



# IEEJ e-NEWSLETTER

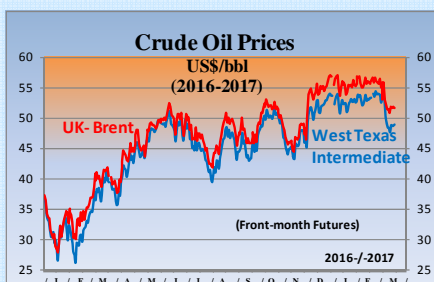
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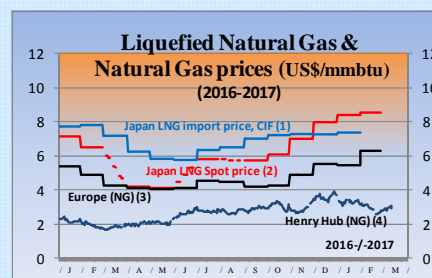
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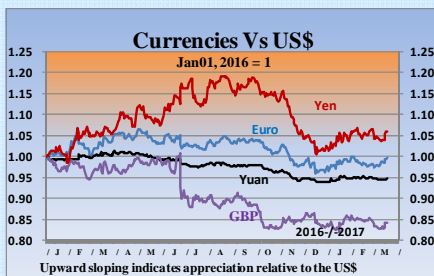


Source: DOE-EIA, Financial Times, NASDAQ

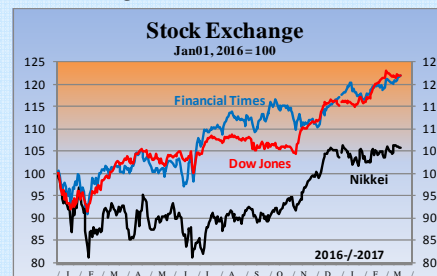


Sources:

- (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 Administration Struggles to Accomplish Institutional Reforms**

As it works to implement its campaign promises through executive orders, the new administration is facing practical difficulties and challenges in reforming Obamacare, which has been running for six years.

#### **2. EU: Report on the Implementation of the CCS Directive**

Together with the Second Report on the State of the Energy Union, the European Commission released a report on the status of implementation of the CCS Directive. The barriers for achieving CCS remain high, but the result of consultation on coal-fired thermal power under way in the UK is keenly awaited.

#### **3. China: Overall Energy Policy Targets for 2017**

The National Energy Administration (NEA) announced numerical targets for 2017 for controlling the total volume of energy consumption, decarbonizing the energy mix, and energy efficiency. The target for new nuclear builds was set to eight units; it will be interesting to monitor its feasibility.

#### **4. ME: Iran under Fire and Blow to Middle East Peace**

There is increasing contact between the Trump administration and leaders of the Middle Eastern countries. President Trump apparently is not committed to building an independent Palestinian state. Saudi Arabia and other US allies in the region are stepping up criticism of Iran, emboldened by the US's hard-line stance against the country.

#### **5. Russia: The Trump Administration and US-Russia Relations**

While President Trump showed readiness improve U.S.-Russia relations at start of administration, there remains a serious concern about changing U.S. policy toward Russia among U.S. lawmakers and etc. Japan has gathered a global attention with regard to its stance toward Russia while maintaining the Japan-US alliance as the core of its foreign policy.



## 1. US: New Administration Struggles to Accomplish Institutional Reforms

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

On February 17, the Senate confirmed Scott Pruitt as administrator of the Environmental Protection Agency (EPA). The president was reportedly preparing six executive orders in time for the administrator to be sworn in, but no action has been taken yet and the relevant industries are closely watching the situation ahead of the State of the Union Address on February 28.

The Republican Party had been hoping during the preliminaries that Mr. Trump would change in time for the general election, and after the November election, that he would change once sworn in. However, President Trump has so far crushed all such hopes, and has issued executive orders to deliver on his campaign promises such as leaving the TPP, easing The Patient Protection and Affordable Care Act (Obamacare), building a wall along the southern border, and restricting immigration. However, five weeks into the presidency, he is facing situations never experienced as a decision-maker for a company: (1) Cannot get even the White House aides and federal employees to move as he wants, (2) institutional brakes by Congress and the courts that monitor the executive branch, and (3) open challenges against federal government decisions by state governments. Many Americans desperately hope that this experience will cause the administration to change its policies. The chances that such wishes will come true are slim, but among President Trump's official promises, abolition of Obamacare is turning out to be more difficult than expected.

