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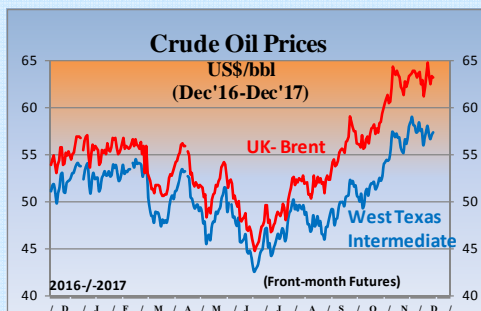
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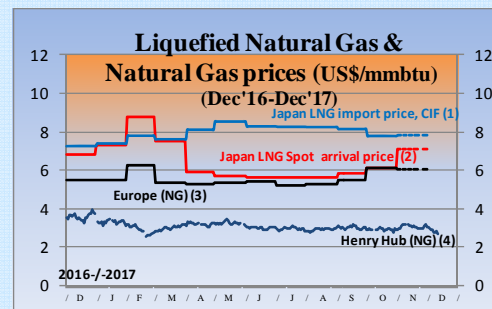
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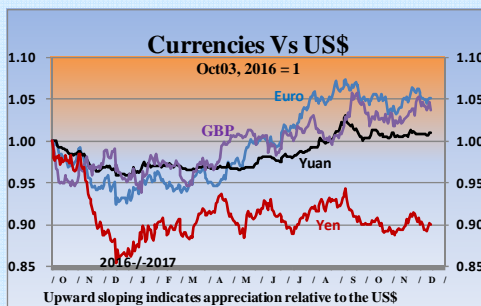


Source: DOE-EIA, NASDAQ

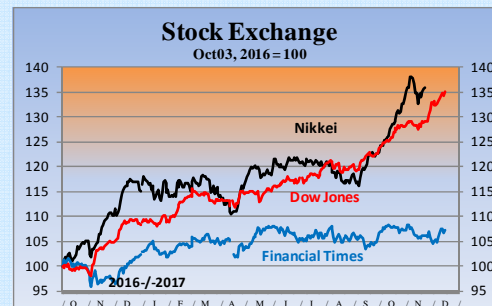


Sources:

- (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

1. US: Poor Domestic Policy Achievements and Asia Tour

With little achieved in diplomatic policy at home, the Asia tour was intended to restore popularity. Despite an extraordinary welcome for the President and huge deals with China, some in the US see little real achievement.

2. EU: Clean Mobility Package

The European Commission released a new proposal titled the Clean Mobility Package, which aims to reduce the EU fleet-wide average CO2 emissions of new passenger cars and vans by 30% by 2030, compared to 2021.

3. China: Accomplishments of the Trump Visit and US-China Summit

From November 8 to 10, US President Donald Trump visited China for the first time. China highly evaluated the summit for deepening trust between the leaders and firmly establishing the stance of US-China relations of cooperation while recognizing differences.

4. Russia: US Remains Cool toward Russia, Cancels US-Russia Summit

The US government, including major departments, remains wary of Russia, and the US-Russia Summit was cancelled at the last minute. Ahead of the presidential election, President Putin could take a hard-line stance against the US to project the image of a strong Russia.



1. US: Poor Domestic Policy Achievements and Asia Tour

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In November, the US House of Representatives passed a tax reform bill that includes lowering the corporate tax rate to 20% from the current 35%. The Senate is now deliberating a bill which would cut the corporate tax rate to 20%, but with different details. The nation is closely watching whether the Senate can wrap up the deliberations, and following adjustments in the House-Senate conference, whether the bill can pass Congress before the Christmas holidays, as President Trump had requested. The administration and Congress have already begun coordinating to submit an infrastructure bill, which is the next key topic on the agenda, once the tax bill is approved. As such, the key campaign promises of the GOP, which companies eagerly await, will face a make-or-break decision before the end of the year.

In the energy area, a memorandum signed by the President four days after inauguration restarted a review on constructing the Keystone XL pipeline, which was subsequently approved by the State Department. This was considered a major achievement, but a closer look reveals that, although the project was given delayed approval by the Nebraska State government in November, it is headed for litigation due to problems pointed out in the state's environmental assessment. Thus, the project remains uncertain and cannot yet be considered an achievement.

Further, as part of the tax reform bill, some Senate Republicans are attempting to lift the ban on the long-disputed exploration and development activities in the Arctic National Wildlife Refuge (ANWR) in Alaska. However, even if they succeed, it is likely to have little real consequence as oil companies are not particularly interested as they would immediately face environmental litigation, and development and production would be difficult.

