



# IEEJ e-NEWSLETTER

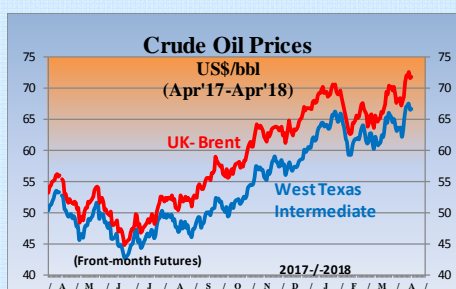
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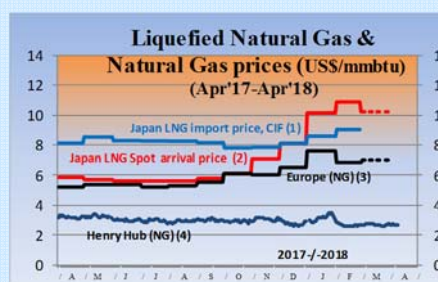
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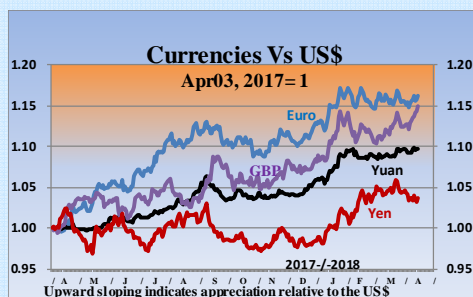


Source: DOE-EIA, Financial Times, NASDAQ

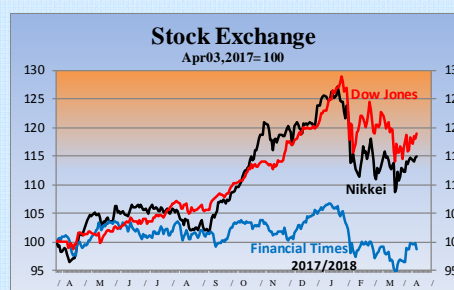


Sources:

- (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: Trump Administration's Foreign Policy in Turmoil**

Following dismissals of the Administration's key figures, State Secretary, National Security Adviser, etc., its hawkish stance on foreign and trade policies may exacerbate internal and external chaos toward the forthcoming midterm election in autumn 2018.

#### **2. EU: Germany's Government Formed Six Months after Election**

The German federal parliament reelected Chancellor Merkel. Europe has gained a certain measure of political stability, although an anti-EU political party is enjoying success in Italy. Attention must be paid to the efforts of France and Germany to reform the EU.

#### **3. China: Overall Energy Policy Targets for 2018**

The National Energy Administration (NEA) announced numerical targets for 2018 for such issues as controlling the total amount of energy consumption, decarbonizing the energy mix, and energy efficiency. Attention must be paid to the pace of nuclear new builds which slowed last year.

#### **4. Russia: President Putin Faces Innumerable Issues despite Being Reelected**

There is no end in sight to the tension between the US and Russia, with the latter facing off against Britain and European countries after the attempted assassination of an ex-spy. President Putin will have difficult decisions to make as he extends his reign with the reelection.



## 1. US: Trump Administration's Foreign Policy in Turmoil

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

On March 8, President Trump signed an executive order to impose tariffs of 25% on steel and 10% on aluminum, citing "national security threats." This action has drawn fire from the international community including allies for potentially triggering a trade war. On March 6, the White House announced the resignation of Gary Cohn, Director of the National Economic Council, a free trade advocate. Although which countries will be subject to the import restrictions are allegedly to depend on the outcome of negotiations, Canada and Mexico as parties to the NAFTA (North American Free Trade Agreement) renegotiation have already been exempted, and negotiations are under way with the EU, Australia, Argentina, and South Korea according to the March 21 announcement by US Trade Representative Robert Lighthizer. Japan has not yet been exempted.

The 2018 Trade Policy Agenda and 2017 Annual Report, released by the Office of the United States Trade Representative (USTR) on February 28, clearly demonstrates a policy to link economic issues with national security. The document identifies five core pillars of the Trump Administration's policy: (1) reinforcing US national security, (2) strengthening the US economy, (3) negotiating harder to reach better trade deals, (4) aggressively enforcing US trade laws, and (5) reforming the multilateral trading system. Reportedly, the steel and aluminum import restrictions are originally intended to target China. Further, on March 22, President Trump signed an executive memorandum to prepare for imposing retaliatory tariffs of up to \$60 billion on Chinese imports on account of violations of intellectual property rights.

