

IEEJ e-NEWSLETTER

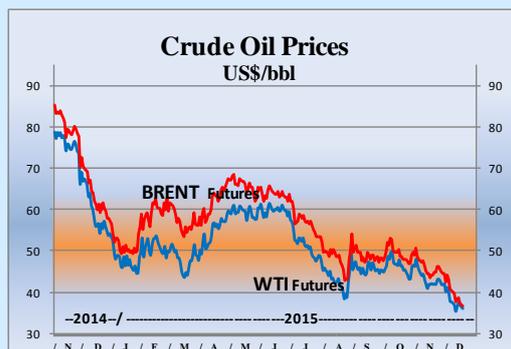
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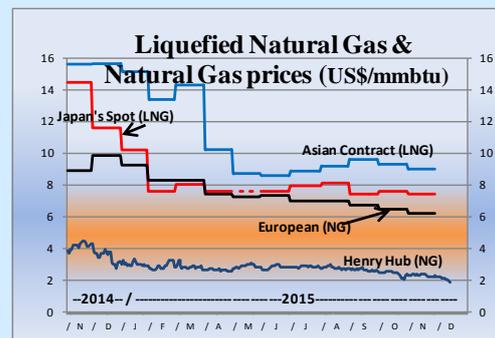
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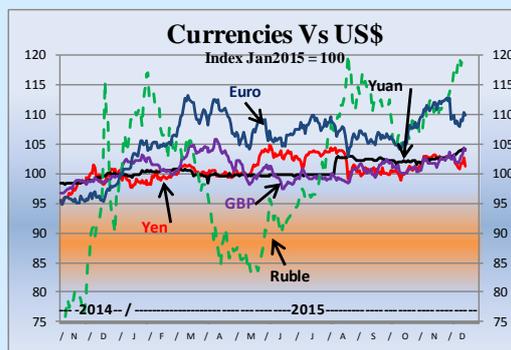
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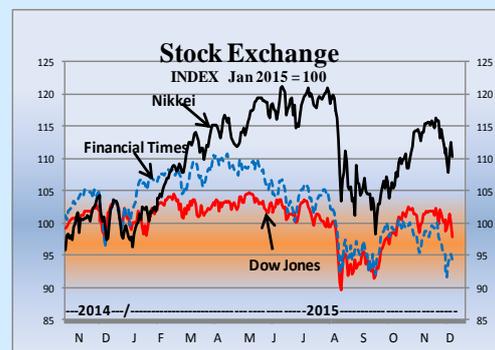
Source: Financial Times



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: Presidential Election and Policy Promises on Energy and the Environment
2. EU: Can Greece Become an Energy Hub?
3. China: Domestic and International Climate Actions Heading toward COP21
4. ME: Rampant Terrorism and the Middle East Connection
5. Russia: Growing Dependence on China amid Difficulties

Summary

【World Monitoring】

1. US: Presidential Election and Policy Promises on Energy and the Environment

The current leading US presidential candidate Hillary Clinton has only released parts of her energy and environmental policy promises; the overall picture remains unknown. Developments including actions by the energy and environment advisor must be closely monitored.

2. EU: Can Greece Become an Energy Hub?

The European Commission released the first State of the Energy Union Communication. Having suffered a financial crisis, Greece is expected to become a power and gas hub. However, it will not be easy to overcome the challenges.

3. China: Domestic and International Climate Actions Heading toward COP21

China has announced a series of agreements to cooperate with the US, the three other "BASIC" countries, and France to prevent global warming. Within the country, it cemented its basic policies for the next 5-year plan which seeks to ramp up decarbonizing efforts and international cooperation.

4. ME: Rampant Terrorism and the Middle East Connection

Terrorist attacks by ISIS are increasing, among them the Paris attack. However, the parties that must respond are not coordinating with each other. Actions by some member states of GCC regarding the civil war in Libya and Yemen are met by concerns among the international community.

5. Russia: Growing Dependence on China amid Difficulties

Amid continued sanctions by the West and falling oil prices, the Russian economy is increasingly dependent on China, but the pivot to China may not be as successful as Russia hopes.

1. US: Presidential Election and Policy Promises on Energy and the Environment

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With just two months until the Iowa Caucus that kicks off the 2016 Presidential Election, the terrorist attack in Paris on November 13 has made counter-terrorism and the pros and cons of the Obama administration's policy to accept Syrian refugees a major issue for the Republican presidential candidates and the GOP-led Congress. Usually, Republican candidates tend to gain popularity as voters become concerned about security issues. However, in a poll carried out after the Paris attack asking "Who do you trust more regarding counter-terrorism, Clinton or Trump?", 50% chose the leading Democratic candidate while only 42% chose the Republican. Mrs. Clinton also topped former Florida Governor Jeb Bush, who was the closest contender, at 46% to 43%. Mrs. Clinton maintains her lead within her party, which is now reportedly picking vice-presidential candidates focusing on balance between age, home region, and racial background.

