



# IEEJ e-NEWSLETTER

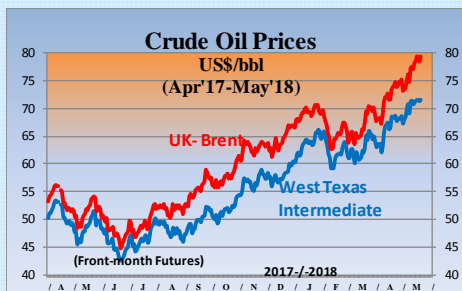
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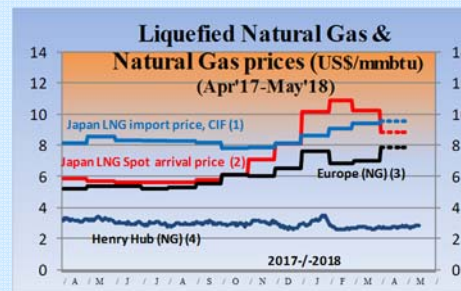
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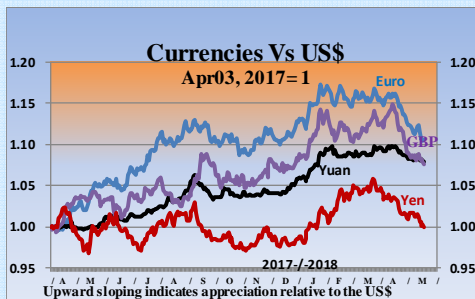


Source: DOE-EIA, Financial Times, NASDAQ

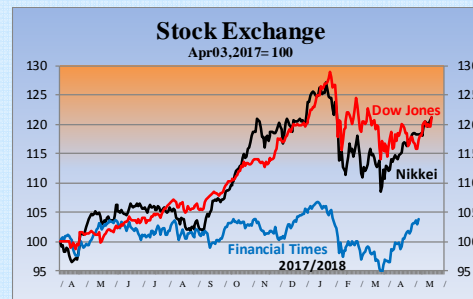


Sources:

- (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: President Trump's Hard-line Stance on Trade Policy**

Amid growing concern in the US over the impact of a trade war with China, the Trump administration is stressing the importance of boosting bilateral talks with Japan, which, however, supports the TPP.

#### **2. EU: Diversifying Sources of Natural Gas Supplies**

Securing stable gas supplies is a short- to medium-term priority for the EU. Lithuania took measures to expand LNG imports from the US while the Netherlands decided to eventually phase out domestic gas production.

#### **3. China: Soft and Hard Approaches toward US Trade Friction and Economic Sanctions**

President Trump's sanctions have taken effect. China is responding with both soft and hard measures, saying it will fight to the end if challenged but keeping the door open for dialogue and negotiation.

#### **4. Russia: Worsening Relations with the West Extending to Gas and Power**

The worsening relations with the West are starting to affect Russia's new gas and power businesses. Germany has demanded clarification of Ukraine's role as a transit country. The future of Nord Stream 2 is also in doubt.



## 1. US: President Trump's Hard-line Stance on Trade Policy

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

On March 22, President Trump signed an executive order pursuant to Section 301 of the Trade Act, imposing an estimated 50 billion dollars of additional tariffs on Chinese products and limiting investments by Chinese firms in the United States as a penalty for violating intellectual property rights. The United States Trade Representative (USTR) report that led to the executive order refers to four methods employed by China: (1) transfer of technologies (including EVs and other new energy vehicles) by restricting investment by foreign firms, (2) practice of discriminatory technology transfer agreements against US companies, (3) acquisition of US companies to obtain cutting-edge technologies, and (4) cyber-attacks against US companies. On April 3, the USTR released a proposed list of some 1,300 products (including semiconductors, industrial robots, automobiles, and communication satellites) subject to a 25% additional levy.

On April 2, China announced higher duties on 128 American products (including pork and wine) in retaliation for the steep tariffs on steel and aluminum imposed by the US on March 8 pursuant to Section 232 of the Trade Expansion Act. On April 4, China announced further tariffs on 104 American products (including major export products such as soybeans and beef) in retaliation for the new sanctions list that the USTR released the previous day.

The items on the US' sanctions list are due to be finalized in June or later based on the results of public hearings and public comment. However, these protectionist moves are fueling concern over the impact of China's retaliation on the local economy among many, including lawmakers of agricultural Midwestern states, which are a stronghold of the Republican Party.

As President Trump demands that China reduce its 375.2 billion dollar trade surplus with the US by 100 billion, US LNG exports to China, now the world's second largest LNG importer after Japan after surpassing South Korea in 2017, are increasing. China imported 1.53 million tonnes of US LNG in 2017 (4% of China's overall LNG imports and 2.2% of natural gas imports), and the US share grew to 8.4% of China's LNG imports as of February 2018. Incidentally, China and Japan each account for 15% and 8% of US LNG exports, respectively, as of 2017.

