



IEEJ e-NEWSLETTER

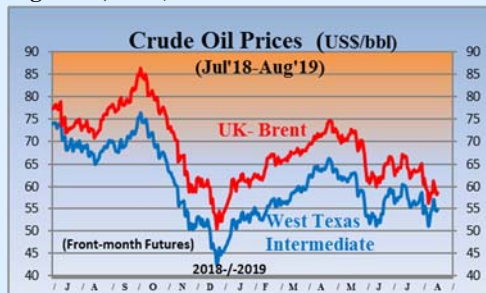
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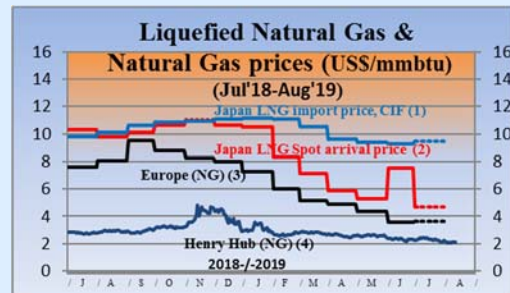
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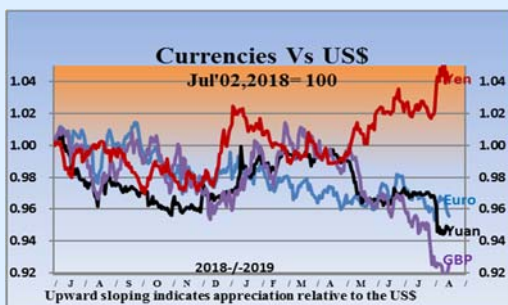
(As of August 16, 2019)



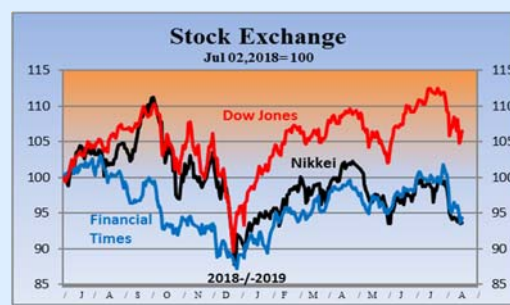
Sources:
(1) DOE-EIA
(2) Investing.com



Sources:
(1) Ministry of Finance "Japan Trade Statistics"
(2) Ministry of Economy, Trade and Industry (arrival month basis)
(3) Estimated by World Bank (Netherland Title Transfer Facility)
(4) DOE-EIA, NYMEX (Front-month Futures)
(5) Investing.com and Finance.Yahoo.com



Source: x-rates.com



Source: Investing.com and Finance.Yahoo.com

Contents

Summary

【Global Monitoring】

1. US: Energy and Environmental Policies of Democratic Presidential Candidates
2. EU: European Commission Elects New President
3. China: Accelerating Efforts to End the FIT System for Renewables Development
4. Russia: Russian Politics in Fluxamidst Deadlocked US-Russia Relations



Summary

【Global Monitoring】

1. US: Energy and Environmental Policies of Democratic Presidential Candidates

Twenty-four Democratic presidential candidates have announced their energy and environmental policies. They are receiving close attention in terms of their support for the Green New Deal and for unique policy stances.

2. EU: European Commission Elects New President

Ursula von der Leyen was elected as the next president of the European Commission. She supports the European Green New Deal, which includes legislation for the target to become climate neutral (generating net zero GHG emissions) by 2050.

3. China: Accelerating Efforts to End the FIT System for Renewables Development

China is lowering FIT prices and expanding the auction system as a way to introduce renewable energy more cost-efficiently. The country is also working to end the FIT system by setting renewables usage targets and launching Green Certificates Trading System.

4. Russia: Russian Politics in Flux amidst Deadlocked US-Russia Relations

The Russian people's frustration with the Putin administration is spurting once again. As foreign investment plummets and the domestic economy descends into deep recession, Russia is sticking to its hardline stance, causing further deadlock in its relationship with the US.



1. US: Energy and Environmental Policies of Democratic Presidential Candidates

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Democratic presidential candidates are announcing their energy and environmental policies one after another. As of July 25, the policy stances of the 24 Democrats vying for nomination as the party's candidate can be divided into two groups based on their support for the Green New Deal (GND) resolution submitted to the two chambers of Congress in February 2019.

