

IEEJ e-NEWSLETTER

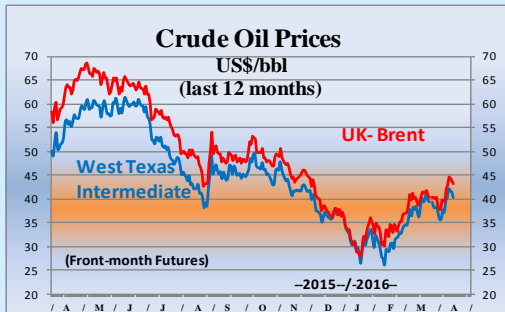
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(Based on Japanese No. 151)

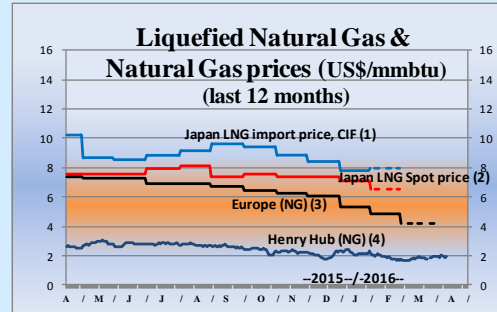
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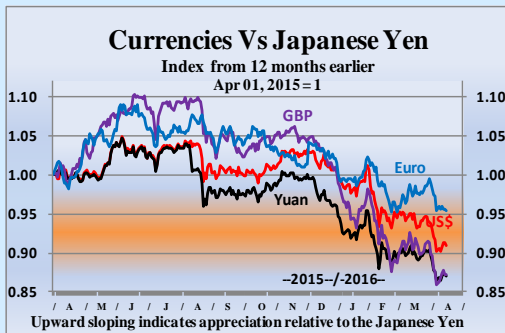


Source: DOE-EIA, Financial Times, NASDAQ

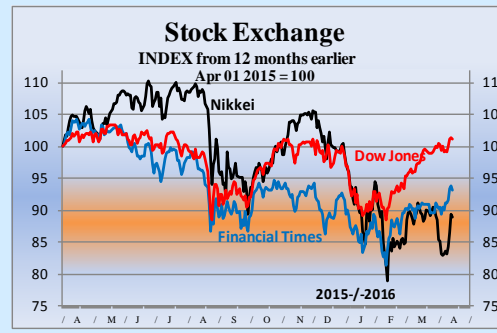


Sources:

- (1) Ministry of Finance "Japan Trade Statistics"
- (2) Ministry of Economy, Trade and Industry (contract month basis)
- (3) Estimated by World Bank and World Gas Intelligence
- (4) DOE-EIA, NYMEX (Front-month Futures)



Source: x-rates.com



Source: Financial Times

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Summary

【World Monitoring】

1. US: In-depth Policy Debate Anticipated for the Presidential Elections

Clinton and Trump both seem to need more time to secure the nomination. Deeper policy debates are anticipated, including on energy and environmental policies.

2. EU: The Brexit Situation

Views on the possible exit of Britain from the EU differ widely. The effect of Brexit on the energy industry might be limited, but is unknown. Public opinion remains closely divided and any developments must be followed.

3. China: Overview of the Much Awaited Thirteenth 5-Year Plan

The Thirteenth 5-Year Plan for 2020 was adopted. The goals include annual economic growth of at least 6.5% and reducing per-GDP energy consumption and per-GDP CO₂ emissions by 15% and 18%, respectively, from 2015 levels.

4. ME: Struggling to Tackle the Never-ending Terrorist Attacks

With the withdrawal of Russian troops, the Syrian civil war and peace process have entered a new phase. Turkey is struggling to cope with the triple problem of refugees, terrorism, and the Kurdish rebels. Saudi is starting to show flexibility toward the Yemeni conflict.

5. Russia: Will Concern over Terrorism Draw Russia and the West Closer?

As the West's sanctions against Russia continue over Ukraine, Russia announced that it would stop air strikes in Syria. As concern over terrorism rises in both inside and outside Russia, would it have Russia and the West move closer?

