

# IEEJ e-NEWSLETTER

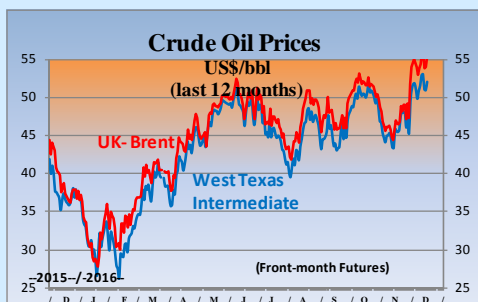
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(Based on Japanese No. 159)

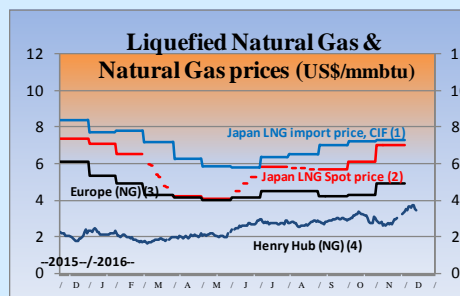
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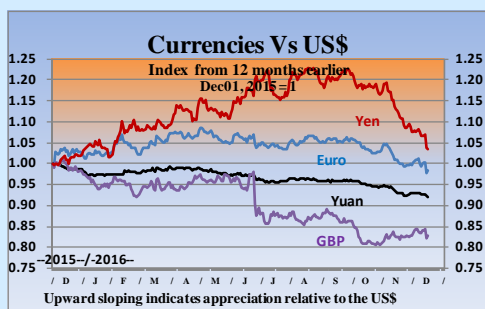
(As of December 16, 2016)



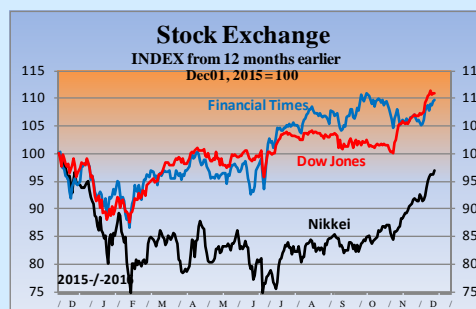
Source: DOE-EIA, Financial Times, NASDAQ



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: Last-Minute Implementation of Regulations before the Change of Government**

Prior to the inauguration of the new president in January, the Obama Administration is rushing to issue last-minute regulations. How the new president and Congress react to those regulations will be a barometer of their cooperation.

#### **2. EU: Britain's Autumn Statement 2016**

On November 23, the UK government released its first Autumn Statement in parliament after the referendum. Priority is given to investments in economic infrastructure and innovation to boost Britain's productivity.

#### **3. China: Announcement of the 13th Five-Year Work Plan for GHG Emission Control**

On November 4, the day the Paris Agreement became effective, the State Council announced the Thirteenth 5-Year Work Plan for Greenhouse Gas Emission Control. This Work Plan sets forth specific measures for strengthening domestic efforts and expanding international cooperation, and takes an active stance against global warming.

#### **4. Russia: New Developments in the Relationship with the West**

The moves concerning the Japan-Russia economic cooperation are accelerating. As the relationship between Russia and the West shows new developments, attention must also be paid to domestic uncertainty within Russia.

#### **5. ME: Bracing for "Trump Shock" (Will be Uploaded Soon)**

## 1. US: Last-Minute Implementation of Regulations before the Change of Government

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

As the world closely watches who the Trump transition team will pick for his administration, the administrative agencies under the Obama Administration are accelerating the enactment of regulations. In the energy area, discussions are continuing on the Interior Department's regulation to reduce the release, incineration, and leakage of natural gas during drilling, aiming to curb methane emissions from land oil and gas fields by linking the emissions with mining rights fees. Another topic under consideration is the regulation to prevent water contamination by coal mines by requiring coal companies to monitor water quality data and introduce advanced technologies to prevent pollution, and to strengthen their obligation to restore the landscape after drilling. In total, 98 regulations, including those affecting all industries, such as higher overtime pay for workers, are being discussed for release before the inauguration ceremony on January 20.