This resolution, submitted by Representative Alexandria Ocasio-Cortez (New York) and Senator Edward Markey (Massachusetts), makes the federal government responsible for achieving the following in ten years: (1) attaining a 100% renewable power mix, (2) building or upgrading to energy-efficient and distributed smart power grids nationwide, (3) upgrading to and building new commercial and residential buildings to achieve maximum energy efficiency, comfort and safety, (4) decarbonizing the manufacturing, agriculture, and other sectors, (5) decarbonizing the transportation and other infrastructure, (6) making major investments in carbon capture, (7) making green technology a major export of the US, and (8) becoming more resilient against climate disasters. Sixteen of the 24 Democratic candidates support the GND in their campaign promises, though with varying targets and time frames, and pledge to push Congress to legislate for it. Among the remaining eight, two do not mention climate change and the other six pursue their own initiatives. Here are some of the interesting initiatives among them.

On July 25, long-time climate action advocate and billionaire Tom Steyer declared the climate crisis a national emergency in his Justice-Centered Climate Plan, in which he plans to boost investment in renewable energy and infrastructure with or without help from Congress. The plan aims to end the consumption of all fossil fuel in all departments and drive down emissions from the entire economy to net zero by 2045, and in particular, to abolish diesel engines and generation-related carbon emissions by 2030. Mr. Steyer's declaration of a national emergency has raised concern in the Democratic Party: at the time of President Trump's declaration of an emergency regarding the border wall, it was said that "an abuse of declarations may prompt declarations of climate change emergencies from future Democratic governments." Mr. Steyer's hard-nosed stance to get things done without the support of Congress by using executive orders is similar to how the Obama and Trump administrations drew on their presidential authority to conduct government affairs. With both administrations, the use of executive orders caused conflict at first but eventually became an accomplished and frequent fact, which is similar to Mr. Steyer's case.

Senator Michael Bennet (Colorado) has pledged in his initiative titled America's Climate Plan to establish "Climate Bank," a 10 trillion-dollar public bank, to stimulate technological innovations and infrastructure investment in decarbonization, and to reduce emissions in all departments to achieve net zero emissions by 2050. Representative John Delaney (Maryland) also intends to establish a 600 billion-dollar climate investment fund in his 2 trillion-dollar infrastructure policy. A government-funded public investment bank was part of Senator Hillary Clinton's campaign promise in the 2008 elections and was passed on to the Obama campaign from the middle of the race, but was rejected by Congress which refused to approve 10 trillion dollars of funding. In the 2016 election, the Trump campaign also included an infrastructure investment bank initiative. Representative Delaney is also proposing a carbon tax which would start at \$15/CO₂-tonne and go up by 10 dollars each year thereafter, but a carbon tax, too, came up in 2017-18 in the form of several bipartisan bills and proposals. To date, these initiatives have not been taken seriously by many who think they are a mismatch for the United States which values the market mechanism and does not like taxes, but the political culture of the US is changing rapidly. Attention must be paid to when the "policy window" will open. (As of July 29)



2. EU: European Commission Elects New President

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On July 16, the European Parliament elected Ursula von der Leyen as the new president of the European Commission with 383 votes. She will serve for five years starting November 1, 2019. Out of 733 votes in total, 383 were cast in favor and 327 against, and 22 abstained. In this election, the “lead candidate process,” in which the candidate of the group that wins the majority in the election is ultimately elected as the European Commission president, was not adopted due to a lack of consensus among the heads of member states. Ms. von der Leyen’s name as a candidate came up rather unexpectedly, but the Progressive Alliance of Socialists and Democrats (S&D) and Renew Europe, which are the second and third largest groups, announced their support for the candidate one hour before the vote in the European Parliament.

Among her political priorities, Ms. von der Leyen vows to propose a European Green Deal, which includes legislation to achieve climate neutrality (net-zero GHG emissions) by 2050, in her first 100 days in office. She also committed to raising the EU’s 2030 GHG emission reduction target to 55% from the current 40% from 1990 levels, and to making the EU lead international negotiations to increase the targets of other major emitters by 2021. Her priorities include setting up the Just Transition Fund in addition to the current Cohesion Funds to ensure that no country is left behind in the energy transition and to support the people and regions most affected. She also intends to put forward a strategy for green financing and a Sustainable Europe Investment Plan, and to turn parts of the European Investment Bank into Europe’s climate bank.

While the draft commitment to slash carbon emissions to net zero by 2050 was scrapped in the European Council in June 2019 when it was blocked by several member states, the draft contained a footnote which stated that “climate neutrality must be achieved in most countries by 2050.” Further, “building a climate-neutral, green, fair and social Europe” is one of the four main priorities of the EU’s Strategic Agenda 2019-2024 adopted by the European Council. With Finland, which is strongly focused on environmental change, due to hold the six-month rotating presidency of the Council of the European Union until the end of 2019, Ms. von der Leyen’s political priorities are expected to gain strong support.

