

IEEJ e-NEWSLETTER

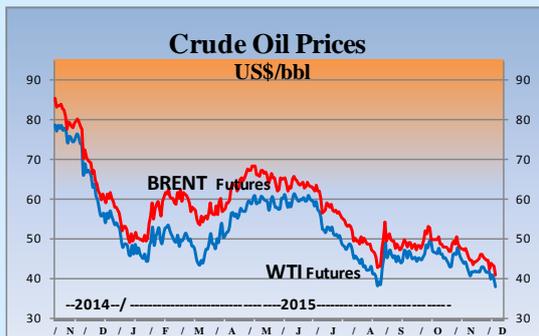
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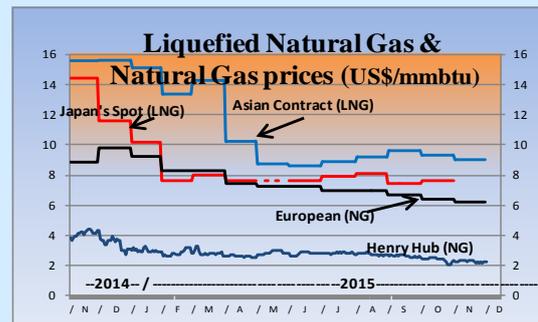
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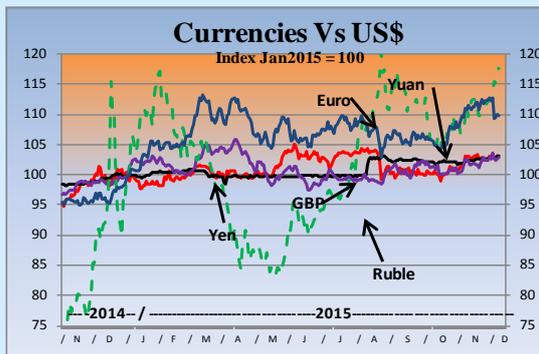
(As of December 8, 2015)



Source: Financial Times



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



Source: x-rates.com



Source: Financial Times

Contents

Summary

【World Monitoring】

1. US: Attention on the Debates on Arctic Oil and Gas Drilling
2. EU: EU's Energy Security Policy and Poland
3. China: Full-scale Construction of EV Charger Infrastructure
4. ME: Syria, Terror, and Diplomatic Initiatives
5. Russia: Air Strikes Continue "without an Exit Plan"

Summary

【World Monitoring】

1. US: Attention on the Debates on Arctic Oil and Gas Drilling

As the presidential elections draw near, the policy debates on Arctic oil and gas development must be closely monitored as they reveal where the candidates stand on the scale of development versus natural conservation.

2. EU: EU's Energy Security Policy and Poland

Poland and Lithuania signed an agreement to build the first gas pipeline to connect the two countries. Poland is a part of the EU's Energy Union Strategy, and the effect of its general election requires close attention.

3. China: Full-scale Construction of EV Charger Infrastructure

The target to reach cumulative production and sale of 500,000 next-generation vehicles in 2015 is unlikely to be met. The government is therefore seeking to accelerate the expansion of EVs by building charging infrastructure.

4. ME: Syria, Terror, and Diplomatic Initiatives

As battles intensify in Syria, diplomatic negotiations are resuming. Concern is growing about the role of ISIS/ISIL in major terrorist incidents in Egypt, Lebanon, Turkey, and France. AKP secured victory in the parliamentary election on 1 November. The Iran Nuclear Agreement went into effect.

5. Russia: Air Strikes Continue "without an Exit Plan"

While the domestic economy suffers due to falling oil prices and the economic sanctions by the West, Russia launched airstrikes on Syria to support the pro-Assad forces without gathering international wide support at the end of September. Moscow's proactive involvement in the Syrian crisis, if it drags on, Russia may encounter its own domestic backlash down the road.

1. US: Attention on the Debates on Arctic Oil and Gas Drilling

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With just one year remaining until the 2016 presidential election, the Obama administration is in the final stretch of establishing the legacy of its eight-year presidency as the presidential debates get underway. The debates on energy and environmental policies are yet to start, but one point of contention in past presidential elections has been the pros and cons of Arctic oil and gas drilling. Given the vulnerability of the Arctic environment to the damages caused by development, this issue clearly divides the Democrats and the Republicans: natural conservation versus greater development.