After the election, hopes are rising that Donald Trump, who rejected almost all of President Obama's policies during the election campaign, will govern more moderately than expected. Nevertheless, with Mr. Trump's policies still largely unknown, a "total policy finalization" is underway now to embed as many of President Obama's policies into the system during his presidency and turn them into accomplished facts.

A president hurrying to issue new regulations during the "lame duck period" after the election until the inauguration of the next president is nothing new. In 1980 when the Republican California Governor Ronald Reagan beat the Democratic President Jimmy Carter, the phrase "Midnight Regulation" was coined to describe President Carter's rush to issue regulations that survive to this day. For Bill Clinton in 1993, George W. Bush in 2001, and Barack Obama in 2009, one of their jobs on the first day in office was to cancel the processing of regulations. To prevent the incoming president from rolling back the regulatory policy, in May 2008, the Bush Administration ordered the federal departments and agencies to finish processing the regulations by November 1 and have them published on the Federal Register before the inauguration ceremony. Similarly, this February, President Obama also informed the federal departments and agencies of the priority of regulations to process, and ordered their completion before the election. However, from summer to fall, the processing became delayed as Hillary Clinton looked set to win, which may have resulted in an anticipation that no major change in policy would occur. When Donald Trump won against the odds, the Obama Administration urgently accelerated the enactment process.

Once a regulation has been finalized and published on the Federal Register before the inauguration ceremony, it is difficult for the next administration to revoke it, but it can still be denied by Congress within 60 days after enactment based on the Congressional Review Act. The Act was introduced by one of Mr. Trump's advisors, Newton Gingrich, as House Speaker in 1996 to counter the Democratic President Bill Clinton. To date, only one regulation has been scrapped based on this Act, as a resolution of disapproval by both houses of Congress requires the presidential signature to become effective. However, the Republicans of both houses have recently announced plans to abolish President Obama's regulations through the Congressional Review Act; this is likely to be the first test of whether the next president and the Republican lawmakers can manage to share policies and build a cooperative relationship.

## 2. EU: Britain's Autumn Statement 2016

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

On November 23, Philip Hammond, Chancellor of the Exchequer of Britain, announced the Autumn Statement 2016 in parliament. The Statement contains policies to prop up Britain's economy at a turning point as the country heads toward Brexit, and gives priority to investment in economic infrastructure and innovation to directly boost Britain's productivity. The government has indicated plans to step up its economic infrastructure investment to 1.0 - 1.2% of GDP from 2020 from the current 0.8%. The key to improving the productivity of the British economy is the new 23 billion pound National Productivity Investment Fund (NPIF). The NPIF will be spent on four areas, namely, transportation, digital communication, R&D, and housing, during the periods from 2017 to 2018 and from 2021 to 2022. The forecast of the GDP growth rate has been revised down by the Office for Budget Responsibility (OBR) to 1.4% for 2017 due to the uncertain prospects following the referendum result, but now is projected to gradually recover to 2.1% in 2021.

The Autumn Statement stated that in the next 15 years, more than 100 billion pounds of private investment will be executed in the British energy sector mainly for building clean power generation plants, upgrading smart energy systems, and developing new energies, particularly shale, but did not indicate any long-term strategy for energy policy or specific investment programs. Before its release, the Statement was expected to clarify the upper limit of the low-carbon energy subsidy (Levy Control Framework) beyond 2020 and to abolish the minimum carbon price (Carbon Price Floor) based on strong opposition from energy-intensive industries. However, the former will not be announced until the 2017 budget, and the latter will be kept at the current level (18 pounds/tCO<sub>2</sub>) until 2020, with discussions to continue on the appropriate coal-pricing mechanism beyond 2020. Some in the British energy industry have expressed disappointment that investment decisions are now harder as the subsidy limit was not announced. However, others think that the government's declaration to support investment at least until 2026 through the UK Guarantees Scheme will sustain investors' confidence in the transition to low-carbon energy infrastructure.