On April 18 and 19, a Japan-US summit was held at President Trump's Mar-a-Lago estate in Palm Beach, Florida, and the countries agreed to "establish a new framework for economic talks focusing on free, fair and reciprocal trade." At the joint press conference, President Trump stated that the talks should aim for a bilateral FTA (free trade agreement) even though he had ordered his staff to explore the possibility of returning to the TPP (Trans-Pacific Strategic Economic Partnership Agreement) under better terms for the US. Though the countries have agreed to establish a new bilateral-talk framework between Toshimitsu Motegi, Minister in charge of Economic Revitalization, and US Trade Representative Robert Lighthizer, Japan will face new challenges in adhering to its basic principle of maintaining the TPP.



## 2. EU: Diversifying Sources of Natural Gas Supplies

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

The 4th EU Energy Summit was held on April 12. At the opening, Miguel Arias Canete, Commissioner for Climate Action & Energy, said that reducing the dependence of the EU economy on fossil fuel imports is key to its medium- to long-term energy resilience, and in particular, natural gas must be imported from various suppliers offering competitive prices in the short- to medium-term.

Several diversification initiatives were mentioned as positively affecting the EU's supply stability, including the Southern Gas Corridor which transports natural gas directly to Europe from the Caspian Sea and the cooperation with Egypt regarding the natural gas resource discovered in the eastern Mediterranean Sea, as well as the rapid expansion of the LNG market. The European Commission has particularly welcomed US LNG, with Spain, Portugal, and Lithuania importing US LNG in 2017. Incidentally, in Lithuania, Lietuvos Dujos Tiekimas (LDT), a member of the state-run Lietuvos Energija group, signed a memorandum with US Freeport LNG. LDT procured LNG from US Cheniere's Sabine Pass in 2017, and the memorandum signed with Freeport LNG paves the way for importing more American gas in the future.

There has been another major change in Europe regarding natural gas. In March, the Dutch government announced that it would eventually phase out gas production from its Groningen gas field, one of the largest in Europe. The government indicated plans to reduce production to 12 Bcm by October 2022, then to 7.5 Bcm, and eventually down to zero in the following few years. The government had already decided in November 2015 to limit annual output to 27 Bcm due to earthquake concerns, and made a further decision in June 2016 to reduce it to 24 Bcm over five years from October 2016. The current limit is 21.6 Bcm for an average year. The government's production limit had been regarded as insufficient by local residents and environmental groups, and had led to lawsuits. Accordingly, the government considered that the consequences of gas exploration are no longer socially acceptable, and thus decided to eventually terminate production.

With this gas production cut, the Netherlands has been increasing pipeline imports from Norway and Russia, as well as LNG imports. Commissioner Canete commented that Russia will remain a valuable energy supplier for the EU in the short term, but it is important for Russian energy supplies to be exposed to competition with other suppliers. The EU's efforts to diversify supplies while ensuring supply stability must be closely monitored, together with the Gas Directive amendment currently being deliberated in the European Parliament and the Council of the EU.



### **3. China: Soft and Hard Approaches toward US Trade Friction and Economic Sanctions**

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

With the constitutional amendment in March, China made the decision to become a "great modern socialist country" with the world's greatest national strength and international influence by mid-century. As part of the effort, the administration of Xi Jinping, who now has the power to rule long-termly, is reinforcing measures to upgrade the country from a "major manufacturing country" to a "manufacturing powerhouse" based on the China Manufacturing 2025 report (created in 2015), while pursuing reforms and opening up. Meanwhile, US President Donald Trump imposed trade sanctions against China ahead of the US mid-term election in November. The Chinese government is responding with both soft and hard approaches, stating that China will fight to the end if the US continues to follow its errant path, but the door for dialogue and negotiation remains open (Wang Shouwen, Vice Minister of Commerce, April 4).

Starting on March 23, the US has imposed additional import tariffs of 25% on steel and 10% on aluminum from China and other countries based on Section 232 of the Trade Expansion Act. In response, China announced that it will impose tariffs of up to 25% on 128 American goods including pork from April 2. Furthermore, on April 3, the Trump administration announced an additional tariff of 25% on 1,300 Chinese products including industrial robots worth 50 billion dollars (approx. 5.3 trillion yen) in total, stating that China has infringed on intellectual property rights of US corporations. The following day, China announced an additional 25% tariff on 106 American goods including soybeans, beef, automobiles, and aircraft worth the same amount. Despite the back-and-forth retaliation, President Xi announced an easing of foreign investment regulations and reinforcement of intellectual property rights protection on April 10 at the Boao Forum for Asia. While both policies had already been established, accelerating their implementation was a gesture to compromise with the US to avoid a trade war through both soft and hard tactics.