In July 2015, the Obama administration decided to award a license to Royal Dutch Shell for drilling for oil off the coast of the US Arctic. The drilling project received massive attention as the media covered activists taking violent action to prevent Shell's icebreaker from leaving an Oregon port for drilling. Nevertheless, the license was granted, as a review of the drilling plan showed that the project was well-prepared in terms of possible accidents, protecting safety and mitigating environmental impact. In response to this decision, former Secretary of State Hillary Clinton expressed disapproval, saying that the environmental risk of Arctic drilling outweighed the extra oil and gas production that it would yield. This led to criticism from other Democratic presidential candidates and Republicans who argued that she had switched policy from her days as Secretary of State, and thus the issue quickly became a test of where the candidates stand on the conservative-liberal scale.

Subsequently, in September, Shell announced its decision to abandon drilling in the Chukchi Sea based on the results of exploratory drilling, while also citing the complex and unstable federal regulatory system as one of the reasons. The Obama administration, however, has announced that it will tighten environmental and safety regulations, even though there are currently no plans for offshore oil and gas drilling in the Arctic. Meanwhile, in October, the administration decided to cancel the bid for Arctic offshore mining lots and to reject the application for extending lease contracts for Shell and Statoil's offshore mining lots, which were planned for 2016 and 2017. The reason for the cancellation was explained as the lack of need to open new mining lots in view of the easing of supply in the oil market. What lies behind this change in the administration's policy?

Regarding Arctic offshore drilling, oil companies are actually not as interested in the area as had been thought, and the government's decision to withhold development will have little real impact on domestic upstream development, despite the praise by environmentalist groups. In fact, in the same month of October, the decision by the Interior Department to reject ConocoPhillips' drilling license in the National Petroleum Reserve (NPR-A) on the north shore of Alaska was overturned when the company filed a complaint, and a license was consequently granted. Likewise, the decisions to cancel the Arctic offshore bid and reject the lease extension have a good chance of being overturned in court. Above all, it is important to remember that the Obama administration is actively accelerating the purchase of icebreakers needed to sail the Arctic Sea through the Coast Guard and exploiting the seaways and resources of the Arctic.

In recent years, in many policy areas, the judicial branch is playing an increasingly important role in policy changes through court rulings – a role that used to be played by Congress or the administrative body. In analyzing the administration's policies, it is important to take into account the possibility of decisions being reversed by the judicial branch.

2. EU: EU's Energy Security Policy and Poland

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On October 15, Poland and Lithuania signed an agreement to build the first gas pipeline to connect the two countries. Named GIPL (Gas Interconnector Poland - Lithuania), the pipeline, when completed, will be the first to connect the three Baltic States to the EU energy network. GIPL is 534 km long, can carry 2.4 billion m³ per year from Poland to Lithuania and 1 billion m³ in the opposite direction, and is planned to be completed and launched by December. Of the 558 million euro construction cost, approximately 295 million will be shouldered by the European Commission. The signing of the agreement was attended by European Commission President Jean-Claude Juncker, Latvian Premier Laimdota Straujuma and Estonian Premier Taavi Roivas. The agreement is being welcomed as it will help secure supply stability and improve the resilience of the European energy market.

For Poland, the EU's Energy Union Strategy is well suited to its own energy policy. Poland depends on Russia for 96% of its oil and 80% of its natural gas imports, and lowering its dependence on Russia is a major energy policy goal. To achieve this, the country is pursuing options such as efficiently and stably using its domestic coal resources, and diversifying the sources and routes for natural gas imports by constructing a LNG receiving and liquefaction terminal, while positively considering the introduction of nuclear power. GIPL is regarded as a win-win solution for both Poland and the European Commission.

Currently, Poland is gaining greater presence in the EU backed by its healthy economy and active diplomacy. This is evidenced by the election of its Prime Minister as the effective "President of the EU" in August 2014. However, it is also true that the country has not fully met the requirements for EU members. Poland joined the EU in 2004. In 2009, the European Commission commenced an infringement procedure against the country for failing to comply with the EU internal energy market rules by not fully liberalizing its gas market. With no significant improvement, the EC referred Poland to the Court of Justice of the European Union in 2013, and in September 2015, the Court ruled that Poland's market regulation over industrial consumer gas prices infringes the EU rules. Following this ruling, Poland is due to abolish its market regulation as early as next year.

On October 25, Poland held a general election in which the top opposition party Law and Justice (PiS) won a single-party majority to become the leading party. The ruling Civic Platform (PO) struggled to win votes, leading to the first change of power in eight years. PiS is Eurosceptic, but it is not clear whether the country will reverse its present collaboration with the EU in the energy area. The implications of the general election must be closely monitored.