On March 8, immediately after meeting Chung Eui-yong, Director of South Korea's National Security Office who visited the United States after the meeting with Kim Jong-un, Chairman of the Workers' Party of Korea in Pyongyang, President Trump announced his intention to hold a US-North Korea summit meeting by the end of May 2018. Many expect it to be difficult to hold such a meeting, including whether North Korea would be ready to compromise to US demands to give up its nuclear arms. Some even believe that the United States may be more likely to seek a military solution, depending on North Korea's reaction. On March 13, the President announced the dismissal of State Secretary Rex Tillerson, who had advocated a diplomatic solution, and replaced him with CIA Director Mike Pompeo, a known hard-liner against North Korea – yet to be confirmed by Congress. He also dismissed National Security Advisor Herbert McMaster on March 22 and appointed John Bolton, former US ambassador to the UN, who has been calling for a preemptive attack on North Korea. Together with the economic sanctions, these appointments are likely to make US diplomacy even more hard-line.

At the congressional district special election in Pennsylvania on March 13, a Republican candidate was defeated again in a district where Mr. Trump had won big in the 2016 presidential election, following the West Virginia gubernatorial election in November 2017 and the congressional district special election in Alabama in December 2017. As his approval rating flounders, the Trump Administration might rush to reap "achievements" in foreign affairs and trade negotiations ahead of the midterm election in November 2018. Uncertainties as regards would-be results of such an approach, however, are looming in all directions.



## 2. EU: Germany's Government Formed Six Months after Election

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

On March 14, the German federal parliament reelected Chancellor Angela Merkel for her fourth term. The Christian Democratic Union of Germany / Christian Social Union in Bavaria (CDU/CSU) led by the Chancellor and the Social Democratic Party of Germany (SPD), the second party, are due to continue the grand coalition the same as before the election to govern the country. The political vacuum since the general election in September 2017 has ended, but the ruling party's approval rating has been falling since the election. Heated arguments are expected in the federal parliament, where the third-ranking ultra-right wing party Alternative for Germany (AfD) has become the leading opposition party.

As the grand coalition has been formed, there will be no major shift in Germany's energy policy. The coalition agreement between CDU/CSU and SPD states that Germany will continue to pursue the energy transition and boost renewable energies through the market mechanism, raise the share of renewables in total power generation to 65% by 2030, and modernize its power grid.

Regarding the power grid, an interesting investigation has begun. On March 19, the European Commission launched a formal investigation to determine whether the imposition of capacity limits on the interconnector between Western Denmark and Germany by German transmission company TenneT violates the EU antitrust rules. Although the details are not yet clear, a possible intermittent suppression of capacity of the interconnector from western Denmark, which is part of the Continental European grid, to Germany has been pointed out. European Commissioner for Competition Margrethe Vestager, who is in charge of competition policy, has said that the investigation of TenneT is part of the European Commission's effort to ensure that transmission operators do not unjustly limit the flow of electricity among member states. The result of the investigation, together with the progress in modernization of Germany's power grid, must be monitored.

With the start of the Merkel government in Germany, Europe has gained a certain measure of political stability. Chancellor Merkel visited France immediately after taking office to meet President Emmanuel Macron to confirm their bilateral ties in reforming the EU. At a joint press conference, the President announced that a roadmap for reforms will be presented on the Eurozone, refugee policies, and defense by June. Meanwhile, in the Italian general election, the anti-EU Five Star Movement made great gains to become the second party. Further, in the center-right coalition which holds the most seats in both houses of parliament, the anti-EU ultra-right wing party League is a co-leader in the number of votes won. The coalition negotiation is expected to be difficult, however, as some forces in the center-right coalition oppose joining hands with the Five Star Movement. While Germany has achieved political stability, the continued success of forces opposing deeper integration of the EU requires careful attention.



### 3. China: Overall Energy Policy Targets for 2018

**Li Zhidong**, Visiting Researcher  
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At the end of last year, the National Energy Administration (NEA) held a national energy meeting to analyze the supply and demand situation of energy, check the progress of the annual plan, and discuss measures for 2018. Based on the results of the meeting, the NEA announced the “Guiding Opinions on Annual Energy Development in 2018” on February 26.

According to preliminary statistics, GDP growth in 2017 was 6.9%, exceeding the minimum requirement of 6.5%. Meanwhile, energy consumption per unit GDP (energy-GDP intensity) decreased by 3.7% but did not reach the annual target reduction of at least 5%. Consequently, primary energy consumption increased by 2.9% to 4.49 billion tce (tonnes of coal equivalent, 1 tce =  $7 \times 10^6$  kcal), exceeding the control target by as much as 90 million tce. In terms of energy sources, coal consumption increased by 0.4% to 2.71 billion tce (first annual increase in four years), but its share in primary energy consumption decreased to 60.4%, down 1.6 points. In contrast, oil consumption increased by 5.5% to 840 million tce and its share rose to 18.8%, up 0.5 points; natural gas consumption increased by 14.8% to 320 million tce and its share rose to 7.1%, up 0.7 points; and non-fossil fuel consumption increased by 5.7% to 610 million tce and its share rose to 13.7%, up 0.4 points (including 8.4% for hydropower, 3.5% for renewables excluding hydropower, and 1.8% for nuclear power).