The British government is currently formulating its new industrial strategy. This was initiated by Prime Minister May through the Economy and Industrial Strategy Cabinet Committee which she established immediately after taking office. The government plans to issue a green paper (tentative government document of policy proposals) by the end of 2016, solicit the opinions of industry and stakeholders, and issue a white paper at the beginning of 2017. The Autumn Statement sets the financial framework of the future industrial strategies. The government says that the industrial strategies will provide a framework for the government and industry to jointly tackle important economic issues. The initiatives of the British government must be closely monitored as it strives to ensure long-term economic recovery and stability despite leaving the EU.

### 3. China: Announcement of the 13th Five-Year Work Plan for GHG Emission Control

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

On November 4, the day the Paris Agreement became effective, the State Council announced the Thirteenth 5-Year Work Plan for Greenhouse Gas Emission Control ("the Work Plan"). The Work Plan sets forth specific measures for strengthening domestic efforts and expanding international cooperation, and takes an active stance against global warming.

The Work Plan reconfirmed the binding overall target stipulated in the Thirteenth 5-Year Plan (see the April 2016 edition of this Newsletter) to cut CO<sub>2</sub> emissions per unit GDP (emissions intensity) by 18% from 2015 levels in 2020 and for CO<sub>2</sub> emissions to peak early by around 2030. This target is 1 percentage point higher than that of the previous 5-Year Plan. Meanwhile, regarding controlling the total volume of CO<sub>2</sub>, the Work Plan stated that the government will consider its introduction in certain developed regions, and refrained from nationwide introduction.

Regarding decarbonization measures in the energy area, the Work Plan sets goals to limit primary energy consumption to 5 billion tce (ton of coal equivalent, 1 tce = 7×10<sup>6</sup> kcal, from 4.3 billion tce in 2015) in 2020 and coal consumption to 4.2 billion tonnes (from 3.9 billion tonnes in 2015), and to increase the ratio of natural gas in primary energy consumption to 10% (from 5.9% in 2015) and of non-fossil energy to 15% (from 12% in 2015). Regarding developing low-carbon power sources, the Work Plan sets goals to increase hydropower (excluding pumped-storage hydroelectricity) to 340 GW (from 300 GW in 2015), wind power to 200 GW (from 130 GW in 2015), solar PV to 100 GW (from 43 GW in 2015), and nuclear power to 58 GW in 2020 for operating capacity (from 26.43 GW in 2015), and to more than 30 GW for construction capacity (29.13 GW in 2015).

In terms of region, different decarbonization targets are assigned considering the stage of economic development, the regional resource allocation, and the environmental situation. For instance, eight regions including Beijing are assigned the toughest reduction target for emissions intensity of 20.5%, while four areas including Tibet received the lowest reduction target of 12%. The Work Plan further encourages the 23 regions taking part in the Alliance of Peaking Pioneer Cities of China<sup>1</sup> and the other cities that are ready to achieve peak emissions ahead of other regions.

The Work Plan also mentions that to achieve the goals efficiently, a national emissions trading market will be established in 2017 and that measures will be steadily implemented to ensure the soundness of the market, invigorate transactions, toughen surveillance and management, and improve transparency by 2020. In addition, the Work Plan assigns auto makers with a target percentage for next-generation vehicles (NEVs) (the figures are under consideration), and announces that a NEV regulation and carbon reduction quota management system will be introduced that imposes a carbon reduction quota linked with the target number of NEVs (see the September and November 2016 editions of this Newsletter).

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<sup>1</sup> Established at the First Session of the U.S.-China Climate-Smart/Low-Carbon Cities Summit in September, 2015. Set the timing to peak out CO<sub>2</sub> emissions at 2020 for eight regions including Beijing, at 2025 for seven regions including Wuhan, and 2030 for eight regions including Hainan.

