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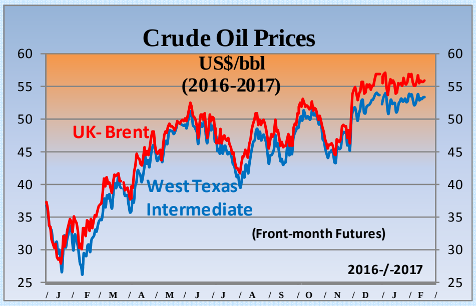
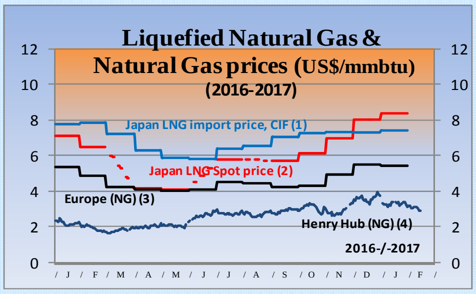
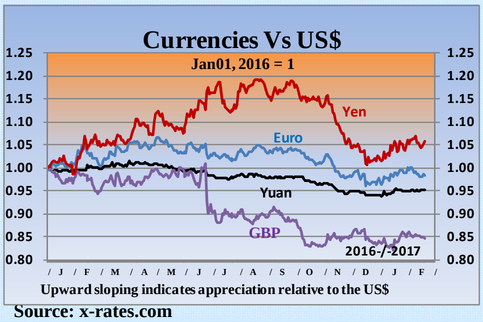


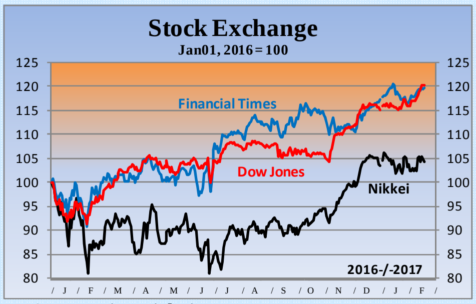
Source: DOE-EIA, Financial Times, NASDAQ



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)
(5) Investing.com



Source: x-rates.com



Source: Financial Times

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Summary

【World Monitoring】

1. US: New President Signs Executive Orders on Pipelines

On January 24, President Trump signed four executive orders on pipeline construction. Containing a requirement to "Buy American", they are in line with Mr. Trump's previous comments and campaign promises.

2. EU: UK's Negotiation Policy on Leaving the EU and Draft Industrial Strategy

Prime Minister May delivered a speech on Britain's policy for the negotiations to leave the EU, and clarified the intention to also leave the single market. Further, the government issued a draft industrial strategy aimed at invigorating the country's industry after leaving the EU.

3. China: Overview of the Five-Year Plan on Energy

A Five-Year Plan on energy has been completed. Aiming to modernize the energy system, it sets forth specific measures for the government's "energy revolution", including allocating a total volume control target to each region for the first time.

4. Russia: Government under Pressure to Cope with Financial Crunch

As the West's sanctions continue, Russia's financial crunch is gradually worsening due to low oil prices. As the situation changes inside and outside the country, attention must be paid to the developments in President Putin's diplomatic policy.

5. ME: New US Administration Already Affecting the Region

The ban by the new US administration on the nationals of seven Muslim countries has caused uproar and chaos. The influence of the US in the Middle East, especially Syria, could likely be eclipsed by that of Russia. There is growing concern over a plan to relocate the US embassy in Israel to Jerusalem.

1. US: New President Signs Executive Orders on Pipelines

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

Four days after inauguration, on January 24 President Trump signed four executive orders on pipeline construction: (1) Regarding Keystone XL for carrying more of TransCanada's Canadian oil sands to the Gulf of Mexico, and for which President Obama withheld approval in November 2015, the executive order invites TransCanada to submit an application for the State Department to review promptly and make a decision within 60 days. (2) Regarding Dakota Access which transports North Dakota tight oil, the Secretary of the Army is ordered to instruct the U.S. Army Corps of Engineers (USACE) to approve construction of the river crossing section which is currently suspended. (3) The Secretary of Commerce is instructed to formulate a plan within 180 days to use materials and equipment produced in the US wherever possible for all new, retrofitted, repaired, or expanded pipelines. (4) The Chairman of the White House Council on Environmental Quality (CEQ) is instructed to decide whether an infrastructure project qualifies as a "high priority" infrastructure project within 30 days after a request, and to expeditiously review and approve those that are designated as high priority.

