

# IEEJ e-NEWSLETTER

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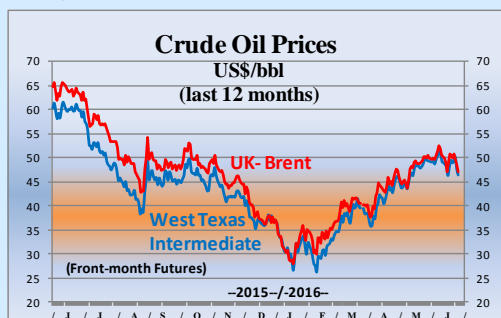
(Based on Japanese No. 153)

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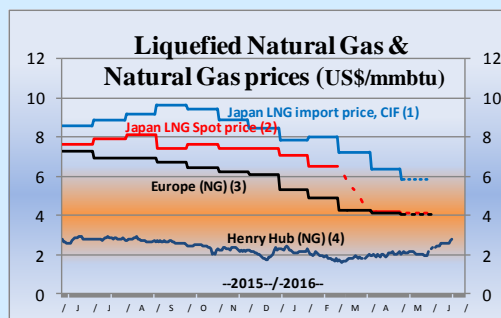
(Charts are revised on June 28)

The Institute of Energy Economics, Japan

(As of June 27, 2016)

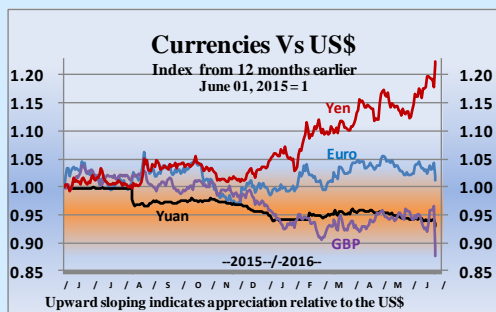


Source: DOE-EIA, Financial Times, NASDAQ

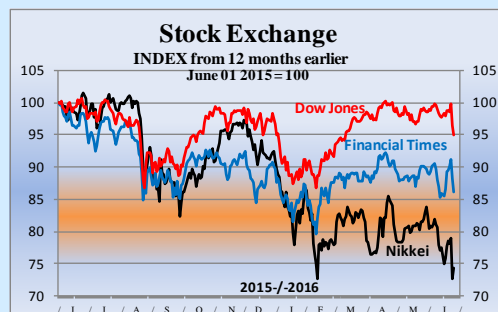


Sources:

- (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: Energy Policies of Both Candidates Slowly Becoming Clear

As candidates Trump and Clinton cement their positions for the presidential candidate nomination, the energy policies of both candidates, including policy advisors, are slowly becoming clear.

#### 2. EU: Parliament Opposes Granting Market Economy Status to China

The European Parliament adopted by an overwhelming majority a resolution against granting Market Economy Status to China. Will Japan, the US and Europe be able to put forth a coordinated position?

#### 3. China: China as a World Powerhouse of Innovation by 2050

In May, the CPC Central Committee and the State Council released the Guideline for China's Innovation-Driven Development, and clearly stated the goal of becoming an innovation powerhouse by 2050. China's approach to achieving the plan must be closely watched.

#### 4. ME: Saudi Arabia Embarks on Major Reforms for the Next Generation

Saudi Arabia's bold domestic reforms, organizational restructuring, and financial situation are attracting attention. Iraq's political instability is worsening and major European banks remain cautious about starting to deal with Iran again. Turkey's politics remain turbulent with the dismissal of the prime minister.

#### 5. Russia: Putin Encounters Public Frustration over the Economy

Amidst the worsening economic recession and increasing people's frustrations, President Putin and Prime Minister Abe held an informal talk in Sochi. New development in the bilateral relations, if any, and its impact on the international community receives a global attention.

## 1. US: Energy Policies of Both Candidates Slowly Becoming Clear

Ayako Sugino, Senior Researcher  
Coal & Gas Subunit  
Fossil Fuels & Electric Power Industry Unit

The preliminaries to the US presidential election are drawing to an end with Donald Trump becoming the Republican presumptive nominee as all other candidates suspended their campaigns, and former State Secretary Hillary Clinton remaining in the lead for the Democratic Party heading into the preliminary of the populous California on June 7.