Although she is currently the most likely next US President, as the former Secretary of State Mrs. Clinton is having difficulty setting the right distance from the Obama administration. She has been criticized for shifting her views from her Secretary of State days when she recently expressed disapproval with the TPP that has reached agreement in principle, and said that construction of the Keystone Pipeline for transporting Canadian tar sands oil should not be approved. Formulating policy promises will not be easy for the Clinton camp.

So far, Mrs. Clinton's public policy promises concerning energy and the environment include installing 500 million solar panels in the four years after inauguration, building enough renewable power generation facilities in the next ten years to cover the power demands of all households, leveraging government subsidies in clean energy, and modernizing transmission infrastructure. She agrees that the administration's regulation on CO₂ emissions by power stations is one option for reducing carbon and leveling the playing field for different energies, but is critical of the process itself, and argues that the government should set a minimum "target" to spur voluntary efforts instead of setting detailed technical and operational procedures and numerical standards. Further, regarding the Renewable Fuel Standard (RFS) for the percentage of ethanol in domestically-sold gasoline from 2016, which the Environmental Protection Agency is due to announce shortly, she has stated the importance of developing and spreading next-generation fuels, and the effectiveness of the RFS system.

It is still difficult to gain an overall picture of Mrs. Clinton's energy and environmental policy based on her views on individual issues. The promises mentioned above are based on the campaign strategy of winning support in the first preliminaries in the agricultural state of Iowa and picking up votes in the coal-producing states on Republican turf. It is notable that Clinton camp advisor John Podesta is reportedly distancing himself from the Fossil Free Campaign of environmental groups. A liberal who mapped out the blueprint for Obama administration's Green New Deal in 2008, Podesta is the man behind the administration's change in stance toward natural gas in 2010 to position it as a bridge fuel. In analyzing US politics, it is essential to observe not only the politicians themselves but also the analyses and views of the advisors and think tanks that influence them.

2. EU: Can Greece Become an Energy Hub?

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The EU's Energy Union Strategy, which has often been covered in this Newsletter, saw another big move. On November 18, the European Commission released the first State of the Energy Union Communication. The report looks back on the progress of the Union of the past nine months, identifies key action areas for 2016, and offers suggestions on policy decisions at member state and regional levels. It is planned to issue the report annually. Along with the report, a summary report on the progress of each country toward Energy Union was also published. This article focuses on Greece.

In terms of dependence on energy imports, Greece depends on imports for most of its fossil fuels as of 2013, particularly on Russia for 66% of its natural gas (compared to the 28 EU member average of 39%). The summary report points out that Greece is located at the center of southeast Europe, and thus will be connected in the future with Italy, Bulgaria, Turkey, and the western Balkan states via existing and new infrastructure. Greece is expected to serve as a gas hub for southeast Europe as well as a power hub. The European Commission is currently trying to diversify natural gas sources by focusing on the Southern Gas Corridor Project, which will transport natural gas to the EU from the Caspian Sea and Central Asia, the Middle East and eastern Mediterranean. In particular, the TAP (Trans Adriatic Pipeline) and TANAP (Trans Anatolia Natural Gas Pipeline) Projects that carry Caspian gas to the EU have been designated as Projects of Common Interest (PCI) by the Commission. Both pipelines travel through Greece, and hence the high hopes of the Commission for the country.

However, in addition to the recent financial crisis, Greece has problems in its energy department. Greece's gas company DEPA and power company PPC are both state-run, and despite previous efforts to privatize DEPA and rebuild its business, the current government, which returned to power in the January general election this year, announced that it was rescinding its decision to sell the company following its campaign promise. Greece's power and gas wholesale prices are higher than the EU average, and despite efforts since 2001 to liberalize the Greek electricity market, little has been achieved in terms of reducing prices. This is hurting the competitiveness of the country's energy intensive industries. For example, Greece's LARCO, the largest ferronickel producer of Europe, is running at a loss despite the growing global demand for nickel.

On November 23, the Eurogroup Finance Ministers Meeting welcomed the fact that the Greek government had finished implementing the essential measures for capital injection. However, even if the loans to Greece continue based on the financial assistance program of the European Stabilization Mechanism, it will be extremely difficult for the country to become Europe's energy hub unless it reforms its domestic energy department, in addition to rebuilding its economy.

