



# IEEJ e-NEWSLETTER

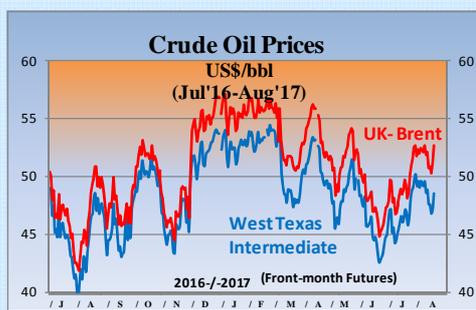
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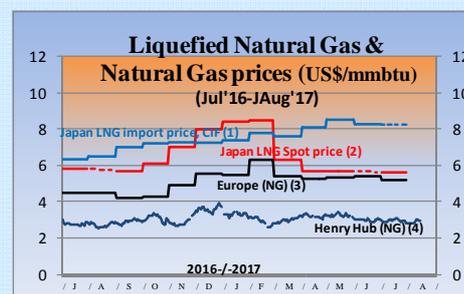
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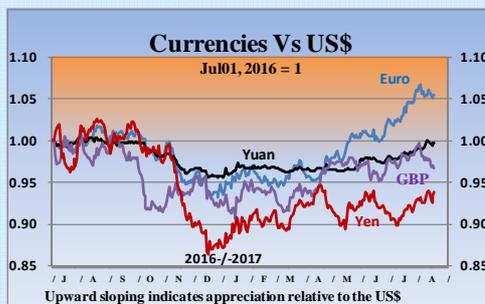


Source: DOE-EIA, NASDAQ



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



Upward sloping indicates appreciation relative to the US\$

Source: x-rates.com



Source: Financial Times

## Contents

### 【World Watching】

1. US: Recent Situation of Support for Auto-related Innovations
2. EU: Energy-related Discussions at G20
3. China: End of US-China Honeymoon? China's View
4. Middle East: Liberation of Mosul and the Prolonged Boycott of Qatar
5. Russia: The Downward Spiral in the US-Russia Relations



## Summary

### **【World Watching】**

#### **1. US: Recent Situation of Support for Auto-related Innovations**

As Europe continues to promote EVs and other advanced vehicles, the Trump administration is avoiding subsidizing innovation in the US auto industry by reducing assistance for R&D.

#### **2. EU: Energy-related Discussions at G20**

The disagreement between the US and the other G20 countries was highlighted at the G20 Hamburg Summit. France is planning a climate summit towards the end of the year and its developments are worth watching.

#### **3. China: End of US-China Honeymoon? China's View**

President Trump has returned to his hardline policy toward China. Despite rumors of the end of the US-China honeymoon in the foreign media, the Chinese media reckon the cooperation will continue, despite ups and downs.

#### **4. Middle East: Liberation of Mosul and the Prolonged Boycott of Qatar**

The liberation of Mosul is welcome news, but the US has not found a solution to the boycott of Qatar by Saudi Arabia and others. Iran's President Rouhani is facing a standoff with hardliners. Rise of tension in Jerusalem became a source of concern.

#### **5. Russia: The Downward Spiral in the US-Russia Relations**

The first US-Russia Summit for the Trump administration did materialize, but normalization of the bilateral relationship remains a distant prospect. The future of the relationship will have both tangible and intangible effects on international energy markets.



## 1. US: Recent Situation of Support for Auto-related Innovations

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

In July, the governments of Britain and France announced policies banning the sale of gasoline- and diesel-fueled cars beyond 2040. At the corporate level, Volvo has announced plans to produce only electric vehicles (EVs) as new models beyond 2019. The main goal of these plans is to reduce air pollution, but reducing CO<sub>2</sub> emissions is also part of the goal. Such moves in Europe are in stark contrast to the US, which is reviewing its domestic climate actions and involvement in the Paris Agreement.

With the goal of reviving the US manufacturing industry, President Trump, even before taking office, has been criticizing auto companies for moving their factories offshore and the Japanese auto market for being closed to American cars and exacerbating the trade imbalance. Yet, it remains unclear which technologies the US is going to support for cars produced or sold within its borders. The main recent developments concerning advanced auto-related technologies are outlined below.

First, based on the Transportation Department's advice that they are difficult to achieve, the auto fuel standards established by the Obama administration are now under review for cars produced from 2022 through 2025. Penalties for breaching fuel standards have also been eased. If rigorous fuel standards do indeed spur innovation by auto companies as environmental groups claim, and hence boost fuel efficiency and the spread of hybrid cars and EVs, this policy turnaround is a blow to EVs and similar vehicles.