Thus, the Trump administration has achieved little domestically, and cracks are starting to appear between the President and the Republicans in Congress, with prominent GOP Congressmen such as Senators Corker and Flake openly accusing him upon retirement. He is also losing the support of voters as the probe into Russia's election meddling in 2016 closes in on his inner circle. Amid such problems, the White House was hoping that the 12-day Asia tour from November 5 would restore his approval ratings.

In his tour of Asia, the President met the leaders of Japan, China, South Korea, and the ASEAN, with the aims of first, cementing cooperation on tougher sanctions and stronger support from China regarding the rising tensions over North Korea; second, calling for building mutually-beneficial bilateral trade frameworks to replace the TPP, which the President abandoned soon after inauguration, and third, gaining the endorsement of the international community for a "free and open Indo-Pacific region" (in other words, freedom of navigation in the South China Sea). The administration emphasized the success of this tour, in which President Trump was given a warm welcome by each country, especially in China where 250 billion dollars worth of trade and investment were agreed. However, the general view at home is that the tour produced little of substance, although the President ended the tour safely without making reckless statements that could have hurt the country's interests.



2. EU: Clean Mobility Package

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In November 2017, the European Commission released a new proposal titled the Clean Mobility Package. The Package aims to accelerate the shift to zero and low emission vehicles by setting new targets to reduce the EU fleet-wide average CO₂ emissions of new passenger cars and vans by 30% by 2030, compared to 2021.

The Package consists of six documents: (1) New CO₂ standards to help manufacturers embrace innovation and supply low-emission vehicles to the market, (2) the Clean Vehicles Directive to promote clean mobility solutions in public procurement tenders, (3) an action plan and investment solutions for the trans-European deployment of alternative fuels infrastructure such as electricity, hydrogen and natural gas, (4) the revision of the Combined Transport Directive, which promotes the combined use of different modes for freight transport (e.g. trucks, trains, and ships), (5) the Directive on Passenger Coach Services, to stimulate the development of long-distance bus routes across Europe and offer alternative options to the use of private cars, and (6) the battery initiative for the vehicles and other mobility solutions of tomorrow and their components to be invented and produced in the EU. The Package consisting of these proposals will be forwarded to the Council of the European Union and the European Parliament for deliberation.

Previously, the European Commission released a strategy for low-emission mobility in June 2016. In the strategy, the Commission outlined specific actions to take for Europe to remain competitive and to respond to the growing demand for mobility of people and things. At the same time, member countries were given clear and fair guiding principles regarding those actions. The proposed Package is based on these guiding principles, and also aims to strengthen European industry and improve its competitiveness.

The commitment of the European Commission to help Europe remain a world leader in the areas of innovation, digitalization, and decarbonization was also indicated in the New Industrial Policy Strategy released in September 2017. The Strategy points out that the EU's auto industry must recognize the importance of shifting to more sustainable technologies and new business models, and regain the trust lost due to Volkswagen's fraudulent emissions testing.

Nevertheless, the proposed Package is being criticized by both environmentalists and the auto industry. Environmentalists point out that the Package should set a quota for zero emission vehicles as well as penalties for not meeting the targets. Meanwhile, the auto industry argues that the Package is not technologically neutral, and that Europe's globally-recognized strength is in avoiding disadvantages in performance, resources, and manufacturing by combining leading-edge internal combustion engines with synthetic fuels, electrification, and battery packs. While the Package has clarified Europe's policy on expanding EVs and electrification, tough negotiations with member states and relevant industries lie ahead.



3. China: Accomplishments of the Trump Visit and US-China Summit

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From November 8 to 10, US President Donald Trump visited China for the first time. President Xi Jinping and the first lady welcomed the first couple of the United States to the more than six centuries old Forbidden City in Beijing, where they together appreciated old Chinese architecture and traditional culture. This greatest-ever welcome in the nation's history has hopefully deepened mutual understanding and trust between the two leaders. At the summit meeting, President Trump stated that there is nothing more important than the US-China relationship, described President Xi as a "very special person" at the joint press conference, and said that the summit was wonderful. The state media Xinhua News Agency and others highly evaluated the summit, saying that "important common understandings were reached in many areas regarding the new age of US-China relations (Chinese: 達成多方面重要共識)."¹ The key points are as follows.

First, the two leaders agreed to move forward the ties between the two countries which have significant influence on the entire world, having mutual interest and important responsibilities in maintaining world peace, stability, and prosperity. As the tools for deepening the bilateral ties, the leaders will continue to utilize the new framework for high-level dialogue established during their meeting in April in the four areas of (1) diplomacy and security, (2) comprehensive economy, (3) law enforcement and cybersecurity, and (4) society and culture.

