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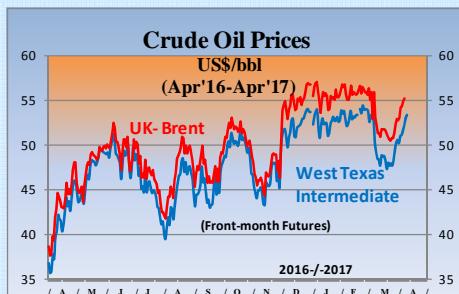
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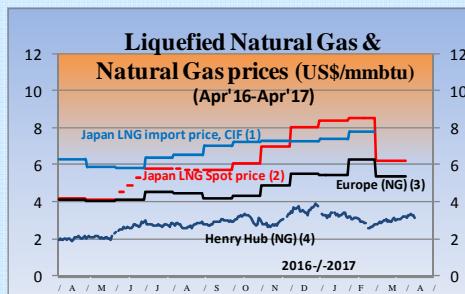
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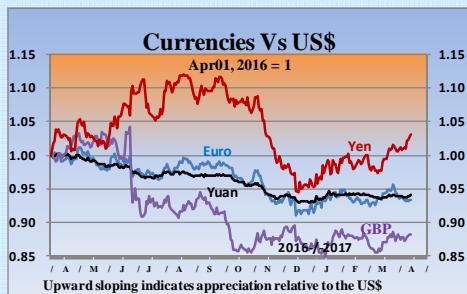


Source: DOE-EIA, NASDAQ



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: Political Confusion after Failure of the Health Care Reform, and Its Impact

The political confusion after the failure of the healthcare reform is affecting many areas. Research and development is an important area in which the federal government can influence the energy market, but the future is uncertain due to budget cuts.

2. EU: Policy Challenges over the Netherlands' Cap on Domestic Gas Output

The ruling People's Party for Freedom and Democracy led by Prime Minister Rutte won the Dutch national election and remained in power. However, the party is facing challenges concerning the cap on domestic gas production, which is the most important energy policy.

3. China: Difficult Challenges in Reducing Coal-Fired Thermal Capacity

In response to a serious oversupply and worsening performance of power companies, the government has set out to reduce coal power capacity in earnest, but its success will depend on whether regional governments can be persuaded. The expertise and leadership of the government are being put to the test.

4. ME: First Visit to Japan by the King of Saudi Arabia in 46 Years

(To be Uploaded Soon)

5. Russia: Aggressive Cyber Capabilities in Expansion

The United States has increasingly concerned about Russia once again, and the Trump administration is determined to strengthen the U.S. military, while Russia is forced to cut its national security budget. However, Russia is accelerating preparations for a cyber war.



1. US: Political Confusion after Failure of the Health Care Reform, and Its Impact

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On March 24, the Congressional vote on the Republican health care reform bill was cancelled as there was no chance of gaining enough votes to pass the bill. This was a serious setback for the Republicans' official promise made after The Patient Protection and Affordable Care Act (Obamacare) was passed in 2010. President Trump immediately declared that he will move on to other priorities, that is, the tax reform package. However, the tax system is even more complex than health care. Further, with the looming debt ceiling in April after a hiatus since November 2015, haggling has already begun with lawmakers seeking to cut spending rather than raise the debt ceiling. The tax system and spending issues have a major bearing on large infrastructure investments for which industry and labor unions have high expectations. The failure of the Republican Party to fulfill its longstanding promise to repeal Obamacare has raised concerns about the Party's eroding political resources and possible failure to achieve their other promises, namely tax reform and infrastructure investment, and is causing turmoil on the stock market.

The battle over the healthcare reform indicates several traits of policy operations of the Trump administration. The House Republicans, who drafted a healthcare reform bill based on the blueprint that Speaker Paul Ryan indicated before the election, did not call on the Democrats to cooperate in the process. The completed bill looked quite different from the Trump administration's official promise, and yet the President expressed full support for it. He ordered the GOP leadership to seal the groundbreaking deal but never bothered about its content, and did not reach out to the GOP conservatives or Democrat lawmakers to find a middle ground. A lack of interest in policy details, a lack of principles in the administration, and when defeated, the hunt for and vicious attacks on a scapegoat are the usual pattern.

How might this political turmoil affect the energy market? In fact, the role of the federal government in the energy market is limited. Supply and demand and corporate investments are affected mainly by prices, and much of the authority over energy belongs to the state governments. Recently, an upturn in business has been reported, such as ten consecutive weeks of an increase in the number of oil and gas drilling rigs and an increase in investment and employment among some development companies, but behind this is the recovery of oil prices. Further, as renewable and natural gas power generation facilities continue to be installed and with natural gas prices expected to remain stable but low, a decline in coal-fired thermal power is inevitable even if the Obama administration's environmental regulations are abolished. However, one area still requires the initiative of the federal government: research and development. For instance, in view of the need to invest in transmission networks due to facility aging and changes in the energy mix, the government could subsidize advanced technologies such as energy storage that help ensure a stable power supply, thereby increasing the number of pilot projects, accumulating knowledge, and driving its expansion. Federal government involvement in the transmission network construction plan could also facilitate inter-state coordination in multi-state projects.