Regarding international cooperation, the Work Plan calls for steadily implementing the Paris Agreement including submitting the decarbonization strategy for 2050, utilizing the China South-South Climate Cooperation Fund and promoting cooperation for decarbonization among the “One Belt and One Road” countries, and strengthening cooperation with other countries and international organizations in a variety of areas. As part of the effort, on November 15, Xie Zhenhua, Special Representative for Climate Change Affairs, announced at COP22 in Marrakech that China will work with Japan and South Korea to establish an East Asia carbon trading market.<sup>2</sup> Developments in this area, including the response of Japan and South Korea must be closely monitored.

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<sup>2</sup> See for instance <http://www.ccchina.gov.cn/Detail.aspx?newsId=64833&TId=57>

#### 4. Russia: New Developments in the Relationship with the West

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

The moves toward economic cooperation between Japan and Russia are accelerating. From November 2-6, Hiroshige Seko, Minister for Economic Cooperation with Russia, visited Moscow. He held the first meeting of the Japan-Russia Energy Initiative Council with Russian Energy Minister Alexander Novak, and agreed to set up working groups in three areas, namely hydrocarbons, energy efficiency and renewable energies, and nuclear power to accelerate the discussions on the joint upstream development of oil and gas, promotion of introduction of wind power, and cooperation on the decommissioning of Fukushima Daiichi Nuclear Power Plant. He also held the first meeting of the Japan-Russia High-Level Working Group for Realizing the Cooperation Plan with Alexei Ulyukaev, the then Minister of Economic Development, and had meetings also with First Deputy Prime Minister Igor Shubalov and Alexander Galushka, Minister for the Development of the Russian Far East.

Outside of Japan, there have been new developments in the relationship between Russia and the EU. On October 28, the European Commission announced that it will allow Gazprom more access to the Opal gas pipeline (transport capacity of 36 billion m<sup>3</sup>/year) that connects northwestern Germany with the Czech Republic. This will allow the company to obtain 30-40% of additional capacity through bidding until 2033 on top of its current limit of 50% (18 billion m<sup>3</sup>/year) which was set from an antitrust perspective. Ukraine and other hard-liners against Russia are strongly opposing this decision as a turnaround in the EU's Russian policy, as Gazprom can now pump more gas through the Nord Stream pipeline (Russia - Baltic Sea - Germany) which bypasses Ukraine.

Regarding the relationship with the US, President Putin had the first conference call with President-elect Trump on November 14 to congratulate his victory, and agreed to build "a constructive relationship in fighting international terrorism and radicals". The Presidential Administration of Russia announced that both countries wish to "revert to a pragmatic and mutually beneficial relationship of cooperation that leads to global stability and safety", while the Trump team cited the president-elect as saying that he "hopes to build a strong and sustainable relationship with Russia". The leaders are expected to seek further opportunities for dialog through more conference calls.

On November 14, the Federal State Statistics Service announced the preliminary GDP for the third quarter of 2016 at minus 0.4% year-on-year and plus 0.2 percentage points from the previous term, suggesting the country is pulling out of the recession. However, at the same time, there have been notable developments in domestic politics. On November 15, Alexei Ulyukaev, the then Minister of Economic Development and the working-level representative of the Japan-Russia economic cooperation negotiations, was detained on charges of "massive bribe taking" over the acquisition of a stake in a medium-sized oil producer Bashneft by Russia's biggest state oil company Rosneft, prosecuted, and dismissed from his post. Sources say that the stock acquisition was the focus of a power struggle within the government, and that Mr. Ulyukaev was fighting opponents over the government's spending cuts to counter the recent low oil prices, which he advocated. As the relationship between Russia and the West show new developments, attention must also be paid to the domestic uncertainty within Russia. Whether and how these events will impact the Japan-Russia energy cooperation must be closely monitored.

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