3. China: Domestic and International Climate Actions Heading toward COP21

Li Zhidong, Visiting Researcher

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As the international negotiations continue on the climate change framework beyond 2020, China is reinforcing its efforts for both international cooperation and domestic measures.

The highlight in terms of international cooperation is the release of a series of joint statements: the "U.S.-China Joint Presidential Statement on Climate Change" on September 25, the Joint Statement issued on October 31 at the "21st BASIC Ministerial Meeting on Climate Change" by Brazil, South Africa, India and China, and the "China and France Joint Presidential Statement on Climate Change" on November 2.

In the U.S.-China Joint Presidential Statement, both countries presented concrete measures: The US's "Clean Power Plan" which aims to cut GHG emissions by the nation's electricity industry by 32% from 2005 levels by 2030, and China's introduction of a national emissions trading system in 2017 for the six high emission industries including steel and power (see the author's October report¹ on the IEEJ website). The China and France Joint Statement agreed to review the reduction target every five years, and to aim to announce national strategies for building a low carbon society within the next five years. The "BASIC" Statement confirmed the importance of cooperation among developing countries, and jointly demanded the developed countries to build a system to ensure that financial aid will reach 100 billion dollars per year by 2020 and will continue to increase thereafter. Further, regarding funding, the US announced that it would contribute 3 billion dollars to the Green Climate Fund, and France pledged to raise its contribution from 3 billion euros (approx. 3.2 billion dollars) to 5 billion euros (approx. 5.4 billion dollars) by 2020. Meanwhile, China pledged to establish the "China South-South Climate Cooperation Fund" worth 20 billion yuan (approx. 3.1 billion dollars) on its own mainly for small island nations and the poorest countries in Africa and elsewhere. As the biggest emitter, China's agreement to cooperate with the three most influential parties of the COP21 negotiations could be a significant step toward a new framework.

Regarding domestic measures, the Proposal on Formulating the Thirteenth Five-Year Plan (2016-2020) on National Economic and Social Development was adopted at the Fifth Plenary Session of the 18th CPC (Communist Party of China) Central Committee meeting that closed on October 29 (see the author's November report² on the IEEJ website). The Proposal calls for achieving medium to high economic growth, promoting low-carbon, recycling-based growth and effectively curbing energy consumption and CO₂ emissions. This will be achieved by building a clean, low-carbon, safe, highly efficient, and modern energy system through an energy revolution. The specific policy measures to achieve this will include establishing initial quotas for energy consumption and carbon emissions, and developing a trading system, previously announced in the U.S.-China Joint Presidential Statement. Further, the Proposal pledges to promote the "One Belt and One Road" Initiative which designates regional cooperation to decarbonize energy as one of its pillars, and that China will fulfill its international responsibilities by playing an active role in the climate framework negotiations, steadily meeting the Intended Nationally Determined Contributions (INDCs), increasing financial and other aid to developing countries, and broadening the scope of such aid. Attention must be paid to how China develops and implements the emissions trading system and other measures.

There are high hopes that China will quickly develop these cooperative agreements and the basic policies of the next 5-year plan, and will take the lead in creating a model of a low-carbon society for the international community by living up to its word.

¹ The Fourth U.S.-China Joint Presidential Statement on Climate Change: US' and China's Efforts to Set a Model for Other Countries (IEEJ website, October 6, 2015)

² CPC Central Committee's "Proposal" on the Thirteenth 5-Year Decarbonization and Energy Plan (IEEJ website, November 17, 2015)

4. ME: Rampant Terrorism and the Middle East Connection

Koichiro Tanaka, Managing Director &
President of JIME Center

As ISIS/ISIL and hacker group Anonymous intensify their cyber-attacks on each other, on November 13, ISIS/ISIL carried out highly-organized simultaneous suicide bombing and gun attacks in Paris, taking more than 130 lives. ISIS/ISIL also carried out a suicide bombing in Beirut, Lebanon shortly after the Paris incident, and is suspected of involvement in the explosion of a Russian commercial airliner that took off from Sharm el-Sheikh, a resort on the Sinai Peninsula. The attacks are thought to be in retaliation for the respective countries' military campaign against ISIS/ISIL in Syria.