1. In-depth Policy Debate Anticipated for the Presidential Elections

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Hillary Clinton and Donald Trump continue to lead the Democratic and Republican primaries, but both seem to need more time to win the majority of delegates and secure the nomination. Recent polls are showing conflicting results: "Both Clinton and Trump have more who disapprove than approve", "if the November election is a contest between Clinton and Trump, Clinton will win", and "Republicans Cruz or Kasich could beat Clinton in the general election". As mainstream Republican lawmakers and governors scramble to endorse a non-Trump candidate, some Republican lawmakers, foreseeing an uphill battle in the concurrent Congressional elections, are suggesting that they may even cross party lines and back Clinton. The "Clinton Republican", a Republican supporter who votes for Clinton out of disillusionment with the chaotic primaries and Donald Trump is reminiscent of the "Reagan Democrat" of the 1980s. This provides clues as to where the current bipartisan system will be headed after the presidential election.

Some are lamenting the lack of in-depth policy discussions in the presidential debates. The candidates have announced their commitments on the key tax issues, but usually, this far into the primaries, candidates should be answering questions on their stance toward the current administration and on their basic principles concerning social security, trade, immigration, gun control, and counterterrorism. The candidates are expected to release their detailed policy statements at the National Conventions in July. Their energy and environment policies are also due to come out in the summer or later, but given the current low gas prices and higher self-sufficiency in oil, voters may not be so interested, and policy debates on these issues may not go further.

Hillary Clinton is coming under fire for her March comments on fracking and coal. Regarding the former, she said she would support fracking on three conditions (limiting methane emissions, requiring companies to disclose the chemicals used, and giving local and state governments greater authority to accept or reject fracking), but in reality it is difficult to meet all these conditions and thus the growth of fracking will decline. Her comments are being criticized for being inconsistent with her views while working as State Secretary when she was pro-development of both domestic and overseas shale gas, and for deviating from the results of the EPA's environmental impact analysis on fracking. Regarding coal, her announcement of a 30 billion dollar package to help coal miners was seen as a declaration to put coal miners and coal companies out of business, although her true intention is to help coal-producing regions facing declining demand and coal prices by providing income security and compensation for health damage from soot, securing and building infrastructure for energy alternatives to coal, and developing an alternative business and training workers for it. Perhaps her long career itself has resulted in these inconsistencies and criticisms, as a calm analysis of her comments shows that she is generally following Obama's attitude to coal.

Meanwhile, Donald Trump appears to be against tighter environmental regulations and to support clean coal, while protecting the ailing coal-producing regions, fracking and cheap natural gas supply, and construction of pipelines and other infrastructure. However, Mr. Trump is a businessman and his ideas should be viewed differently from those of traditional politicians who consider regional resource allocation and the profit structure of industries. The policies of this strong but unconventional candidate may need to be analyzed not only within the traditional political framework, but also from a business perspective.

2. EU: The Brexit Situation

Kei Shimogori, Researcher

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Following the February European Council meeting, the British government decided to hold a referendum on June 23 on whether to leave the EU. Regarding Britain's exit from the EU (so-called Brexit), there are diverse opinions even though Prime Minister Cameron strongly believes that Britain should remain in the EU. For example, Germany's Finance Minister has stated that Brexit would be harmful not only for Britain but also for other EU member economies, while the Mayor of London supports Brexit, arguing that more deregulation would make Britain more competitive and the pound stronger. Recently, Work and Pensions Secretary Iain Duncan Smith, former Leader of the Conservative Party and a backer of Brexit, resigned on March 18, citing indefensible cuts to disability benefits in the new budget, with no mention of Brexit. However, some party members associate his resignation with Brexit.

Meanwhile, Nicola Sturgeon, leader of the Scottish National Party (SNP), announced at the spring party conference that the party will start campaigning again for Scottish independence from summer 2016. Ms. Sturgeon opposes Brexit, citing impacts on the economy and jobs, and points out that Britain's leaving the EU without Scotland's approval would drive Scotland toward a second referendum on independence. The 2014 referendum on Scottish independence failed to pass (Yes 45%, No 55%), and Prime Minister Cameron has clearly stated that a second referendum is not necessary. Further, even if Britain leaves the EU and Scotland leaves Britain, Scotland cannot rejoin the EU immediately; it will have to go through the membership negotiation process and be reviewed, perhaps for years, in light of the 1993 Copenhagen Criteria on politics, economy, and adoption of the EU code.

While energy may not become the focus of the Brexit debate, experts believe that Brexit would have the following impacts:

- Britain's influence, based on its experience, on the development of European gas and electricity markets would decline (leaving the Council of European Energy Regulators (CEER) and the Agency for the Cooperation of Energy Regulators (ACER)).
- Existing gas pipelines and power grids would not be disrupted; the National Grid would remain a member of the EU's power and gas organizations ENTSO-E and ENTSO-G. However, Britain might suffer disadvantages in terms of the EU's collective energy security and negotiating power with non-EU nations.
- Britain has exercised strong influence on international climate change negotiations, together with France and Scandinavian countries, to achieve the EU's ambitious goals, but this would no longer be the case.

