



IEEJ e-NEWSLETTER

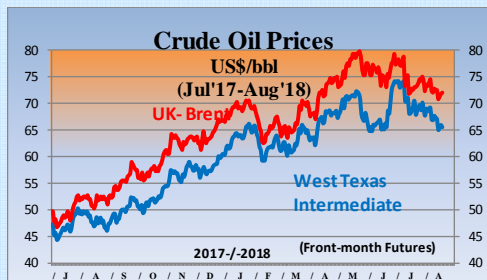
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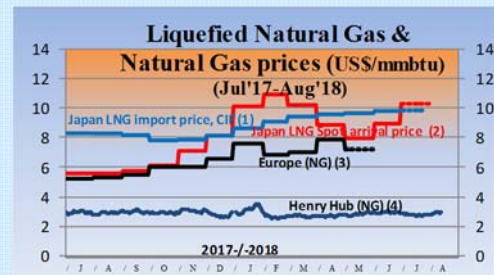
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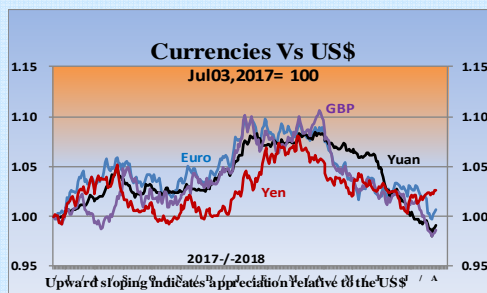


Source: DOE-EIA, Financial Times, NASDAQ



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

Contents

【World Monitoring】

Summary

1. US: US Oil and Natural Gas Exports and the Trade War
2. EU: US-Europe Trade War
3. China: Escalating US-China Trade War and Its Impact on Oil and LNG Trade
4. Russia: A Faint Hope for a Breakthrough Dashed by the US-Russia Summit



Summary

【World Monitoring】

1. US: US Oil and Natural Gas Exports and the Trade War

If the US and China fail to strike a deal and the trade war escalates, it will seriously threaten the global economy and will impose significant downward pressure on oil and LNG prices.

2. EU: US-Europe Trade War

While the US and the EU remain at odds over trade, both are excluding energy from the scope of their additional tariffs. Prospects for the Brexit talks look bleak as the British government descends into turmoil.

3. China: Escalating US-China Trade War and Its Impact on Oil and LNG Trade

A US-China trade war has materialized. As the battle lines threaten to stretch, China has launched a game of endurance. US oil exports to China are likely to plummet. US LNG exports to China may also be affected.

4. Russia: A Faint Hope for a Breakthrough Dashed by the US-Russia Summit

The US-Russia Helsinki Summit garnered a global attention. President Trump's words at the joint press conference further stiffened the US hard-liners against Russia, while the Russian mass media reported it as "a victory for Russia."



1. US: US Oil and Natural Gas Exports and the Trade War

Tetsuo Morikawa, Senior Economist, Manager
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As of 2017, the United States is the world's largest producer of oil (crude oil and NGL) and natural gas. As of May 2018, shale oil and shale gas, which have driven the increase in US oil and gas production, account for 39% of the country's oil output at 5.77 mb/d and 67% of the natural gas output at 1.7 billion m³/day. Since the lifting of the ban at the end of 2015, US oil exports have more than quadrupled, reaching 1.76 mb/d in April 2018. As to natural gas, the US is already the fourth largest exporter after Russia, Qatar, and Norway. US exports to Asia account for 33% (580 kb/d) and 19% (200 million m³/d or 40,000 tonnes of LNG equivalent/day) of its oil and natural gas exports, respectively. While US crude and LNG account for a limited share of Japanese imports of only 1% and 2%, respectively, for January to May 2018, the share of US LNG is projected to rise as long-term contracts with Japanese companies are starting to commence full-scale.

In Asia, China is the largest importer of US crude and the second largest importer of US LNG after South Korea, importing 0.3 mb/d of crude and 1 million tonnes of LNG in January to April 2018. With the US-China trade war intensifying since March 2018, attention is now focused on its impact on the oil and natural gas sectors. For instance, the 25% additional tax imposed on steel from March 8 may increase the cost of upstream development in US through higher prices for pipes and drilling rigs.

The US imposed a 25% additional tax on approximately \$34 billion worth of Chinese goods on July 6 and will most probably do so on an additional \$16 billion worth in August. It has published a list of additional tariffs on approximately \$200 billion worth of goods, which are rumored to be imposed in September. Further, on July 20, President Trump said that he is prepared to impose additional tariffs on \$500 billion worth of Chinese goods, which almost equals the entire amount of Chinese imports to the US. In response, China imposed a 25% tariff on some \$34 billion worth of US goods on July 6, and additional \$60 billion on August 3. These tariffs cover crude, LPG, coal, and LNG.