In response to the Paris attack, France stepped up its airstrikes on the ISIS/ISIL stronghold of Raqqa, and has started considering working with the Russian forces that have already been bombing Syria. While Russia was gaining influence also in the Syria Peace Talks in Vienna, with its unique proposal for the transition of power, a Russian military aircraft was shot down by Turkish fighter jets after violating the country's air space, not only destroying the budding cooperation but also antagonizing the relationship between NATO and Russia again as with the case of Ukraine. Confrontation and discord among the countries concerned only benefits ISIS/ISIL and other radical groups. Meanwhile, the general public in EU countries is becoming increasingly concerned about the growing threat of ISIS/ISIL and the influx of refugees. Further, the perpetrators of the hostage crisis in In Amenas, Algeria in January 2013 recently launched a gun attack in Mali's capital Bamako in West Africa, raising fears that terrorist groups are becoming active.

In chaotic Libya, once again, the peace process under the auspices of the UN is stalled. The fundamental neutrality of the peace initiative is in question, as the former envoy who formulated the peace proposal became the head of a governmental institution of the UAE which itself is intervening in Libya. It has also been revealed that the UAE has been supplying weapons in defiance of a UN Security Council resolution to the eastern Tobruk government. Further, another UN report revealed that in the Yemeni civil war, Eritrea is allowing Saudi Arabia and UAE forces access to the country's land, sea and air territory in exchange for money and fuel, as well as sending 400 soldiers to the war, in possible violation of the UN sanctions imposed on the Eritrean government for intervening in Somalia. The report also raises questions on the acts of the two GCC countries.

In Iran, where a parliamentary election is due next spring, the crackdown on the media is hardening following the arrest of an American Iranian in the country. Described as a response to "cultural invasion" warned about by the Supreme Leader, the move is actually a comeback attempt by the hard-liners who seek to stop the nuclear agreement from being implemented. Their goal is presumably to reignite confrontation by stalling the nuclear agreement and luring the US into toughening its sanctions.

5. Russia: Growing Dependence on China amid Difficulties

Sanae Kurita, Senior Researcher
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The Russian economy is expected to become more dependent on China as the country struggles to raise finance from the international financial market amid the West's sanctions over Ukraine, and suffers declining oil and gas revenues as oil prices drop. On November 6, the Central Bank of Russia and the Ministry of Finance announced that the Moscow Exchange will begin issuing Russian government bonds denominated in Chinese yuan. According to the Russian media, bonds worth over 6.4 billion yuan (approx. 1 billion US dollars) will be issued in mid-2016. According to the Ministry of Finance, this is a pilot project for issuing yuan-based Russian government bonds in China in the future. As the West's sanctions show no sign of easing, the Russian economy is forced to depend on China, even though the borrowing cost is higher than for US dollar- or euro-based bonds. Russia's GDP growth rate remains negative, though the fall slowed to minus 4.1% in Q3 from minus 4.6% in the previous quarter.

The energy cooperation is a good example of stronger ties between Russia and China. In recent years, as Europe tries to lessen its dependence on Russian energy, Russia is increasing its access to Chinese and other Asian markets, where demand is expected to grow. After the annexation of Crimea by Russia, the relationship between Russia and the West remains in balance, with various events such as the airstrikes on IS by Russia, the Paris terrorist attack, and the shooting down of Russian military jets by Turkey. The hostile relationship has forced Russia to pivot quickly to China.

Russia's oil production in October 2015 hit the highest record since the former Soviet era at 10.78 million b/d, but its future remains uncertain. Oil and gas account for roughly 70% of the country's exports, and thus are the key source of finance for the government. Output is already declining for the top two oil companies Rosneft and Lukoil, and as investments in oil field development decline due to low oil prices, national production may start to drop in 2016. The key is how to prevent production from falling in western Siberia which accounts for a significant proportion of the country's oil output and how to develop new oil fields in eastern Russia, but both of these require huge investments. As these issues become harder to solve due to the sanctions and falling oil prices, Russia is seeking to switch quickly to China for financing.

However, considering China's current situation, Russia's switch to China may not go as successfully as it hopes. First, the Chinese economy is slowing down and its future is becoming increasingly uncertain, as is the growth of its energy demand. Second, the international energy market has become a buyer's market due to easing supply and demand. Third, because of the above, the bilateral power balance is tipping in favor of China. Thus, China has no reason to rush to invest in Russia's energy projects, which explains the lack of progress over the China-Russia gas pipeline and the oil field exploration interests for supplying oil to the ESPO crude pipeline. The situation must be closely monitored for developments that push the negotiation forward, such as a compromise by Russia on the acquisition of concessions.

[Past IEEJ Events](#)

[Energy Indicators of Japan](#)

[IEEJ Homepage Top](#)

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

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

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