Second, the administration's budget request for FY2018 drastically cuts the budget for advanced technologies, limiting the government's role in basic research and relying on the private sector for R&D for commercial technologies. The request slashes energy conservation and renewables budgets by 70%, and stops funding for advanced energy research, including battery cells and hydrogen, and loans for advanced car manufacturing, of which Tesla's factory was once a beneficiary. The administration is focusing on expanding the supply of conventional energies such as fossil fuels and nuclear power, and seems reluctant to assist technological innovation in the US auto industry.

Third, in terms of the international competitiveness of American products, the US objectives for the NAFTA renegotiation announced in July are interesting. In addition to introducing provisions on electronic commerce to fill the 23-year gap since NAFTA came into effect, the US plans to demand other parties, particularly Mexico, to correct their labor rights and environmental regulations, which are lighter than in the US and are allegedly causing unfair competition. "An unfair and unjust deal for the US" was also cited as a reason by the Trump administration when leaving the TPP. Labor and the environment are likely to be used against China and other emerging countries to restore the



competitiveness of American products.

Supported by its gigantic domestic auto market, China is now believed to be the world's largest EV manufacturer. With the US choosing policies that dampen the drive for innovation, and as Chinese manufacturers steadily improve their quality, President Trump may launch a verbal attack on the Chinese auto industry ahead of the 2020 presidential election. The US-China relationship is facing rising tensions at the national level, as seen in the North Korea and steel trade issues. However, the relationship could develop at the regional level regardless of the national situation, as shown by the China-California agreement on environmental cooperation. Regional-level initiatives such as these could create a multi-tiered relationship between the two countries and thus improve the relationship at the national level.



## 2. EU: Energy-related Discussions at G20

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

As reported in this Newsletter under "Update on Policies Related to Climate Change," the G20 Summit was held in Hamburg, Germany on July 7 and 8. The Summit was the first global conference after the US had announced its withdrawal from the Paris Agreement. In the Leaders' Declaration, the leaders collectively pledged a commitment to mitigate greenhouse gas (GHG) emissions through increased innovation on sustainable and clean energies and energy efficiency, and to work on low-GHG energy systems. Further, the G20 leaders except the US stated that the Paris Agreement is irreversible, and agreed to the G20 Hamburg Climate and Energy Action Plan for Growth ("the Hamburg Action Plan").

The Hamburg Action Plan largely reconfirms the initiatives mentioned in previous G20 Leaders' Declarations and Energy Ministerial Meeting communiqués. Looking back, energy has been mentioned at the G20 Summit since the first event in Washington DC. At the 2014 Brisbane Summit, the G20 Principles on Energy Collaboration was approved as an energy-related document. Further, ahead of the 2015 Antalya Summit, the first G20 Energy Ministerial Meeting was held in Istanbul. The communique from the Summit noted, as measures to address the G20 Principles, "consideration of energy access, energy efficiency, renewable energy, market transparency, and the rationalization and phase-out of inefficient fossil fuel subsidies that encourage wasteful consumption, recognizing the need to support the poor."

The Antalya Summit also approved the G20 Energy Access Action Plan and the G20 Toolkit of Voluntary Options for Renewable Energy Deployment. The Second G20 Energy Ministers Meeting ahead of the 2016 Hangzhou Summit confirmed the initiatives agreed at the First Meeting, and the Hangzhou Summit adopted the Enhancing Energy Access in Asia and the Pacific: Key Challenges and G20 Voluntary Collaboration Action Plan, G20 Voluntary Action Plan on Renewable Energy and G20 Energy Efficiency Leading Program.

The characteristic of the Hamburg Action Plan is that it mentions, in addition to the ongoing initiatives noted above, efforts to facilitate the implementation of the Paris Agreement at the top. It refers to moving toward implementing the current and future Intended Nationally Determined Contributions (INDCs) in line with the Paris Agreement and increasing cooperation in doing so, and to welcoming the submission of long-term strategies by G20 countries while engaging in good-practice sharing and cooperation.

The Preamble of the Action Plan states that the actions of the G20 will be guided by the Sustainable Development Goals (SDGs) of the United Nations and the Paris Agreement. Regarding the SDGs, a ministerial meeting was held on July 19 for achieving the SDGs, and a declaration centered on the full



implementation of the Paris Agreement was adopted, but the US emphasized again its non-involvement in the declaration. While some European countries including Britain and France hope that the US may return to the Paris Agreement, Germany, which is the chair of the Hamburg Summit, is skeptical. French President Macron has announced that a climate summit conference will be held at the end of 2017; the developments must be closely monitored.