Regarding Mr. Trump, little is known about his political beliefs and policies, including those on energy and the environment. However, recently, the American media have begun to report that Representative Kevin Cramer, a Republican from North Dakota, is the energy adviser for the Trump campaign. As one of the first lawmakers to express support for Mr. Trump, Mr. Cramer has been a member of the House Committee on Energy and Commerce since first taking office in January 2013, after serving on the North Dakota Public Service Commission from 2003 to 2012. While North Dakota is known for its active development of shale, Mr. Cramer reportedly is well-versed in the electricity and gas businesses as well as in the oil and gas industries.

The Republican lawmaker has handed a "memo" to the Trump campaign listing the basic principles of (1) less government regulation, (2) focus on national security, and (3) limiting subsidy recipients to domestic energies. The lawmaker opposes CO<sub>2</sub> regulations on power stations and methane regulations on gas fields. Speaking at an event in North Dakota on May 26, Mr. Trump criticized the over-regulation of the energy areas by President Obama and Ms. Clinton, and promised to promote fossil fuel production and rebuild the coal industry to create jobs. He also stated that wind and solar power are not yet competitive enough and that he will not promote them at the expense of fossil fuels and nuclear power. He revealed his intention to approve the Keystone Pipeline from Canada which President Obama rejected last November, on condition of splitting profits with TransCanada. However, TransCanada has commented that this is unacceptable. Mr. Trump also aims to make America fully energy self-sufficient and not dependent on the Middle East, while building a constructive relationship with Arab oil producers on energy cooperation to fight terrorism. The Trump campaign has made many comments on energy issues but is yet to propose any specific policy measures.

Meanwhile, the Clinton campaign has fallen into the trap of having to fight prolonged preliminaries rather than being able to prepare for the election itself. Clinton and Sanders have similar energy policies, and the greater concern for the Clinton administration is to be seen as the successor of the Obama administration's energy and environmental policies, which are hostile to fossil fuels, especially coal. This was symbolized by her loss of the primary in coal-producing West Virginia, originally a support base of the Democratic Party. The current advisor to the Clinton administration is John Podesta, who supported Obama's energy and environmental policies during the 2008 election. He has said that if Ms. Clinton becomes president, she will, unlike President Obama, choose to work with Congress in promoting clean energy and energy conservation, without depending on governmental regulations.

Energy policy is not being given much attention due to low gasoline prices. However, this means that it is possible to consider policy options that in normal times would invite opposition and concern about energy price hikes. The release of the policies of both parties is keenly awaited, to see how they address these issues.

## 2. EU: Parliament Opposes Granting Market Economy Status to China

**Kei Shimogori**, Researcher  
Nuclear Energy Group, Strategy Research Unit

On May 12, the European Parliament adopted a resolution against granting Market Economy Status to China based on the World Trade Organization (WTO) rules. The resolution states that China's exports to the EU should be treated in a "non-standard" way until the country fulfills the EU's criteria for market economy status. It also states that the non-standard methodology should assess whether China's costs and prices are market-based, so as to ensure a level playing field for EU industry and defend EU jobs.

WTO rules allow anti-dumping duties to be imposed when goods are imported from third countries at unreasonably low prices and could damage domestic industry. In calculating these unreasonably low prices, countries where the market economy is not well developed and which have a different set of market conditions are categorized as "non-market economies" rather than "market economies", and are subject to stricter dumping standards. China joined the WTO in December 2001, agreeing in the accession protocol to be treated as a "non-market economy" for 15 years. With the article expiring this coming December, China is arguing that it automatically becomes a "market economy". Since February 2016, the European Parliament has been discussing how to apply anti-dumping duties on imports from China.

The members of the European Parliament pointed out that 56 of the EU's current 73 anti-dumping measures apply to imports from China, and noted the strong concern of the European steel industry regarding the oversupply of steel products from China. In the energy area, the EU Council decided to impose anti-dumping and anti-subsidy countervailing duties on Chinese solar panels in December 2013; these duties are still being imposed on Chinese companies that have not fulfilled the minimum export price conditions promised between the EU and the Chinese companies. Further, in February 2016, the decision was made to apply the measures imposed on Chinese solar panels also on Chinese solar modules and solar cells that the EU imports via Taiwan and Malaysia.

The European Commission plans to issue a proposal on China's market economy status by July 2016. The resolution by the European Parliament was passed by 546 votes to 28, with 77 abstentions, but has no legal binding force. Even if the European Commission's proposal supports giving market economy status to China, the Parliament cannot be ignored as it has the power to make a joint decision with the EU Council. The European Parliament is also demanding that the Commission coordinate not only with China but also with other major trading partners to reach a joint interpretation of WTO law. The issue is likely to be discussed in the G7 and G20 summits, but will Japan, the US and Europe be able to coordinate their positions?