According to recent polls on Brexit, the contest remains close with 49% wanting to leave and 51% wanting to remain. The direction of discussions in Britain as the June referendum approaches must be closely monitored.

3. China: Overview of the Much Awaited Thirteenth 5-Year Plan

Li Zhidong, Visiting Researcher
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The "Thirteenth Five-Year Plan on National Economic and Social Development" ("Overall Plan") targeting 2020 was adopted at the fourth session of the 12th National People's Congress (NPC) on March 16, and was released the next day. The guidelines setting the basic policies and major goals of the Plan had already been announced last November as a "Proposal"¹ of the CPC Central Committee. With the adoption and release of the Overall Plan, the focus will turn to how far the Plan will be implemented and achieved.

The Overall Plan sets the average annual economic growth rate for the next five years at a minimum of 6.5%. This is the growth rate required to meet the long-term vision to double the GDP and per capita income from 2010 levels by 2020. While the slowing economy casts doubt on the feasibility of the Plan, Prime Minister Li Keqiang commented at the post-NPC press conference that "the Chinese economy is facing both difficulties and prospects, but the prospects are greater", stressing his intention to maintain medium to high growth through comprehensive measures including structural reforms and promoting innovation, etc. Other goals include increasing the percentage of tertiary industry in GDP to 56% from 50.5% in 2015, R&D investments from the current 2.1% of GDP to 2.5%, and labor productivity by at least 6.6% per year.

In the decarbonization and energy area, a binding goal was set to cut per-GDP energy consumption by 15% from 2015 levels and per-GDP CO₂ emissions by 18%. The Plan also aims to limit primary energy consumption at 5 billion tonnes (coal-equivalent), but this would require surpassing the energy saving target. This suggests that in terms of energy saving, surpassing the official target is already factored into the Plan. Further, while the Plan does not set an official target for total CO₂ emissions, per-GDP CO₂ emissions in 2020 are expected to be 48% lower than 2005 levels, thus exceeding the medium-term goal of a 40% to 45% reduction submitted to the UN (however, total emissions will increase by at least 12.3% from 2015 levels).

Further, the Plan reconfirmed the medium-term target for non-fossil energy ratio of 15% in 2020, and for the increasingly uncertain hydropower development, stated that 60 GW of new hydropower capacity will be constructed during the five years, while putting 58 GW of nuclear power capacity into operation and at least 30 GW under construction by 2020. Meanwhile, regarding the construction of inland nuclear power plants over which public consensus has not been reached so far, the Plan stated that preparations will be ramped up. Nur Bekri, Director of the National Energy Administration, explained that the construction schedule cannot be finalized yet, and the 2020 target can be met just by the coastal regions.

Going forward, the Overall Plan will be broken down into feasible levels by developing area-specific plans and specific measures, which will be implemented accordingly. Attention will focus on how the regulatory target for the total amount of energy consumption should be allocated to each region, whether the global warming prevention plan will include a target for the total amount of CO₂ emissions, and how the trading system for energy consumption and CO₂ emissions to be introduced in 2017 will be designed.

¹ CPC Central Committee's "Proposal" on the Thirteenth 5-Year Decarbonization and Energy Plan, Li Zhidong, (IEEJ website, November 17, 2015) ([Dec. 24 for English version](#))

4. ME: Struggling to Tackle the Never-ending Terrorist Attacks

Koichiro Tanaka, Managing Director &
President of JIME Center

Since the Syria ceasefire agreement took effect at the end of February, reports of violations and criticisms have been made by both the Assad administration and the anti-government forces, but the agreement is generally being observed, so far. In the interim, peace talks were held in Geneva between Assad's representatives and the anti-government forces excluding extremists such as ISIS/ISIL, but differences remain over the treatment of President Assad and the negotiations appear to be stalling.

After reversing losses with the help of Russia's military intervention, President Assad appeared confident that he could regain all lost territory in Syria until President Putin announced that he was pulling out the majority of Russian forces, pouring cold water on Assad's plans. Russia's "wise decision", which was praised by many, reflected doubts about Assad's obsessive and unrealistic ambitions.

As the political, economic, social as well as humanitarian issues increase with the growing number of refugees from Syria and other countries, Turkey and the EU agreed on the repatriation of refugees. With this agreement, the EU managed to avert the crisis for now, but this decision marks a departure from the principle of accepting refugees and threatens the universal values that Western Europe has built up over many years.