### 3. China: End of US-China Honeymoon? China's View

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

President Trump has returned to his hardline policy toward China that he had suppressed since the US-China Summit in April. As a result, concerns are rising that the relationship may weaken.

In late May, President Trump gave the green light to the US Navy's Freedom of Navigation Operation in the South China Sea after refusing to do so three times since taking office. Also, at the end of June, the administration notified Congress of its plans to go ahead with an arms sale to Taiwan that had been delayed. Both are simply a return to the Obama administration's policies, but the Chinese government conveyed serious complaints to the US, arguing that the acts threaten the stability of the bilateral relationship.

The difference between the countries is also growing over North Korea's nuclear and missile development, which is also a great concern for Japan.<sup>1</sup> The US is calling for China to put more pressure on North Korea, but the Chinese government has denounced the US for "not fulfilling responsibilities in its own affairs and passing the blame to its collaborator (Chinese: 甩手掌柜)," and has emphasized that China has no solution to the issue and the US should stop holding China responsible. Meanwhile, the US has banned a Chinese bank from doing business due to financial transactions with North Korea, and has reportedly also decided to punish major Chinese companies for engaging in the coal business with North Korea. China has condemned these actions as "back-stabbing (Chinese: 背后捅刀)" by the US just as China was already applying pressure to North Korea by stopping coal imports.

Furthermore, regarding the US-China trade imbalance which is President Trump's highest priority, the 100-day plan is already underway and is resulting in an expansion of LNG imports and the restarting of beef imports from the US. However, the first US-China Comprehensive Economic Dialogue at the ministerial level held on July 19 in Washington D.C. ended with the scheduled press conference being cancelled without a joint statement being issued. The US demanded China to open up its financial markets, hinting at restricting imports of Chinese steel, and China responded by demanding the lifting of the ban on high-tech exports to China and warned the US that a confrontation would cause immediate damage to both sides.

As a result, overseas media have begun to report the "end of the honeymoon for the US and China", while the Chinese press and experts are reacting calmly.<sup>2</sup> They are not particularly pessimistic about

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<sup>1</sup> For instance, see [http://www.mfa.gov.cn/web/fyrbt\\_673021/jzhsl\\_673025/t1476982.shtml](http://www.mfa.gov.cn/web/fyrbt_673021/jzhsl_673025/t1476982.shtml).

<sup>2</sup> For instance, see <http://opinion.caixin.com/2017-07-20/101119180.html?sourceEntityId=101119435>,  
[http://us.xinhuanet.com/2017-07/20/c\\_1121350886.htm](http://us.xinhuanet.com/2017-07/20/c_1121350886.htm).



the situation, as evidenced by the fact that the second Summit was indeed held (July 8), President Trump's observance of the One China policy, which is non-negotiable for China in dealing with Taiwan, his understanding comment on North Korea that there will "eventually be success against Pyongyang, though it may take time," and the mutual agreement between the governments to continue to tackle the trade imbalance. In conclusion, China generally considers that although the US-China relationship may have its ups and downs in the short term, cooperation will continue in the long run.



## **4. Middle East: Liberation of Mosul and the Prolonged Boycott of Qatar**

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

On July 10, Iraqi Prime Minister Haider al-Abadi declared the liberation of Mosul, Iraq's second largest city, some three years after being occupied by ISIS/ISIL in June 2014. The focus of the mopping-up operation against ISIS has now shifted to Tal Afar, west of Mosul and within the borders of Syria. However, behind the advance of the Iraqi forces, Peshmerga, the militia of the Kurdish Regional Government (KRG), and the mainly Shiite Popular Mobilization Units (PMU), there is growing concern over new political and social problems caused by disregard for the rights of minorities in various regions of the country.

There is no end in sight for the boycott of Qatar by Saudi Arabia and others. On July 5, foreign ministers of Saudi Arabia, UAE, Bahrain and Egypt dismissed Qatar's response to their 13 demands delivered by Kuwait as an intermediary, and questioned whether Qatar understood the seriousness of the situation. They demanded that Qatar stop meddling in their internal affairs and supporting terrorist groups, and implied their intention to take "additional measures" if Qatar does not comply with them. Qatar's Emir Sheikh Tamim bin Hamad Al Thani broke his long silence and clarified the position that the country will not bow to unjust demands that infringe its sovereignty, while also calling for a solution through dialogue.