Obamacare aimed to require all Americans to enroll in some form of insurance, provide public insurance to (mainly poor) citizens without access to corporate or private health insurance, prohibit insurance companies from refusing enrollment based on medical history, tax expensive healthcare services to curb the rise in the nation's healthcare costs, and tax medical equipment and use the proceeds to fund the healthcare system. However, as enrollment grew quickly among the elderly with health concerns but remained sluggish for the young and healthy, problems such as soaring premiums and withdrawal or bankruptcies of insurance companies emerged. The Republican administration won the election pledging to abolish Obamacare, and Congress has been considering a schedule for this since January. The study, however, revealed the difficulties in abolishing an institution that is already in its sixth year, such as leaving numerous people without insurance and the need to bail out unprofitable insurers. Ideas such as phasing out the system over several years and merely revising it were considered, but the situation is now stalled due to strong opposition from Republican conservatives.

In terms of the difficulty in changing an institution embedded in society, President Trump's plans for major tax reforms are similar, although they now driving the "Trump" stock market. Sooner or later, the president will be required to perform the difficult public relations task of easing the disappointment and anger of voters and presenting realistic policies.

Meanwhile, the House Energy and Commerce Committee that is in charge of Obamacare as well as energy policies continues to put top priority on scrapping Obamacare as in the last six years. Accordingly, despite the new administration's focus on energy, Congress cannot expect much progress in deliberating energy-related bills while it remains preoccupied with scrapping Obamacare.



## 2. EU: Report on the Implementation of the CCS Directive

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

In February 2017, the European Commission released the Second Report on the State of the Energy Union, which states that modernization of the EU economy and transition to a low-carbon era are progressing steadily. It reports that the final consumption and GHG emissions reduction targets for 2020 have already been met for the entire EU, which is achieving success in separating GHG emissions from economic growth as evidenced by achieving a 22% reduction in GHG emissions despite a 50% growth in total GDP for 1990 through 2015. The Commission plans to host the Energy Union Tour throughout 2017 as it did in 2016 to analyze the policies of the member states in greater depth through dialogue with the stakeholders of each country.

Together with the State of the Energy Union Report, detailed progress reports were issued on climate change-related areas such as renewable energies and energy efficiency. Among them is a report on the status of implementation of the CCS Directive for each member country from May 2013 through April 2016. This is the second report following the first one released in 2014 (on the status of implementation between July 2011 through April 2013).

The status of specific efforts by member states, unfortunately, shows no significant progress. No new candidates were selected for storage sites, and applications were submitted only by Spain and the UK for exploration and storage, respectively. Feasibility studies on the additional introduction of CCS in large-scale power plants were conducted in several countries, but found that CCS is not profitable. In the Reference Scenario 2016 released in July 2016 on the energy-related outlook through 2050, the installed capacity of thermal power plants with CCS was revised down, reflecting the difficulty of developing and commercializing CCS in Europe. The new report on the CCS Directive provides a detailed explanation on the background to this outlook, but does not mention the GHG emissions reduction target for 2050.

The new report on the CCS Directive concludes that it would be profitable to introduce CCS in the 14 power plants that the UK authorities considered as CO<sub>2</sub> capture-ready. However, the UK's much-anticipated pilot plant was recently cancelled due to a change in government policy. In January 2017, the National Audit Office (NAO) released a report on the government's CCS commercialization program, stating that the cancelled programs have cost 168 million pounds in total and concluding that the result does not match the amount spent. As CCS development in Europe threatens to stall, the next focus of attention is the result of consultations on coal-fired thermal power currently under way in the UK. If the result requires the introduction of a certain percentage of CCS in existing units, it is likely to reinvigorate efforts to develop and commercialize CCS.



### 3. China: Overall Energy Policy Targets for 2017

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

At the end of last year, the National Energy Administration (NEA) held a national energy meeting to analyze the supply-demand situation of energy, check the progress of the annual plan, and discuss measures for the following year. Based on the results of the meeting, the NEA announced the “Guiding Opinions on Annual Energy Development in 2017” on February 17.