The Budget Message of the President, which indicates the federal government's policy on its activities, prescribed budget cuts in almost all areas other than national security, upsetting various parties. This is a result of the president giving carte blanche to his budget chief, who is an advocate for small government. As was the case with healthcare, we will soon witness another four-party battle between the GOP leadership, GOP conservatives, the Democratic Party, and the White House.



2. EU: Policy Challenges over the Netherlands' Cap on Domestic Gas Output

Kei Shimogori, Researcher
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On March 15, the Netherlands held a national election which could have affected the political situation in other EU member states. In April 2016, the Netherlands had voted against the EU-Ukraine Association Agreement, which sought to strengthen ties between the EU and Ukraine, in a referendum, apparently indicating the spread of domestic skepticism and criticism of the EU, and the focus in the national election was support for the ultra-right party. As it turned out, the ruling party (People's Party for Freedom and Democracy) led by Prime Minister Mark Rutte retained power with 33 seats, while the ultra-right Party for Freedom gained 20 seats, adding only 5 seats from the 2012 election, despite predictions of winning many more. The Prime Minister declared victory, commenting that "The Netherlands stopped populism", receiving praise from French President Francois Hollande who himself faces a presidential election next month.

However, despite winning the election, the Dutch ruling party is facing challenges in energy policy. The Netherlands has a relatively high ratio of natural gas in its primary energy supply and energy mix (39% for the former and 44% for the latter in 2015). Regarding the energy mix in particular, domestic natural gas is dominant. While expanding renewable power sources, the Netherlands also seeks to maintain production of domestic natural gas and enhance the country's role as a transit hub in northwestern Europe in view of its energy security and strategic position in Europe.

In March 2017, Dutch gas company GasTerra (owned 50% by the Dutch government and 25% each by Shell and ExxonMobil), released its 2016 annual report, announcing a drop in both gas sales and profits. Gas sales decreased 10% year-on-year in 2016 to 63.9 Bcm, while profits dropped to 9.9 billion euros, approx. 70% of the previous year's levels. Behind this decline is the government-imposed output limit on the Groningen gas field, the largest in Europe. The government capped the annual output from this field to 27 Bcm in November 2015 due to concern about the risk of inducing earthquakes, and in June 2016, decided to further cut annual production to 24 Bcm for five years starting from October 2016. As a result of this cut, the Netherlands is increasing LNG imports and pipeline gas imports from Norway and Russia.

Yet, the cap on output is being criticized as inadequate by local residents and environmental groups demanding tougher limits. In November 2016, the government's decision to cap annual output at 24 Bcm faced 25 lawsuits from regional governments and others. In January 2017, the Court ruled to support the government, and in line with this decision, the Council of State expressed that immediate further production cuts are not necessary. Nevertheless, the residents of Groningen who have actually experienced earthquakes remain fiercely opposed and are demanding that production be capped at 12 Bcm. The win by Prime Minister Rutte's ruling party is a positive development for political stability in the whole of Europe. However, in terms of the Netherlands' future energy policies and energy security, the party will face difficult decisions on its domestic gas fields that are of utmost importance to policy.



3. China: Difficult Challenges in Reducing Coal-Fired Thermal Capacity

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Supply-side structure reforms centered on removing excess production capacity are an urgent challenge for the Xi Jinping-Li Keqiang leadership which aims to achieve "stable development" by improving the quality and efficiency of growth. Structural reforms in the power supply area are no exception. As an overall target, the 13th Electricity Development Five-Year Plan aims to expand the installed capacity of non-fossil fuels to 770 GW in 2020, up 250 GW from 2015 levels, and raise its ratio in the overall generation capacity by four points to 39% and in overall electricity output to 31% from 27.4%, reflecting the target increase in operating time of renewable power sources. On the contrary, for coal-fired thermal power which holds the key, the Plan aims to decrease the installed capacity to 1,100 GW or lower in 2020 (900 GW as of 2015) and reduce its ratio in the overall power generation capacity to 55% from 58.84%. As specific reduction measures, it set targets of canceling and postponing at least 150 GW of licensed construction projects in five years and to close around 20 GW of existing low-efficiency capacity.