Behind this steady progress in the decarbonization of the consumption structure was the acceleration of replacement of coal by natural gas and growth in non-fossil electricity sources. With the last-minute rush to achieve the Atmospheric Pollution Prevention Action Plan, which began in 2013 and 2017 was its final year, coal boilers distributed nationwide as well as residential coal heaters in the heavily air polluted suburbs of Beijing and Tianjin in the north and in rural villages were replaced rapidly with gas appliances. According to experts, replacing with gas heaters alone boosted gas demand by approx. 11 billion  $m^3$ . Meanwhile, non-fossil power sources also expanded significantly, its percentage in all electricity sources increasing by 2.1 points to 38.7% of capacity and by 1 point to 30.4% of electricity generation.

The NEA set overall targets for 2018 of keeping the primary energy consumption at 4.55 billion tce or lower, up only 60 million tce year-on-year, and reducing GDP-energy intensity by at least 4%. For decarbonizing the consumption structure, it set targets of reducing the share of coal by approx. 1.4 points to 59%, increasing natural gas by 0.4 points to 7.5%, and increasing non-fossil energies by approx. 0.6 point to 14.3%. The NEA seeks to ensure a stable supply of gas, which became the key issue from last year, by enhancing pipeline transportation capacity, interconnecting pipelines, and strengthening the coordination among operators and among natural gas, LNG, and coal gas, while expanding production and imports and increasing storage capacity. Regarding the development of electricity sources, it set the targets of closing at least 4 GW of low-efficiency coal-fired thermal power capacity while putting 6 GW and 1.5 GW of hydropower and biomass power into operation, respectively, and constructing 25 GW of wind power and putting 20 GW into operation. For solar PV, which increased greatly last year, the guidelines set no overall target but stated that new capacity of 15 GW will be permitted under a project to eradicate poverty.

For nuclear power (37 units with 35.82 GW in operation in 2017), the NEA aims to put five new units totaling 6.40 GW including imported third-generation reactors, the AP-1000 (two units) and EPR-1750 (one unit), into operation, while starting six to eight new plants construction. Similar targets were set last year, but in reality, only two new domestic advanced second-generation reactors totaling 2.18 GW went into operation, with no new plants construction started. Attention must be paid to whether the plan to construct six to eight new plants will be achieved this year.



#### **4. Russia: President Putin Faces Innumerable Issues despite Being Reelected**

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

President Putin delivered his annual state-of-the-nation address on domestic and foreign policy on March 1 instead of the usual December. The aim was to present "a strong Russia" to the public by displaying its advanced nuclear weapons and warning Western countries. Mr. Putin was reelected in the presidential election held on March 18, winning 77% of the votes (announced by a government research agency). From the start he had been expected to be reelected, due in part to the lack of serious competitors. With the win, the President will be in office until 2024 in a 24-year reign since 2000 including his time as Prime Minister.

However, unlike during his first and second terms (2000-2008), Russia is facing severe difficulties: strong economic growth supported by oil production hikes and high oil prices cannot be expected, tensions with the West are worsening due to economic sanctions, and the country is struggling to reduce its dependence on oil and gas and to diversify its economy. The Administration will have to make difficult decisions in both domestic policy and foreign relations during the fourth term.

With no end in sight, the US-Russia confrontation threatens to further impact the energy business. On February 28, US Exxon Mobil announced its withdrawal from the oil development joint venture with Russia's state-run Rosneft in the Black Sea and the Arctic. Exxon Mobil foresees a loss of approx. 200 million dollars (after tax) associated with the withdrawal. The two companies had signed a comprehensive strategic agreement on joint exploration in August 2011; Rosneft will continue the business by itself. In May 2014, the US government had determined that Exxon Mobil's agreement on eight oil and gas development deals with a sanctioned Rosneft executive was illegal, and imposed a 2 million dollar fine on July 20, 2017. Meanwhile, Exxon Mobil will remain as the project operator for the unsanctioned Sakhalin-1 in Far East Russia.

On March 15, the Homeland Security Department and FBI jointly released a report on Russia's cyberattacks, and warned that nuclear power plants and power grids, water treatment facilities, air transportation facilities and other important infrastructure in the US are facing broad cyberattacks by Russian hacker groups. It is the first time that US authorities have officially acknowledged the ongoing attacks on key infrastructure. However, the degree of success of the attacks was not clarified. On the same day, the US Treasury Department added five organizations, including the Federal Security Service of the Russian Federation (FSB) and the Main Intelligence Directorate of the General Staff (GRU), and 19 individuals to the economic sanctions list.

Relations are unlikely to improve with Europe either, particularly the UK. In early March, Sergei Skripal, a former double spy for Russia and Britain, was found in critical condition in Salisbury in Southern England. The British authorities determined that the nerve agent novichok, which was developed by the former Soviet military, was used. On March 14, the British government announced plans to expel 23 Russian diplomats from the country; Russia is considering retaliatory measures. In a joint statement released on March 15, the next day, the UK, Germany, France, and the US expressed their view that the attempted assassination of the Russian ex-spy is a threat to the security of Western countries, and are taking a strict stance toward the Russian government.



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