According to preliminary statistics, the GDP growth rate in 2016 was 6.7%, just 0.2 points above the minimum requirement of 6.5%, but energy consumption per unit GDP (energy-GDP intensity) decreased by 5.0%, significantly exceeding the annual target of 3.4% reduction. Consequently, primary energy consumption increased by 1.4% to 4.36 billion tce (tonnes of coal equivalent, 1 tce =  $7 \times 10^6$  kcal). In terms of energy source, coal consumption dropped by 2.9% to 2.67 billion tce (third consecutive year of decline), accounting for 61.3% of primary energy consumption, down 2.7 points. In contrast, oil consumption increased by 7.6% to 840 million tce, the share rose to 19.2%, up 1.1 points; natural gas consumption increased by 6.6% to 270 million tce, the share rose to 6.2%, up 0.3 points; and non-fossil fuel consumption increased by 12.4% to 580 million tce, the share rose to 13.3%, up 1.3 points.

Behind this steady progress in the decarbonization of energy consumption structure was the growth in non-fossil electricity sources. Solar PV increased 34.54 GW to 77.42 GW, wind power jumped 19.3 GW to 149 GW, hydropower added 12.59 GW to 330 GW, and nuclear power increased 6.47 GW to 33.64 GW. Overall, the percentage of non-fossil electricity in all electricity sources increased by 1.7 points to 36% of capacity and by 1.9 points to 28.4% of electricity generation.

This is an auspicious start to the first year of the 13th Five-Year Plan, but the five-year target of building a green, low-carbon, safe and highly efficient modern energy system cannot be achieved without constant efforts. Thus, the NEA set overall targets for 2017 of keeping the primary energy consumption at 4.4 billion tce or lower, up only 40 million tce, and reducing GDP-energy intensity by at least 5%. For decarbonizing the consumption structure, it set targets of reducing the percentage of coal by approx. 1.3 points to 60%, increasing natural gas by 0.6 points to 6.8%, and increasing non-fossil energies by approx. 1 point to 14.3%. Regarding the development of energy sources, it set the targets of closing at least 4 GW of low-efficiency coal-fired thermal power capacity while constructing 30 GW, 25 GW, and 20 GW of hydro, wind, and solar capacity and putting 10 GW, 20 GW, and 18 GW into operation, respectively. As adjustment power sources for peak loads, 2 GW of pumped-storage hydroelectric power and 1 GW of gas-fired thermal power will be put in operation, and renovations to install a peak adjustment function for 20 GW of coal-fired thermal capacity will be started, of which 4 GW will be completed this year.

For nuclear power, the NEA aims to put five new units totaling 6.41 GW including third-generation reactor AP-1000 (two units) and EPR-1750 (one unit) into operation, while actively promoting the construction of eight new plants and steadily preparing for obtaining construction permits for eight units totaling 9.86 GW, both in coastal areas. This apparently is an effort to catch up after starting just one plant construction of 1.15 GW and obtaining no construction permits last year; the progress and results of such efforts require close attention.



#### **4. ME: Iran under Fire and Blow to Middle East Peace**

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

With the Trump administration now up and running, US allies in the Middle East are rushing to hold conference calls and visit Washington to discuss policies with the president. Much attention was paid to the summit meeting with Prime Minister Netanyahu of Israel, where the US is testing the waters for relocating its embassy from Tel Aviv to Jerusalem. King Abdullah II of Jordan became the first from the region to travel to Washington D.C. to warn the president of the grave consequences of the relocation; the decision to relocate was postponed thanks to such behind-the-scenes efforts by Arab countries. However, the fact that the US, considered as an “honest broker” in the Middle East peace process, reduced its commitment to the two-state solution for Israel and Palestine could deal a mortal blow to the peace process.

Meanwhile, King Salman of Saudi Arabia and President Trump agreed during a telephone call on the need to deal with Iran’s destabilizing actions in the Middle East and to establish “safe zones” in northern Syria and Yemen. Turkey, which is facing an influx of Syrian refugees and which was once exploring the safe zone option itself, is likely to welcome this initiative. However, the situation is very different from back then, and safe zones could determine the area ruled by the Kurds, whom Turkey considers to be an even greater threat than Islamic State (ISIS/ISIL). The intentions of the US and Saudi Arabia differ from those of Turkey even though they appear to overlap, and there is no guarantee that Turkey will cooperate on the safe zones. Further, the Assad administration, which is the main player in the civil war in Syria, and its military ally Russia are certain to have some reservations. As such, the unilateral moves of the Trump administration, which shows little regard for the complex situations among tactical allies of the US and strategic US partners, could ignite confrontation in various parts of the region.