However, a look at the state of progress shows that the reforms are not going smoothly. According to the China Electricity Council, in 2016, the installed capacity of coal power increased to 943 GW while its ratio of all power sources decreased to 57.27% in terms of capacity, down 1.56 points year-on-year, and to 65.2% in output, down 2.5 points, suggesting that progress has been made in reducing coal power. Meanwhile, in terms of supply and demand for electricity, installed capacity has increased by as much as 8.2% to 1,646 GW while consumption only increased 5.0% to 5.92 TWh. Due to this substantial overcapacity of electricity, the average operating time dropped by 203 hours to 3,785 hours for all power sources and by 162 hours to 4,144 hours for coal power, thus reducing the availability and undermining the business of power companies. Further, according to a final report by the Electric Power Engineering Quality Supervision Station which oversees the construction of power capacity, 77.69 GW of new thermal power capacity was constructed in 2016, while as of January 2017, a total of 188 GW is being constructed.¹ Although no details are given, most of the capacity is believed to be coal power. If all these capacities are completed, they will not only worsen the overcapacity of coal power and hamper the decarbonization of the energy mix, but could further hit the performance of the entire power industry for a long time.

Concerned by the situation, the government set out to reduce coal power capacity in earnest. Prime Minister Li's Report on the Work of the Government for 2017 adopted at the National People's Congress in March mentioned closing, or canceling or postponing the construction of more than 50 GW of coal power capacity this year. As for the breakdown, Director Nur Bekri of the National Energy Administration announced that 5 GW of low-efficiency existing capacity will be closed, 38 GW of ongoing constructions will be canceled for regulatory violations, and 7 GW of new constructions will be postponed.

Deciding which projects to cancel or postpone will be very tough: the National Energy Authority had transferred the authority to license coal power to regional governments in the administrative reforms of 2014, and is now without effective means to prevent overcapacity.

¹ See <http://www.dlzzj.org.cn/front/article/show.action?id=5,549>.



The success of the reforms will depend on whether the regional governments, which back the power companies, can be persuaded. The expertise and leadership of the National Energy Administration, the National Development and Reform Commission, and the State Council will be put to the test.



5. Russia: Aggressive Cyber Capabilities in Expansion

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On March 15, the US Department of Justice prosecuted four individuals including two intelligence agents of the Federal Security Service of the Russian Federation (FSB) for hacking associated with the leakage of personal information of some 500 million users of US Internet service company Yahoo in 2014, and published their names. This is the first time for FSB officers to face prosecution for cyber attacks in the US. On March 20, FBI Director James Comey officially acknowledged for the first time that the Bureau is investigating the alleged Russian interference in the 2016 US presidential election.

With President Trump's inauguration failing to jumpstart bilateral relations as Russia had hoped, back home in Russia, criticism is mounting toward the US Democratic Party and the media. At the end of February, Prime Minister Medvedev said in a TV interview that Russia needed to prepare assuming that the West's sanctions would not be lifted soon. On February 18, at the Munich Security Conference, Foreign Minister Sergey Lavrov expressed his view that Russia does not accept the post-Cold War world order led and dominated by the US and other Western countries, and contends that the order is collapsing and a post-West world order is emerging.

The 2018 budget blueprint of the new US administration released on March 17 showed a significant increase in military spending (up 10% year-on-year), while Russia's 2017 defense budget saw a drastic cut of approx. 30%. Ahead of the presidential election in March 2018, President Putin is unable to ramp up economic stimulus packages and social security benefits as he would like, with the fiscal deficit exceeding 3% of GDP. A renewed arms race with the US is a luxury he cannot afford. Russia's real GDP growth rate posted two consecutive years of negative growth at minus 2.8% in 2015 and minus 0.2% in 2016, but is expected to finally turn positive in 2017, albeit a modest 1.1% (latest IMF forecast).

Meanwhile, Russia has set out to strengthen its cyber capabilities, to the consternation of the US and the West. On February 22, in a speech at the Federation Council (upper house of the Federal Assembly), Defense Minister Sergey Shoigu revealed that Russia had established an information warfare force within the Defense Ministry in 2013 to ramp up its cyber capabilities including hacking into databases. Further, retired general Leonid Ivashov (former Chief of the International Military Cooperation Department, Ministry of Defense) emphasized the need for Russia to step up the information war and expose the West's data stored in the US and Germany. Concurrently, the National Guard of Russia, which is the internal security force of the government of Russia which was split off from the FSB and the Internal Affairs Ministry and was newly established in April 2016, is beginning to strengthen cyber security within the country.

On March 18, 2017, three years passed since Russia's annexation of Crimea. As the West remains critical of Russia, on March 20, a so-called two-plus-two meeting of foreign and defense ministers was held in Tokyo after an interval of three years and four months. Prime Minister Abe is scheduled to visit Russia at the end of April. Japan's policies toward Russia will receive much attention from the international community going forward.



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