Meanwhile, Turkey, which is being affected by the civil war in neighboring Syria, is increasingly alarmed by the territorial gains achieved by the Kurdish forces in northern Syria. Turkey has suffered a spate of terrorist bombings, including a car bomb attack by an anti-government Kurdish group in Ankara in February, and then an attack targeting tourists by ISIS/ISIL in Istanbul. The terrorist attack in Belgium that claimed 31 lives at Brussels airport and a subway station is apparently linked with the Paris attacks, and the countries involved are now struggling to deal not only with the refugee crisis but also terrorism.

One year since the start of Saudi Arabia's military intervention in Yemen, secret negotiations between Yemen's Houthi armed forces and Saudi Arabia have emerged. Though the situation remains uncertain, the negotiations are a step toward resolving the humanitarian crisis that had seemed interminable. Following negotiations between the delegates, the parties took the significant step of exchanging prisoners and then, at the end of March, agreeing to "stop all hostile acts". A further peace agreement were in sight as Saudi Arabia welcomed the Houthi leaders' rejection of an offer from a commander of Iran's Revolutionary Guards Corps to dispatch military advisers, but, because of the persistent difference between the political demand of the Houthis and the military objective of the Saudis, the negotiation by the two parties lingered on. Meanwhile, Saudi Arabia conducted a joint military drill, first of its kind, with other Sunni Muslim states as a further warning to the Shi'ite Iran.

In Iran, where two national elections have ended, confrontation has emerged between Supreme Leader Khamenei, who is attacking the US for blocking the lifting of financial sanctions and urging the Iranian government to switch to a self-sustainable economic structure unaffected by oil price changes, and President Rouhani, who believes that the economy is picking up after the lifting of the sanctions and aims to boost the economy by improving diplomatic relations. Rarely have the two sparred at each other overtly in the past, this opens a new chapter to Iranian politics.

5. Russia: Will Concern over Terrorism Draw Russia and the West Closer?

Shoichi Itoh, Manager, Senior Analyst
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On March 18, President Putin visited Crimea on the second anniversary of the region's internationally illegal annexation, and released a statement reemphasizing the "legitimacy" of the annexation. The West's sanctions against Russia over Ukraine continue with no end in sight. On March 6, the US announced a one-year extension of the sanctions, followed by an announcement by the EU on March 10 to extend the freeze on Russian assets in Europe for six months (restrictions on financial transactions had already been extended in December 2015 to the end of July 2016).

One of the conditions to fulfill the Minsk Agreement (February 2015), a requirement for lifting the sanctions, is holding elections in eastern parts of Ukraine, currently under pro-Russian rule, but this has been postponed. On March 17, Ukrainian President Poroshenko, German Chancellor Merkel and French President Hollande met in Brussels and confirmed that the EU's sanctions on Russia would continue until the Agreement is fully executed. The German and French leaders are also pushing President Poroshenko to hold the elections soon.

On March 14, President Putin ordered the main body of Russian troops deployed in Syria to stop the air strikes. In a speech delivered on March 17, Putin stressed Russia's influence over Syria, stating that Russia "generated the conditions for a peace process", and "will remain capable of sending troops back within hours if necessary". According to the Defense Ministry, since starting at the end of September 2015, Russia has conducted 9,000 air strikes. Putin commented that the strikes "were a good opportunity to test Russia's latest weapons in battle", appealing to the people's "patriotism" while not forgetting to warn the West.

With Russia's decision to stop the air strikes gathering the world's attention, the country's conservatives have praised Putin's hard-line stance, including his support for the Assad administration, for forcing the West to respect Russia's influence. In contrast, liberals, whose first priority is to rebuild the domestic economy, point out the need to mend relations with the West, including over Ukraine.

Meanwhile, the West remains cautious in examining the true intentions of Russia, as it has bombed anti-government strongholds in Syria under the pretext of neutralizing ISIS/ISIL. However, some say that relations with Russia need to be sorted out, considering the influx of Syrian refugees into Europe and the possible spread of international terrorism by ISIS/ISIL.

After the Paris attacks of November 2015, some in Russia and the West were hopeful that international action against terrorism might serve as a catalyst for thawing relations, but such hopes have effectively been dashed. After the Brussels terrorist attacks on March 22, the international community is asking the same question again. As concern about terrorism in Russia rises, will President Putin maintain his hard-line stance as a means of venting popular discontent or search for ways to ease tensions?

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