Keeping his previous promises and undertaking to "promote the construction of pipelines that contribute to energy security and create jobs" as his first action regarding energy policy suggest that President Trump will "walk the talk". If so, attention must be paid to another campaign promise which was that America would withdraw from the Paris Agreement. Indeed, President Trump is soon expected to sign executive orders to review several of America's multilateral treaties, including the Paris Agreement.

The executive orders on the pipelines, which were apparently issued top-down by the president and a few close advisors without prior consultation with the State Department, Secretary of the Army or any other relevant agencies, typifies the new administration's style of making decisions. The procurement of American materials and equipment, so-called "Buy American", also conforms to the campaign commitments of "America First" and the revival of the domestic manufacturing industry. Concerns are mounting as to whether the strategy due to be released by the Department of Commerce in six months will be moderate and compliant with the WTO and other international trade rules (which the US has not yet repealed).

Meanwhile, it is notable that the order to the CEQ chairman did not mention climate change. CEQ was established based on law and requires a Congressional amendment for its abolishment. In 2010, CEQ drafted a guideline instructing federal agencies to consider the impact of domestic and overseas climate change when reviewing applications from the sectors that they oversee, which was promulgated in August 2016. Federal agencies will continue to be bound by the guideline under the new president until the president decides to scrap it. The guideline will indicate the true "hostility" toward climate change of the man who called it a "hoax". State Secretary Rex Tillerson said at the Senate Confirmation Hearing that "the US should stay in the Paris Agreement and on the negotiating table to maintain its influence on the international climate action framework". These words suggest that the policy change might not be as extreme as currently feared.

2. EU: UK's Negotiation Policy on Leaving the EU and Draft Industrial Strategy

Kei Shimogori, Researcher
Nuclear Energy Group, Strategy Research Unit

On January 17, British Prime Minister May delivered a speech on Britain's policy for the negotiations on its withdrawal from the EU, and clarified the intention to also leave the single market. Titled "Plan for Britain", the negotiation policy contains 12 prioritized objectives, including putting to parliamentary vote the final deal agreed between the UK and the EU, ending the jurisdiction of the Court of Justice of European Union in Britain, and controlling immigrants to Britain from the EU. The EU had issued a statement last December ahead of Britain, emphasizing that all four freedoms must be respected in order to gain access to the single market. Britain's announcement to also leave the single market has clearly revealed the positions of both sides.

Further, on January 23, the British government issued a green paper of new industrial strategy. The document only sets out the basic direction and not the details, but it nevertheless forms the core of Plan for Britain, and aims to raise living standards and achieve economic growth by improving the productivity and growth of the entire country. Regarding the strategic direction, it calls on businesses to collaborate to improve productivity at the industrial level and to address industry-specific issues. Simultaneously, the government will provide wide-ranging support such as reviewing regulations that form barriers, leveraging trade and investment agreements to expand exports, and creating new agencies to support innovation and improvement of skills. The government named the aviation and automobile industries as examples of past success, and emphasized that the close collaboration between government and industry had consolidated the business environment and had created high growth and jobs that require strong skills. Further, the document specified ten areas as growth drivers to expand this framework to other industries.

Among those ten areas is energy. Three challenges in energy policy that must be addressed through the industrial strategy were indicated: ensuring the transition to a low-carbon economy by minimizing costs, reforming the energy network to achieve this, and securing investment in the energy industry to gain a share of the global market. Based on these policies, the government plans to establish in 2017 a long-term roadmap for minimizing energy costs for industry, which relates directly to competitiveness. The government also plans to review the scope of the current support programs for improving energy efficiency and reducing the cost of offshore wind power, as well as the scheme for collaboration with the Office of Gas and Electricity Markets (Ofgem) on efficient market and network operation. Further, an emissions reduction plan for 2017 will be released to ensure long-term reliability for investors.

On January 24, the Supreme Court ruled that parliamentary approval is required to start Britain's withdrawal from the EU. While a majority of the ruling and opposition parties are expected to support the bill on withdrawal notification, the relationship with Scotland is an issue. The Scottish government has already submitted a proposal to the British government in which Scotland will remain in the United Kingdom while maintaining access to the single market. If this option is not considered, some think that another referendum on Scottish independence is likely. The May cabinet will continue to face difficult decisions ahead of the withdrawal negotiations in March.

3. China: Overview of the Five-Year Plan on Energy

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

On January 17, the National Development and Reform Commission and the National Energy Administration published the 13th Five-Year Plan for Energy Development ("the Overall Plan") on its website. This complements the plans for the 14 individual areas including energy conservation and electricity supply, and completes the Five-Year Plan framework for energy. It sets out specific measures for a clean, low-carbon, safe and highly efficient modern energy system by firmly implementing energy revolution (in supply, consumption, technology, and the management system including the regulatory framework).