### 3. China: China as a World Powerhouse of Innovation by 2050

**Li Zhidong**, Visiting Researcher  
Professor at Graduate School, Nagaoka University of Technology

On May 19, the Xinhua News Agency released the Guideline for China's Innovation-Driven Development published by the Communist Party of China (CPC) Central Committee and the State Council ("The Guideline"). By jointly issuing a development strategy that puts innovation at its heart, the CPC and the government emphasized their focus on innovation.

The Guideline admits and regrets that China was slow to modernize mainly because it was slow to capture the scientific and technological revolution and had weak technological and national power, and indicates that fundamentally, China must fully exploit the power of science and technology to develop further. Accordingly, the Guideline sets three goals of joining the ranks of innovation-driven countries by 2020, becoming a leader among those countries by 2030, and establishing itself as a world powerhouse and major innovator in science and technology by 2050. As specific measures to achieve these goals, the Guideline calls for, first and foremost, enhancing competitiveness through industrial and technological innovation, inventing original technologies by enhancing basic research, establishing local industries by leveraging local resources, developing and commercializing innovative technologies by collaboration between the military and private sector, fostering research and development (R&D) personnel, and achieving breakthroughs in particular areas including new materials and neuroscience. The Guideline also sets policies including increasing R&D spending as a share of GDP from 2.1% in 2015 to 2.5% in 2020 and 2.8% in 2030<sup>1</sup>, removing institutional barriers to innovation, stronger international cooperation including establishing overseas R&D centers, and consolidating the system for protecting intellectual property rights.

Regarding decarbonization and energy, the government is already promoting an energy revolution in supply, consumption, technology, and management systems (see the November 2014 issue of this Newsletter). The Guideline aims for cleaner, lower-carbon use of energy by intensively optimizing the energy structure and improving the efficiency of its use, by enhancing the development of technology for efficient and clean use of coal and other fossil energies, nuclear and renewable energy technologies such as solar PV, and a power transmission technology that enables mass storage of electricity and interconnection of power supply and demand adjustment systems.

Efforts have already started. For instance, the Thirteenth 5-Year Plan (see the April 2016 issue of this Newsletter) released by the government in March sets innovation targets such as R&D spending and the number of invention patents per 10,000 population, and the contribution of technology to economic growth, and devotes Chapters 6 to 10 of Volume 2 of the 20-volume (80-chapter) document to describing the policies for implementing the innovation strategy. Further, in April, the National Development and Reform Commission and the National Energy Administration internally issued the Energy Technology Revolution and Innovation Plan (2016-2030) and the Energy Technology Revolution and Key Innovation Roadmap<sup>2</sup>. These documents describe in detail the action policies and roadmap for technological innovation for the decarbonization and energy areas mentioned in the Guideline. Attention must be paid to how the innovation strategies and plans for the Guideline and individual areas will be implemented.

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<sup>1</sup> National Institute of Science and Technology Policy estimates R&D spending as a share of GDP for the entire OECD at 3.45% for 2013.

<sup>2</sup> For details, see <http://www.cctd.com.cn/detail/16/04/20/00481764/content.html>.

#### **4. ME: Saudi Arabia Embarks on Major Reforms for the Next Generation**

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

Saudi Arabia, which has implemented fast-paced organizational reforms since King Salman came to power, has embarked on even greater reforms. At the end of April, Deputy Crown Prince Mohammad unveiled "Saudi Vision 2030", a bold plan to strengthen the country's economic resilience to withstand oil price fluctuations and to transform the structure of the country itself. As part of the plan, the elderly Ali Al-Naimi resigned after more than 20 years as Petroleum Minister, and was replaced by Khalid A. Al-Falih, former CEO of Saudi Aramco, as the head of the newly established Energy, Industry and Mineral Resources Ministry, the former Petroleum and Mineral Resources Ministry. The Deputy Crown Prince is confident of "building an economy that does not depend on petroleum by 2020", and is exerting bold, strong leadership.

While Saudi Arabia's national transformation program is attracting attention both inside and outside the country, the country's relationship with the US remains strained over allegations of the Saudi royal family's involvement in the September 11 attacks in 2001. US Congress is drawing up a bill that will open the Saudi government to claims for damages and compensation; in retaliation, the Saudis are threatening to sell off US government bond holdings. Simultaneously, the US Treasury Department revealed for the first time that US debt held by Saudi Arabia stands at \$116.8 billion, which is significantly smaller than the country's rumored foreign reserves of \$700 billion, possibly reflecting the financial cost of intervening in the Yemeni civil war in addition to the low oil prices.