The growing disagreement among its Middle East allies is causing problems for the US. After King Salman of Saudi Arabia missed the G20 Summit in Hamburg, US State Secretary Tillerson diverted from his mediating efforts via phone to take up shuttle diplomacy. However, after visiting Kuwait, Qatar and Saudi Arabia, he expressed pessimism for an early settlement. There is no prospect for the embargo to be lifted soon. Turkish President Recep Tayyip Erdogan has also visited the three countries as mediator, but Saudi Arabia and others are cool toward Turkey, which deploys troops in Qatar.

Sworn in for his second term, Iran's President Hassan Rouhani has drawn fire by criticizing the suppression of speech and the press by the judiciary, which is dominated by rightwing hardliners. The President's brother was detained temporarily for corruption charges, and the conflict with hardliners since the recent presidential election is intensifying. Meanwhile, both houses of US Congress agreed to add sanctions against Russia and North Korea to the original sanction bill against Iran, enraging the country which believes that the legislation itself breaches the nuclear agreement of 2015. President Trump has abruptly demanded the release of American prisoners in Iran, threatening "serious consequences" if the country does not comply with the demand. Iran responded by counter demanding the release of prisoners with Iranian background in the US.



The stand-off between Israel and Palestine has intensified after two Israeli police officers were shot dead in the Temple Mount/Haram al-Sharif complex in Jerusalem. Even after Israel stopped installing metal detectors, which further complicated the situation, President Mahmoud Abbas of the Palestinian National Authority has expressed anger that the "new security measures" mentioned by Israel would change the status quo. The situation remains volatile.



## 5. Russia: The Downward Spiral in the US-Russia Relations

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

During the G20 Summit in Hamburg, on July 7, a US-Russia Summit was held for the first time between the current presidents. The Summit went over schedule and lasted 2 hours 15 minutes, covering the conflict in Syria, cybersecurity, etc. President Putin highly evaluated the meeting, saying that it helped build personal ties with President Trump. The US President also tweeted self-praise about the meeting's achievements, and reported that his counterpart strongly denied any interference in the US presidential election. He also mentioned setting up a joint cybersecurity organization with Russia, but withdrew the comment when the public immediately reacted angrily. On July 18, the news came out that the two leaders had nearly a one-hour meeting without the US interpreter, drawing fire from the US media.

On July 25, the revised legislation to impose new sanctions on Russia, which had passed the US Senate in June, passed the House of Representatives with an overwhelming majority. The revision passed the Senate again on the 27th, and President Trump signed the legislation into law on August 2. On July 26, Russia's Deputy Foreign Minister Sergei Ryabkov said there was no chance of the US-Russia relationship normalizing any time soon.

Tensions are once again rising in Ukraine. On July 18, pro-Russian forces in Donetsk in eastern Ukraine declared the country a failed state and established a new nation-state of "Malorossiya," or Little Russia. Moscow has not acknowledged having any role in the matter, but many think that the Minsk Accord has effectively failed, and Europe and the US may toughen their stance against Russia.

On July 6, on the day before the G20 Summit, President Trump attended a meeting with the leaders of twelve Central and Eastern European states in Warsaw. In a joint press conference with Polish President Duda, he mentioned that the United States would jointly work with Poland in response to Russia's destabilizing behaviors, and expressed his commitment to NATO's Article 5 principle of collective defense against an attack on a member state. President Trump also announced support for promoting LNG exports to Poland.

On July 13, the IEA released *Gas 2017*, projecting tougher competition in the European gas market in 2017 and 2018 due to increases in US and Australian LNG exports. US LNG is due to arrive in Lithuania this August, following Poland in June. Meanwhile, Russia's Gazprom is due to complete Nord Stream 2 from the Baltic Sea to Germany by the end of 2019, doubling its gas supplies to the European market while bypassing Ukraine. However, there remain uncertainties with regard to Nord Stream 2, including the additional US economic sanctions against Russia as well as European countries' deep-rooted wariness of Russia, particularly in Central and Eastern Europe. At any rate,



Gazprom will come under pressure to offer more competitive gas prices, conscious of US LNG supplies to the European market. The US-Russia confrontation will continue to have tangible and intangible impacts not only on the relationship between Europe and Russia, but also on European and Asian energy markets.



**Past IEEJ Events**

**Energy and Economy Indicators of Japan**

**IEEJ Homepage Top**

**Back Numbers of *IEEJ e-Newsletter***

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