In addition to the three targets of the 13th Five-Year Plan, namely reducing per-GDP energy consumption by 15% and per-GDP CO_2 emissions by 18%, and increasing the non-fossil energy percentage in primary energy consumption to 15%, all from 2015 levels by 2020 (see the April 2016 edition of this Newsletter), the Overall Plan sets binding targets to reduce coal consumption to below 58% from 64% in 2015, and to increase the average transmission-end efficiency of coal-fired thermal power to at least 39.6% from 38.6%. The goals emphasize the government's commitment to reducing coal consumption, which is the greatest source of PM2.5 and other air pollutants as well as CO_2 emissions.

The energy conservation plan sets a target to keep overall primary energy consumption below 5 billion tce (tons of coal equivalent, 1 tce = 7×10^6 kcal, 4.3 billion tce in 2015) in 2020, and assigns a target consumption level to each region together with an energy conservation target, and holds each local government responsible for achieving them. The previous Five-Year Plan did not introduce total volume control or even release a draft quota (see my report from February 2013[1]); in comparison, the new Plan is a genuine effort to reform the management system including the regulatory framework.

Regarding renewables, the Plan stipulates that any consumption exceeding the regional quota will not be considered in the total volume limit and energy conservation target. This means that total volume control sets an upper limit for fossil fuel consumption, and a lower limit for renewables consumption. Combined with the full amount purchase of renewable electricity, percentage target regulation and Green Certificate Trading System, and the regional regulatory target ratio for renewable electricity consumption (see the May 2016 edition), the Plan will strongly boost the development and use of renewables. Further, regarding electricity source development, a target to raise the renewable electricity ratio from 25% in 2015 to 27% in 2020 was set. In response to concerns about output limitation and instability, specific measures were stipulated including enhancing the long-distance transmission capability for large-volume electricity (capacity expansion of 130 GW), accelerating wind power development in the eastern, central, and southern regions where electricity demand is high (constructing 42 GW, equivalent to 52% of the new capacity target), expanding distributed solar power mainly for self-consumption (constructing 53.94 GW, equivalent to 87% of the new capacity target), expanding pumped-storage hydroelectric

[1] "Overview and feasibility of China's 12th Five-year Plan for Energy Development" (IEEJ's website, February 14, 2013)

power (to 40 GW from 23.03 GW), and boosting gas-fired thermal power (to 110 GW from 66 GW).

The above targets are all likely to be achieved. Meanwhile, despite the target to start building 30 GW of new nuclear capacity in five years, construction has begun on just one 1150 MW plant, with zero construction permits issued as of the end of January due to low electricity demand, decline in cost competitiveness, and safety concerns, and the prospects are unclear. Further, while the Overall Plan seeks to increase the ratio of natural gas in primary energy consumption to 10% from 5.9%, the increase may be limited to 8.3%, the minimum target set in the Natural Gas Plan, unless cost competitiveness and supply stability improve dramatically. Attention must be paid to whether a revolution in natural gas can be achieved.

4. Russia: Government under Pressure to Cope with Financial Crunch

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

On December 20, 2016, President Putin signed a presidential order approving a bill on the federal budget for 2017-2019. The budget seeks to progressively reduce the country's fiscal deficit (2.75 trillion rubles in 2017 (3.2% of GDP), 2.01 trillion rubles in 2018 (2.2%), and 1.14 trillion rubles in 2019 (1.2%) by increasing revenues and reducing expenditures. Further, the average Urals oil price, which serves as the basis for this period, was revised down to $40/bbl from $50/bbl in FY2016.

When international oil prices were high, Russia built up a reserve fund (to compensate for fiscal deficits in times of low oil prices) and a National Welfare Fund (to cover pension fund deficits). In recent years, fiscal deficits have been paid for mainly from the reserve fund, but both funds are shrinking as oil prices remain low. In 2017, 1.151 trillion rubles from the reserve fund and 668 billion rubles from the National Welfare Fund are planned to be spent to cover the fiscal deficits, but the reserve fund may run out within the year if oil prices remain at around $40/bbl. Further, expenditures could increase as a result of pork-barrel spending for votes ahead of the March 2018 presidential election. It is uncertain whether fiscal reconstruction will proceed as planned.