In Iraq, where protests against political corruption are increasing, supporters of Shi'ite politician Muqtada al-Sadr have repeatedly forced their way into the Green Zone, the center of government agencies in the capital Baghdad, and have temporarily occupied the parliament and the Prime Minister's Office since the end of April, on the pretext of showing support for Prime Minister Abadi's reforms. In response the government has declared a state of emergency, but is becoming seriously dysfunctional in the build-up to the operation to recapture Fallujah from Islamic State (ISIS/ISIL).

Iran is becoming frustrated by the lack of progress in the lifting of sanctions, sluggish foreign investment, and the decision by the US Supreme Court to allow the families of the victims of the 1983 Beirut Marine barracks bombings to claim for damages against Iran. State Secretary Kerry urged major European banks to start doing business with Iran again, but the banks remain cautious. At the Fifth Assembly of Experts, which appoints and dismisses the Supreme Leader, hard-liner Ayatollah Ahmad Jannati was unexpectedly elected as chairman, leaving doubts about the future orientation of the Islamic Republic.

ISIS/ISIL is conducting major terrorist attacks in Syria, Iraq, and Yemen which are wracked by civil war. The cause of the downing of Egyptian Airlines' aircraft remains unknown, but the incident is another blow to the tourist industry of the country whose economy is already ailing. In Afghanistan, after the killing of its leader Mulla Akhtar Mansour in Pakistan by a US drone, the Taliban elected hard-line commander Mawlawi Ahundzade as his successor. Turkish President Erdogan, who is currently running the country with an iron fist, effectively sacked the prime minister and ruling AKP leader Davutoglu over political confrontation, and appointed his close associate and Transport, Maritime and Communication Minister Binali Yildirim as both party leader and prime minister.

## 5. Russia: Putin Encounters Public Frustration over the Economy

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

The Federal State Statistics Service announced that Russia's GDP growth and real wages declined by 1.2% and 3.9% year-on-year, respectively, for the first quarter of 2016. On April 8, the World Bank forecasted Russia's annual GDP at minus 1.9%, and announced that as of 2015, the number of people in poverty had reached 20 million, up more than 3 million year-on-year. According to a poll conducted by a sociological research organization Levada Center in Moscow from December 2015 to January 2016 on 1,600 people from 48 regions nationwide, the public now sees economic problems such as declining income and worsening unemployment as a greater concern than military affairs and diplomatic relations.

On May 14, in his annual direct dialogue with the Russian people on TV, President Putin commented that Russia's annual GDP growth will fall by only 0.3% year-on-year for 2016 (as opposed to minus 3.7% for 2015), but did not provide a concrete basis for this figure. He optimistically forecasted in the program last year that the Russian economy would bottom out within one year and start to grow again, but this year, the most he could say was that the economy is in a "grey period". Two years since the illegal annexation of Crimea in March 2014, the president's attempts to vent public frustration by acting tough against the West seem to be losing effect. As the World Bank and OECD point out, for Russia to achieve long-term economic growth, it must urgently and fundamentally reform its investment environment and secure the transparency of its legal procedures. However, these issues existed even before the West's sanctions and falling oil prices, and remain unsolved.

As people become increasingly frustrated with the economy, there are growing concerns both inside and outside Russia over stronger government control of freedom of speech. Immediately after the public security agency raided RBC Daily on May 14, one of the major Russian newspapers, run by Mikhail Prokhorov, a presidential election candidate in 2012, the top three staff of the editorial department were forced to resign. The background to this incident is not fully known, but some believe that it was precipitated by the newspaper's reports on the wealth accumulated by Putin's stepson and close associates, which might instigate criticism against the government.

On May 6, Prime Minister Abe unofficially visited Sochi on the Black Sea to meet President Putin. At the summit, the Prime Minister presented a plan for economic cooperation on eight items including energy. The details of the plan, and of the unconventional "new approach" for improving bilateral relations, on which the leaders reportedly shared understanding, are being kept strictly confidential. Going forward, Japan is expected to use the "economic factor" as appropriate, while carefully considering the relationship and policy coordination with other members of the G7, chaired by Japan this year, and the overall bilateral relations with Russia. The world is closely watching how Japan constructively positions Russia in the Asia-Pacific region in the long term.

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