American oil accounts for only about 2% of China's imports and it will be possible to find alternative sources. Meanwhile, American LNG accounts for just 4% of China's imports. If the US and China fail to strike a deal and the trade war escalates, it will pose a tremendous risk to the global economy and will put significant downward pressure on oil and LNG prices.



2. EU: US-Europe Trade War

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Global Energy Group 1, Strategy Research Unit

In response to the tariff measures taken by the United States, the European Union has already appealed to the WTO and is imposing additional tariffs. So far, the EU has not imposed additional tariffs on LNG or other energies. On July 19, the EU invoked provisional safeguards to prevent an influx of steel into the EU as a result of the US' measures. The safeguards set a quota for each of the 23 steel products based on the average imports for the last three years and impose a 25% tariff on any amount exceeding the quota.

European Commission President Jean-Claude Juncker visited the United States with European Commissioner for Trade Cecilia Malmstrom on July 25 to meet with President Trump. At the summit, the leaders agreed to work on eliminating trade barriers for industrial products excluding automobiles, to lower them for the service sector, pharmaceuticals, and medical products, and to refrain from imposing any new tariffs while negotiations are under way. The agreement will not resolve the stand-off between them immediately, but the EU member states welcomed the expression of intention to ease the trade war. Further, President Trump said that the EU had agreed to import more American LNG and reduce non-tariff barriers for soy, and expressed hope for greater LNG exports to Europe. Meanwhile, the EU and Japan met for a regular summit in Tokyo where the leaders signed the Japan-EU Economic Partnership Agreement and the Strategic Partnership Agreement. The future of the economic partnership between Japan and the EU will be closely monitored.

Although the US and the EU remain at odds over trade, they continue to cooperate in energy. On July 12, the Eighth US-EU Energy Council meeting was held in Brussels. The meeting discussed the modernization, development and resilience of energy infrastructure, including the importance of protecting critical infrastructure through cybersecurity; clean energy innovation and other technology cooperation; and engagement with industry. The meeting, the first under the Trump administration, encouraged the working groups under the Energy Council to reconvene soon to further advance the US-EU cooperation.

One of the trade issues involving Europe is the Brexit talks under way between the EU and Britain. There is increasing concern as to whether the Withdrawal Agreement, which is the basis for discussing the future of the EU and Britain including trade, will be finalized by the deadline. On July 19, the European Commission adopted a policy paper regarding preparations for all outcomes of Britain's withdrawal from the EU. The Communication presents two main scenarios, one in which the Withdrawal Agreement is ratified before March 30, 2019 and one in which it isn't, and calls on Member States and private parties to step up preparations at all levels and for all outcomes. In Britain, Brexit Secretary David Davis and Foreign Secretary Boris Johnson resigned in succession as they opposed Prime Minister Theresa May's Brexit proposal issued in early July. The chief negotiator for the EU, Michel Barnier, had a talk with Mr. Davis' successor Dominic Raab and once again stressed the importance of finalizing the Withdrawal Agreement, which provides the foundation for the withdrawal, the transition period and the future relationship.



3. China: Escalating US-China Trade War and Its Impact on Oil and LNG Trade

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The fierce dispute between the United States and China since the beginning of April over the introduction of additional tariffs and retaliatory duties is no longer mere diplomatic bargaining. On July 6, the US invoked sanctions to impose an additional tariff of 25% on \$34 billion worth of Chinese goods, in response to which China imposed additional tariffs of the same rate on US goods of the same value. A trade war between the US and China has thus become a reality. Four days later, on July 10, the US announced that it will impose an additional 10% tariff on another \$200 billion worth of Chinese goods. As the battle lines threaten to lengthen, China has commenced a game of endurance by mobilizing the entire country.

At the forefront of the battle, the Ministry of Commerce commented on July 11 that “China is forced to take counteractions,” and on July 12, justified such actions as “an inevitable choice to defend national interest and global interest.” However, the details of China’s “comprehensive quantitative and qualitative measures” are yet to be unveiled despite the attention of the US and the international community. The government is taking time to determine the most appropriate measures and the best timing for announcing them, while monitoring the impact of the first phase of tariffs on \$34 billion worth of goods and the decisions by President Trump, whose actions and words are not always consistent.

