while airlifting huge amounts of supplies to help the militia of the Hadi government-in-exile who have recaptured Aden airport in Yemen. The call, however, was rejected by the Houthis who determined that the call was just trying to buy time. In Libya, a peace accord was reached among the country's different forces with the UN as a mediator, but the future remains uncertain, as Libyan Dawn, a militant group effectively ruling the capital Tripoli, has been excluded. With the death of Prince Saud, who served as Saudi Arabia's foreign minister for some 40 years, there has been a true generational shift in the country's diplomacy.

[Past IEEJ Events](#)

[Energy Indicators of Japan](#)

[IEEJ Homepage Top](#)

[Back Numbers of \*IEEJ e-Newsletter\*](#)

[Back Numbers of \*IEEJ Newsletter\* \(Original Japanese Version - Members Only\)](#)

---

---

**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**

---

---