One of the pillars for reducing the US trade deficit with China is to increase American LNG exports to the country. According to statistics from China, LNG imports from the US have soared from 60,000 tonnes in 2016 to 1.53 million tonnes in 2017. This year, imports had already reached 766,000 tonnes by February, 2.8 times that of the same period last year, accounting for 8.4% of total LNG imports. As the US is eager to sell and China to buy, exports to China are likely to keep increasing. This is evidenced by the long-term export contract for 1.2 million tonnes of LNG signed between the major US LNG company Cheniere Energy and the Chinese state-owned energy firm CNPC in February based on the memorandum signed by President Trump when he visited China last November. Meanwhile, in China, the 6% resource tax on domestic shale gas development was lowered to 4.2% from April. However, the momentum of expanding exports could wane if gas prices in the US, which affect the supply cost of American LNG, rise or China's domestic shale gas output increases while the trade friction persists.

The US-China trade friction is not inconsequential for other countries and could be particularly important for Japan, as the two countries are Japan's biggest export partners. According to data from the Ministry of Finance, Japan's total exports were 79.2219 trillion yen for FY2017, with exports to China and the US at similar levels with 15.1871 trillion yen and 15.1819 trillion yen, respectively. Should it intensify, the US-China trade friction could erode Japanese exports through a decrease in the two countries' exports and the resulting economic slowdown. Japan's response to American trade protectionism must be closely monitored.



#### **4. Russia: Worsening Relations with the West Extending to Gas and Power**

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

According to the IEA, Russia's oil production (oil and natural gas liquids: NGL, etc.) increased by 10,000 b/d from the previous month to 11.35 mb/d in March 2018. This was achieved by raising the production of natural gas in response to domestic gas demand and exports, which also pushed up NGL output, while oil output remained flat. While 50,000 b/d short of the target production cut of 300,000 b/d agreed with OPEC in December 2016, Russia remains inclined to reinforce diplomatic relationships, discussing long-term bilateral relationships and the establishment of an organization for OPEC and non-OPEC countries with Saudi Arabia while continuing to cut production with OPEC.

Meanwhile, the relationship between the West and Russia continues to deteriorate. On April 6, the US Treasury Department newly added 24 individuals and 14 oligarch (emerging business conglomerates) firms and other organizations to the Specially Designated Nationals And Blocked Persons List (SDN List) over Russia's involvement in the cyber-attack during the 2016 US presidential election, invasion of the Crimean Peninsula, and supporting the Assad administration. Among the 24 individuals on the SDN list are seven oligarchs, including President Vladimir Putin's close associate Oleg Deripaska, and senior government officials. This move is based on the Countering America's Adversaries Through Sanctions Act enacted last August, and includes a freeze on assets in the United States, a ban on traveling to the US, and prohibition of business transactions with the sanctioned individuals and organizations. The latest additions to the SDN list include Alexey Miller, CEO of Gazprom, and Mr. Deripaska who owns energy-related company En+ and major aluminum company Rusal under it. Considering that Exxon Mobil was punished by the US Treasury Department in July 2017 for doing business with Rosneft President Igor Sechin (added to the list in 2014), Western companies will now be reluctant to do new business with the aforementioned Russian companies in the Gazprom-led Nord Stream 2 project and the transmission network initiative by En+.

At the end of March, 19 of the 28 EU countries commenced various types of sanctions, including evicting diplomats. Further, on April 10, German Chancellor Angela Merkel said in a joint press conference in Germany with Ukrainian Prime Minister Petro Poroshenko that the construction of Nord Stream 2 will not be allowed unless Ukraine's role as a transit country is clarified, toughening her stance. This was the first time for the German government, which thus far had denied any politics associated with Nord Stream 2 and maintained that the project is purely economic, to acknowledge the need for political consideration. Russia's Interfax reported that the Russian government had wrongly assumed that EU countries would never act upon the call for sanctions by Britain, which is due to leave the EU.

On April 14, President Putin condemned the US-UK-France airstrikes on Syria as a clear violation of international law. Further, in retaliation for the toughened US sanctions against Russia and the airstrikes on Syria, the Federal Assembly of Russia began to deliberate a bill to ban the import of designated goods and services from the US, deny designated US persons entry to Russia and limit their employment, restrict economic cooperation, and suspend US-Russia cooperation in nuclear energy. While the West and Russia drift further apart, a Japan-Russia Summit will be held at the end of May. The circumstances surrounding Russia must be closely watched.



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