3. China: Full-scale Construction of EV Charger Infrastructure

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On October 13, the China Association of Automobile Manufacturers (CAAM) announced a preliminary report on the supply and demand for automobiles for January to September this year. Both production and sales were slow at 17.09 million units (down 0.8% year-on-year) and 17.06 million units (up 0.3% year-on-year), respectively. Despite the sagging market, however, the production and sales of electric vehicles and other next-generation vehicles were 144,284 units and 136,733 units, respectively, up 2 times and 2.3 times from the previous year. In particular, sales for September rose 56% year-on-year to 28,092 units, accounting for 1.4% of the total sales. There is enough momentum to surpass the annual sales estimate made at the beginning of the year to range from 150,000 to 200,000 units, although the target of accumulated 500,000 units within this year seems unlikely to be met, as the number of accumulated units produced and sold up till the end of 2014 was only around 120,000.

Under such circumstances, the government is stepping up efforts to expand the use of next-generation vehicles headed for 2020.

On July 7, the National Development and Reform Commission (NDRC) and the National Energy Administration of China (NEA) jointly released the “Guiding Opinions on Promoting Smart Grid (SG) Development”, and announced that it was taking the first steps to complete an SG that can be used to charge EVs and supply electricity from battery cells by 2020. Then, on September 29, Prime Minister Li Keqiang summoned an executive meeting of the State Council and made a decision to improve the soundness of the support measures and to continue to steadily implement the existing measures (obliging the public sector to purchase next-generation vehicles for at least 30% of all new and replaced vehicles. See the March Edition of this Newsletter). At the same time, the “Guiding Opinions of the General Office of the State Council on Propelling the Construction of Electric Vehicle Charging Infrastructure” (“Opinions”), and the “Guidelines to Promote Electric Vehicle Charging Infrastructure (2015-2020)” (“Guidelines”) developed by four ministries including the NDRC were deliberated and ratified. On October 9, the “Opinions” were released to the public and the “Guidelines” were released internally to the organizations and bodies concerned.

The “Opinions” emphasize that creating charging infrastructure is indispensable not only for the next-generation automobile industry to develop, but also for achieving stable economic growth, and set a target of building infrastructure for 5 million or more EVs by 2020. To achieve this, the “Opinions” require all new houses and at least 10% of new public parking lots to be able to install chargers, and to build one charging station per 2,000 vehicles. Meanwhile, the “Guidelines”, which are a concrete plan based on the “Opinions”, set a target of installing 12,000 charging stations and 4.8 million regular chargers by 2020. Further, the “Guidelines” divide the country into three regions —fast-track, model demonstration and active promotion — and set an installation target for each. For instance, for fast-track regions such as Beijing and Shanghai that are suitable for deploying chargers, the “Opinions” specify that 7,400 charging stations and 2.5 million regular chargers must be installed newly, estimating that 2.66 million EVs will be introduced by 2020.

Meanwhile, the most important factor for building charging infrastructure is standardizing the chargers. On this point, the “Opinions” merely state that standardization will be accelerated but do not define a time line. It is important to standardize chargers to attract more private investment in order to reach the infrastructure target.

4. ME Watching: Syria, Terror, and Diplomatic Initiatives

Koichiro Tanaka, Managing Director &
President of JIME Center

Russia is escalating its military intervention in Syria. It is using drones as well as deploying long-range strategic bombers and cruise missiles to attack Islamic State (ISIS/ISIL) positions and other rebel forces, and is attracting increasing critics for lack of humanitarian consideration. These actions by Russia are proof that the Assad administration is under pressure on the fronts in various parts of the country. Following the Paris terror attacks, France, as retaliatory measures, has stepped up its bombing campaign against the city of al-Raqqa, a known stronghold of ISIS/ISIL, amid emerging stories of tactical cooperation with Russia.

Iran, which, like Russia, supports the Assad administration, has been helping to train Syrian militia "National Defense Forces". The country is recently suffering more casualties, including a high ranking officer of the Islamic Revolutionary Guard Corps who was responsible for training the militia and who died in a battle with ISIS/ISIL. The Syrian civil war is also placing a burden on the Lebanese Shi'ite group Hezbollah, and the cost of sustaining the outflanked Assad administration is rising.

As the battles intensify, greater efforts are being made toward a political solution for the civil war. The discussions in Sochi between Russia's President Putin and Saudi Deputy Crown Prince Mohammad failed to deliver results, but it led to a four-party foreign minister talk between these two countries along with US and Turkey. Meanwhile, discussions between the countries concerned were convened in Vienna, including a delegation from Iran for the first time since 2011.