Preparations for fighting the game of endurance are in full swing. The government is increasing soy imports from Latin America and Central Asia to make up for the drop in imports from the US, while also stepping up domestic production. A think-tank under the National Grain and Material Reserve Bureau projects that domestic soy production will reach 15.8 million tonnes, up 10.5% year-on-year and the highest since 2006. Further, President Xi Jinping convened the CPC Central Comprehensively Deepening Reforms Commission (July 6) and the Central Financial and Economic Affairs Commission (July 13) which he leads and took decisions to advance reforms and opening-up, expand domestic consumption, promote the development of core technologies, and enhance the protection of IP rights.

Extensive diplomatic efforts are also being made. In addition to filing litigation with the WTO against the US, the Chinese government is using any and all diplomatic occasions to cause a growing wave of opposition against the unilateral protectionist actions of the US. For instance, Prime Minister Li Keqiang issued joint statements with 16 Central and Eastern European countries (July 9) and with Germany (July 10) during his visit to Europe and with the EU (July 16) during the China-EU summit in Beijing, standing with them to build an open global economy and maintain the free trade system. While the Trump administration seems eager to quickly issue a series of additional tariffs to highlight the administration’s ability to get things done and achieve results ahead of the November mid-term election, China is fighting back through a combination of tough resistance and diplomatic efforts. One of the aims, as well as winning the US-China trade war and protecting “Made in China 2025,” is to emphasize China’s position as the defender of global free trade system.

Energy is not yet a direct target of the trade war. However, the second phase of China’s retaliatory tariffs on \$16 billion worth of goods includes American crude oil. If this is invoked, American oil exports to China would decrease drastically. Meanwhile, American LNG is not included in the second phase since China’s state-run oil company CNPC has extensive experience in importing US LNG and due to the value of American LNG for China. However, depending on developments, LNG may become a target for retaliation, which would hit exports to China.



4. Russia: A Faint Hope for a Breakthrough Dashed by the US-Russia Summit

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On July 16, a US-Russia summit meeting was held in Helsinki. The summit attracted global attention as the first full-fledged meeting between President Putin and President Trump since the latter inauguration in 2017, although the two leaders by then had had two brief conversations at international conferences. The meeting with President Putin's delayed arrival by 50 minutes lasted for over two hours. In the joint press conference immediately followed thereafter, the two presidents said that they had a good meeting, exchanging opinions on various issues including nuclear disarmament, Iran and Syria, and the denuclearization of North Korea, etc. They stressed the need for Russia and the United States to end the bilateral conflict to open a new era, while emphasizing the good personal relations between the two leaders. However, no reference was made to any direction or concrete measures for solving their respective problems.

The summit was held while investigations in the United States regarding the alleged Trump presidential campaign associate's collusion with Russia and the alleged cyber-attacks by Russia during the 2016 US presidential election. President Trump said that he believes President Putin, who strongly denied the allegations, and judged the investigations by his own country's intelligence agencies as unfounded, calling them a witch hunt. Accordingly, President Putin reaffirmed that there was no collusion as a matter of fact. Interestingly, the nuance of the original Russian for the word "fact" used by President Putin was the same as the phrase "alternative fact" used by the then Presidential Counselor Kellyanne Conway regarding the attendance numbers at Donald Trump's inauguration ceremony in January 2017, causing a furor. If President Putin's words are understood in the Russian language, a "fact" is what the leaders have agreed on.

President Trump's clear demonstration of having more confidence in President Putin's claims than the US intelligence community ignited criticism from all corners back in the United States, including a leading politician of the ruling Republican Party. Daniel Coats, Director of National Intelligence, immediately released a statement, saying "We have been clear in our assessments of Russian meddling in the 2016 election and their ongoing, pervasive efforts to undermine our democracy". Senate Majority Leader Mitch McConnell made a statement, "The Russians are not our friends and I entirely believe the assessment of our intelligence community," confirming his conventional stance. Finding himself bombarded with criticism back home the next day, the President was forced to state that he "accepts" the intelligence community's conclusion that Russia had meddled.

In Russia, the summit was reported by various media sources as a "great victory for Russia." The press conference, in which President Trump repeatedly turned to President Putin for confirmation of his comments while President Putin acted with dignity with President Trump's criticism of his own officials, won praise among Russian parliament members and Kremlin officials, some of whom even claimed that Russia was finally replacing America as the leader of the world.

The White House had announced on July 19 that another summit was scheduled for this fall in Washington D.C., but on July 26, was forced to announce its postponement to next year due to mounting criticism within the United States. In short, the summit on July 16 only fueled further nationalism in both countries.



Past IEEJ Events

Energy and Economy Indicators of Japan

IEEJ Homepage Top

Back Numbers of *IEEJ e-Newsletter*

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