Regarding the US-China trade imbalance, which is a key topic for President Trump's America First policy, China announced that it will ease regulations on foreign investment in finance such as banking and securities, and will gradually lower the automobile import tax. At the same time, China requested the US to lift restrictions on the export of high-tech products to China and halt studies on implementing trade sanctions. Most notably, the companies of the two countries signed 34 commercial agreements and investment memorandums worth a total of 253.5 billion dollars (approx. 28 trillion yen).

The deals include bulk purchases of aircraft and beef, for which China depends on imports, joint development of shale gas and LNG in the US, and joint investment by the companies of both sides in the construction of electric power grids and development of new energies and oil and natural gas in the countries and regions along the Belt and Road. Addressing this mega deal, President Trump said that he "does not blame China" for the trade deficit but "actually does blame the past [US] administrations," thus ending his hard-line policy against China. Professor Zhao Lei of the Central Party School of the Communist Party of China (which trains party officials) said that this mega deal shows that the scope of bilateral cooperation is expanding from economics and trade to investment in development and financial services, and from the two countries to the Belt and Road, sending a clear signal that the cooperation will deepen going forward.²

Regarding North Korea, which is a major concern for Japan, the two leaders agreed to not acknowledge North Korea as a nuclear state, to continue applying economic pressure, and to fully implement the UN Security Council sanctions. However, while the US asked China to apply more pressure, China merely emphasized its traditional standpoint of "peace and stability on the Korean Peninsula and peaceful resolution through dialogue and negotiation." China highly valued the summit for firmly setting the tone of US-China relations to cooperate while recognizing differences.

¹ For instance, see http://us.xinhuanet.com/2017-11/09/c_1121931994.htm.

² For instance, refer to http://us.xinhuanet.com/2017-11/10/c_129738057.htm.



4. Russia: US Remains Cool toward Russia, Cancels US-Russia Summit

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The US government, including major departments and executive offices, remains wary of Russia. On October 5, The Wall Street Journal reported that in 2015, Russian hackers stole classified information from a National Security Agency (NSA) worker using antivirus software from Kaspersky, a Moscow-based cybersecurity company. On October 25, Kaspersky released an interim report on an internal investigation and said that the information leakage was caused by inappropriate use of its antivirus software by a certain worker, denying intentional involvement by the company. In September 2017, the Department of Homeland Security decided to remove all Kaspersky antivirus software from government computers. As of November, the truth has not been confirmed.

Based on the Countering America's Adversaries Through Sanctions Act (adopted in August), on October 27, the State Department submitted to Congress a list of 39 organizations that have connections with Russian intelligence agencies and national defense authorities, including the Federal Security Service (FSB), Service of the External Reconnaissance of Russian Federation (SVR), and Main Intelligence Directorate of the General Staff (GRU). Individuals and groups that engage in "major transactions" with these organizations may be subject to sanctions starting from January 2018. Russia is eager to sell weapons to US allies such as Turkey and Saudi Arabia, but as the list includes many major Russian weapon producers and exporters such as Rosoboronexport and Kalashnikov Concern, business may be affected if buyers become concerned about the effect of Russian sanctions. Further, on October 31, the Office of Foreign Assets Control (OFAC) issued an amended directive which prohibits US companies from exporting, re-exporting, or providing, directly or indirectly, any services (except for financial services) in support of exploration or production for deepwater, Arctic offshore, or shale products to Russian oil companies.

The US-Russia summit scheduled for November 10 during the APEC Summit (Danang) was cancelled at the last minute. Before the summit, it was expected that President Putin would seek to use Russia's clout on North Korea as a bargaining chip to negotiate over Ukraine with the US (Russian newspaper Vzsglad). The alleged reason for the cancellation is that President Trump was willing to have the summit, but could not overcome those within the government who were advising caution. Meanwhile, on November 15, President Putin discussed the Syria issue with the leaders of Turkey and Iran in Sochi. Further, President Assad of Syria had unexpectedly visited President Putin the previous day, the 14th, and the series of moves highlighted the presence of Russia in the Middle East.

Regarding the Russian economy, on November 13, the GDP figures for July-September 2017 were announced, showing a year-on-year increase of 1.8% (preliminary report of the Federal State Statistics Services). Growth has slowed somewhat from 2.5% in the previous term, but remained positive for the second consecutive term. With oil prices in the higher \$50 range, exceeding the base oil price for this year's government budget (average price of US\$40/bbl for Urals oil), the trend will benefit President Putin in the 2018 presidential election if it continues. The President, wishing to give an impression of a strong Russia to the public, may also give up on the indecisive Trump administration and toughen Russia's policy toward the US. Future developments must be watched closely.



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