Turkey, which has been affected by the consequences of the Syrian civil war through the mass influx of refugees, faced tough challenges to its security measures by suicide bombing attacks at a rally in Ankara, allegedly perpetrated by ISIS/ISIL during a run up to the parliamentary elections and the G20 Summit in Antalya. Rising tension between the Kurdish terrorist group PKK and the Turkish forces is another source of concerns, for both the government and the people of Turkey. The recent instability may have led the voters to opt for an AKP majority parliament over a future coalition government. Prime Minister Erdogan, who had visited Japan, in October, to conclude an economic partnership agreement, met again with Prime Minister Abe in Istanbul a day prior to the G20 Summit. The two leaders agreed on the necessity of exploring measures in providing adequate assistance to Syrian refugees crossing into Turkey.

The Iran Nuclear Agreement went into effect safely following deliberations and a vote in the Iranian parliament, after attempts in the US Congress to restrict the implementation of the agreement failed. Uncertainty remains, however, as Ayatollah Khamenei is demanding that President Rouhani clarifying the conditions that the parliament has approved for implementing the agreement and that Western leaders submit a note to Iran pledging to lift all sanctions. As hopes rise for an early lifting of the sanctions, Japan's Foreign Minister Kishida visited Iran and agreed with Foreign Minister Zarif on the early completion of an investment agreement. The visiting Iranian Vice President disclosed to a Japanese media during his trip to Japan the commencement of decommissioning centrifuge and disconnecting cascades in enrichment facilities, which Iran has committed itself to under the nuclear agreement.

Egypt held its long-awaited parliamentary election, but as the low voter turnout shows, the sense of despair over the regime is growing again. As the killings continue in Israel between the Palestinians and the Jews, Israel's Prime Minister Netanyahu is being criticized by the West for attributing the cause of the holocaust to a Palestinian, the then great mufti of Jerusalem. Multiple terror attacks ripped the region; a Russian passenger aircraft exploding in mid-air over Sinai, serial suicide bombings in the Shiite district of Beirut, and mass execution of minority Hazaras in Afghanistan.

5. Russia: Air Strikes Continue "without an Exit Plan"

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On September 30, Russia launched airstrikes on Syrian territory, citing requests by the Syrian government to "oust ISIL". Although Russia maintains that the airstrikes are targeting only those regions under ISIL rule, in reality it is reported to be striking the regions ruled by the moderate anti-government forces (separate from ISIL), the enemies of the Assad administration which Russia supports, rather than ISIL strongholds. By ramping up its support for the Assad administration, Russia is coming into conflict with the West and many Arab nations including Turkey and Saudi Arabia which do not support the Assad regime.

There are various possible reasons behind President Putin's decision to launch the airstrikes: (1) to divert the West's strong focus on the Ukraine issue, (2) to use the EU's Syrian refugee issue as an opportunity to remind Europe of the need to cooperate with Russia, driving a wedge between Europe and the US, (3) to re-assert Russia's position as a "major power" both domestically and internationally, (4) to boost national prestige through military activities, diverting public frustration over the worsening economy, and (5) to create a sense of crisis over the geopolitical risk of the Middle East and thus help to prop up falling oil prices.

On October 21, President Putin held a talk with President Assad in Moscow, emphasizing the strong ties between the two countries. Domestically, however, there are concerns that launching airstrikes without an "exit plan" for ending the Syrian Crisis could prolong Russia's intervention given the lack of action from Syrian government forces, and that airstrikes alone may not be enough to support the Administration to the end, let alone oust ISIL, although President Putin has rejected the possibility of sending in ground troops.

On October 13, President Putin announced that Russia's economic crisis has passed its worst, but the real GDP growth rate for Q2, 2015 was minus 4.6% year-on-year, worse than the previous quarter at minus 2.2%. According to the Central Bank of Russia, net direct investment from foreign countries dropped to 2.6 billion dollars in the first six months of 2015, the lowest since 2006. The real GDP growth rate for the entire year is estimated at minus 4%, and is expected to remain negative for 2016.

Despite the worsening economy caused by the falling oil prices and the West's sanctions, President Putin has managed to keep his administration popular by capitalizing on the Ukraine crisis to stir up patriotism. However, as the economy remains sluggish, frustration is mounting in the energy and other industries and among the people. The airstrikes on Syria have begun under these circumstances, but many Russians still vividly remember the Soviet invasion of Afghanistan, which cost numerous lives and huge sums of money but eventually failed. What will President Putin do next as he attempts to maintain a hard-line stance despite the worsening economy?

(This article was originally written before the Russian plane's crash in Egypt's Sinai Peninsula on October 31.)

[Past IEEJ Events](#)

[Energy Indicators of Japan](#)

[IEEJ Homepage Top](#)

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

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