In 2016, Russia's oil output increased to 547.5 million tonnes (up 2.5% y-o-y), again marking a new record high in the post-Soviet era, while exports expanded to 253.9 million tonnes (up 4.8% y-o-y). Incidentally, petroleum shipments from Kozmino Port at the end of the East Siberia-Pacific Ocean (ESPO) pipeline were 31.8 million tonnes in 2016 (up 4.6% y-o-y; 69.8% for China, 12.3% for Japan, 7.5% for South Korea). Despite the rise in output, the value of Russia's oil exports dropped 10% y-o-y for Q1-Q3 2016 to 52 billion dollars as the annual average price of Urals, Russian main oil price index, dropped 18% y-o-y to approx. 42 dollars (according to the Ministry of Finance and Federal Customs Service of Russia).

Meanwhile, Russia's relationship with the West remains strained. On December 19, 2016, the Council of the European Union decided to extend the sanctions against Russia for six months (till July 31, 2017). Further, on December 29, the then President Obama announced new sanctions in retaliation against Russia's alleged intervention in the November presidential election through cyberattacks, including expelling 35 Russian diplomats from the US. Some speculate that President Trump might ease the sanctions, but the future of the US-Russia relationship remains uncertain as many people, including Republicans, remain cautious of their lifting. As Russia's financial crunch gradually worsens, and amid changes such as the inauguration of the new US government, attention must be paid to any changes in President Putin's diplomatic policies.

5. ME: New US Administration Already Affecting the Region

Koichiro Tanaka, Managing Director &
President of JIME Center

The new US administration and the anti-terrorism policies it has implemented are already affecting the Middle East. On January 27, the new US President Donald Trump signed, with immediate effect, an executive order for "Protecting the Nation from Foreign Terrorist Entry into the United States" that bans nationals of seven mostly Muslim countries of the region including Iran, Iraq, Libya, and Yemen from entering the United States for 90 days, and rejects all Syrian refugees.

This extreme policy, which President Trump insists is necessary to protect the US from "radical Muslim terrorists", has caused international uproar. Particularly, with Iran announcing a retaliatory ban on US citizens, but later relaxed to accommodate visiting US wrestlers, the feud between the two countries will surely intensify. In Iran, former President Akbar Hashemi Rafsanjani, a strategist who has been supportive of negotiating with the US, died unexpectedly in early January. The death of an influential figure nearly one year after the easing of sanctions based on the nuclear deal is a great loss for Iran, which must now confront an openly hostile Trump administration.

The Syria ceasefire since the end of last year, achieved through a Russia-Turkey accord, is being partly maintained, and has led to a Syria peace talk in the Kazakh capital of Astana. Under this framework, the Assad administration and some of the anti-government forces negotiated directly, while Iran, which has been supporting the Assad government with Russia, showed a strong presence. The Trump administration was only represented by the US ambassador to Kazakhstan in the Russia-led peace talk, making it obvious that Russia enjoyed greater influence today than the US, when it comes to Syria. Apparently, the US administration is shifting from a dual strategy of taking down both IS and Assad to a more realistic policy of striking IS first.

While his resolve on the civil war in Syria remains unclear, President Trump has decided to send Navy SEALS to the civil war-torn Yemen and to attack Al-Qaeda in the Arabian Peninsula (AQAP). The operations achieved some success, but with casualties among US military members in an aircraft crash. This could lead to criticism of the hasty response of the administration, which is rushing to achieve results to differentiate itself from the Obama administration.

Concerns were also mounting for a possible hasty decision to relocate the US embassy in Israel from Tel Aviv to Jerusalem, another campaign promise. By the time Israeli Prime Minister Netanyahu made his visit to the US, the issue of relocating the embassy was overshadowed by the President's comments on the final state of the peace agreement between Israel and Palestine, which was perceived as backtracking from traditional US policy vis-à-vis the Middle East Peace Process. Yet, the relocation, if decided, will not only cause resentment among the Muslim community toward the US, but also put the governments of US allies such as Egypt and Jordan in an extremely difficult position.

Hiroshige Seko, Minister of Economy, Trade and Industry of Japan, visited the UAE for the annual World Future Energy Summit held in the Emirate of Abu Dhabi, where he met with Crown Prince Mohammed and the CEO of the Abu Dhabi National Oil Company, Sultan Ahmed Al Jaber, and obtained a basic agreement to extend concessions granted to INPEX for operating offshore oil fields. Saudi Arabia underwent a third-party audit of its oil reserves in preparation for listing Saudi Aramco's shares. The result verified the existing data of 265 billion barrels.

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IEEJ e-Newsletter Editor: Yukari Yamashita, Director
IEEJ Newsletter Editor: Ken Koyama, Managing Director
Inui Bldg. Kachidoki, 13-1 Kachidoki 1-chome, Chuo-ku, Tokyo 104-0054
Tel: +81-3-5547-0211 Fax: +81-3-5547-0223