Seeking to mend relationships with the Gulf states, President Rouhani of Iran toured Oman and Kuwait. Despite being the first official visit to GCC member states by a sitting president of Iran since late 2007, the meeting in Kuwait did not satisfy the Arab states which demanded a written commitment not to intervene in the affairs of Arab countries. Diplomatic activities are increasing in the Gulf region, as indicated by the visit to Oman by Sheikh Sabah of Kuwait.

At the Munich Security Conference, Israel and Saudi Arabia, which appear to be strengthening unofficial ties, condemned Iran for its activities in the region. Iran was also criticized by Turkey, a powerful Sunni state, for pursuing sectarianism by supporting Shia sects, thus opening up a division between Iran and Turkey which had been cooperating in the Syrian peace talks in Astana. Behind Turkey’s change in attitude lies the positive response it received from the Trump administration in a phone call on rebuilding their bilateral ties. Aside from the Astana summit, a UN-led peace conference on Syria was held in Geneva. The High Negotiations Committee (HNC) representing the rebel forces were ready to hold direct negotiation with representatives of the Assad administration, but UN Envoy Staffan de Mistura remains cautious about the possibility of progress in the negotiations, and the stalemate is unlikely to be broken. Operations against ISIS/ISIL to recapture Mosul in northern Iraq are progressing, and the Iraqi forces, having taken the east side of the town, have now regained control over half of the west part of Mosul.



## 5. Russia: The Trump Administration and US-Russia Relations

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

On January 28, President Putin spoke on the phone with the new US President Donald Trump, and agreed to join efforts in fighting international terrorism, including defeating IS. Rebuilding the US-Russia relationship that worsened during the Obama administration was one of the emphasized campaign promises of President Trump. The telephone talk attracted a global attention to see whether they would start negotiations on lifting the economic sanctions against Russia, despite Europe's opposition.

Implementation of the Minsk Protocol, which is a prerequisite for the West to lift its economic sanctions on Russia, remains stalled. The day after the US-Russia telephone summit, fighting resumed between the Ukrainian government forces and pro-Russian militants in eastern Ukraine. In the industrial city of Avdiivka near the pro-Russian controlled area, 13 lives were lost among the two forces and citizens in just the three days to January 31. On February 2, the US Ambassador to the UN, Nikki Haley, condemned Russia at the UN Security Council for its "aggressive actions."

Calls for a hard-line policy against Russia are rising both inside and outside the U.S. Congress. At a Senate Armed Forces Committee hearing prior to confirmation by the Senate (January 20), Defense Secretary James Mattis warned that Russia is becoming an increasingly serious concern for the US in various areas. Michael Flynn, President Trump's national security advisor, was condemned by the media and lawmakers and forced to resign on February 13 after revelations that he had illegally discussed with the Russian ambassador to the United States a possible lifting of US sanctions on Russia under the Trump administration on the same day the former Obama administration announced the additional sanctions at the end of 2016. Bipartisan members of Congress are now working on a bill that would limit the president's power to single-handedly ease sanctions against Russia.

The Putin administration's criticism of the US has generally been more muted than under the Obama administration. In Russia, some think it unwise to aggravate US hard-liners against Russia while the new administration's power base is still not solid. However, the resignation of former presidential aide Michael Flynn, who had been the leading proponent in the Trump administration for a change in US policy toward Russia, turned out a big "miscalculation" for Russia.

On February 7, the Japanese government held the first meeting of the cross-ministerial Joint Economic Activity Related Council in preparation for the official meeting in Tokyo in March to discuss specific Japan-Russia joint economic activities in the Northern Territories. Prime Minister Abe returned from his visit to the United States on February 10 and 11, and indicated that he had gained President Trump's understanding of Japan's policy toward Russia. While there still remains uncertainties over the Trump administration's policy toward Russia, the way in which Japan unfolds its policy toward Russia would attract a global attention.



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