Going forward, Ms. von der Leyen will request the leader of each member state to recommend a candidate for the post of European Commissioner, of which there is one slot for each country. The focus now is which country the next Energy Commissioner will come from; there are reports that, among Eastern European countries which are wary of the goal of climate neutrality for 2050, Poland is keen to serve an energy-related post in the Commission. The EU has been strengthening its decarbonization policy in recent years. As the energy mix varies greatly among member states, which face different realities and challenges regarding energy, it is necessary to examine ways to implement the strict decarbonization initiatives led by Western and Northern Europe, together with their costs and issues. (As of July 29)



2. China: Accelerating Efforts to End the FIT System for Renewables Development

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China is pushing ahead with developing renewable energy to achieve sustainable development and build a decarbonized society. As a result, wind power has soared from 29.58 GW in 2010 to 184 GW in 2018 and solar PV from 260 MW to 175 GW. This has pushed the share of renewable power sources including hydropower and others up from 25.4% to 38.4% (including wind power at 9.7% and solar PV at 9.2%) in terms of capacity and from 18% to 26.7% (including wind power at 5.2% and solar PV at 2.5%) in terms of power generation. One of the major factors behind this expansion was the Feed-in-Tariff (FIT) system, which guarantees profits for developers, alongside the preferential purchase of renewable electricity.

However, dependence on FIT has begun to cause problems. The purchasing of renewable electricity, which is more expensive than conventional electricity in rapidly increasing volumes, caused the renewable surcharge to rise from 1 yuan (15.6 yen) in 2006 to 19 yuan per 1 MWh. The funds needed to cover the development cost also exceeded the actual amount financed, and the shortfall is estimated to have reached 140 billion yuan by 2018.

Under such circumstances, the government is accelerating efforts to end the FIT system. In January 2019, it transferred the licensing authority for wind power and solar PV development which do not require cost compensation to local governments, without setting a cap on newly developed capacity. In April to around May, the decision was taken to keep new renewable development within the budget for compensatory funds if the FIT system is to be used, and to hold auctions and to lower the FIT prices.

For instance, the government capped the compensatory fund for commercial solar PV at 2.25 billion yuan for this fiscal year and lowered the FIT price per kWh from 0.5-0.7 yuan to not more than 0.4-0.55 yuan depending on the hours of sunlight and other conditions. For onshore wind power, the FIT price was lowered from 0.4-0.57 yuan to not more than 0.34-0.52 yuan, and will be lowered further to not more than 0.29-0.47 yuan in 2020. The FIT system is to be abolished completely in 2021. These measures are all intended to reduce costs and their effects are already appearing. According to the result of this year's FIT auction for commercial solar PV development announced by the National Energy Administration on July 11, 22.79 GW out of the 24.56 GW on offer were purchased. The average bid price was 0.33-0.48 yuan, 18-12% lower than the upper price limit, and the lowest bid price was 0.28-0.41 yuan, 30-25% below the upper price limit. The compensatory fund required is estimated at 1.7 billion yuan, significantly lower than the 4.6 billion yuan that would have been necessary without the auction. Compared to the maximum amount, funding of 550 million yuan was saved.

Further, decisions to set usage requirements for renewable electricity and introduce the Green Certificate Trading System in 2020 were also made in May. Specifically, each province, direct-controlled municipality, and autonomous region will be required to meet its target renewable electricity share in its total electricity consumption. Further, each region will set usage targets for renewables for electricity sellers as well as users trading electricity directly or generating their own electricity. Companies which cannot meet their targets must make up for the shortfall either by purchasing surplus renewable consumption from overachieving companies, or Green Certificates. Any underachievement will be punished by being blacklisted.

Ending the FIT system is a global challenge. For China, which has joined the ranks of the world's renewable electricity giants, it has become crucial to introduce renewables cost-efficiently. Whether China succeeds in terminating the FIT system deserves attention as it will provide valuable lessons for the world.



4. Russia: Russian Politics in Flux amidst Deadlocked US-Russia Relations

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On July 19, Moscow saw the country's largest protest in recent years: more than 20,000 people rallied for a free and fair election. The protest came after the Moscow Election Commission removed several critics of the president from the list of candidates for the mayoral election in September. The protesters are demanding that Moscow Mayor Sergei Sobyenin, a close associate of President Vladimir Putin, stop intervening unjustly in the election. However, the Russian media are reporting that the protest is fueled by people's growing frustration with falling living standards amid prolonged economic sanctions by the West. In the first half of 2019, disposable income fell by 1.3% year-on-year (July 17, the Federal State Statistics Service).

Foreign investment in Russia continues to decline. It has fallen from USD 22 billion in 2014 when Russia annexed Crimea, to USD 8.8 billion in 2018 (including funds repatriated via Cyprus and other countries for tax reasons). The Putin administration initially hoped that China would make up for the drop in investment by the West, but found that China was not necessarily ready to do so, and investment dropped to USD 130 million in 2018, down 54% year-on-year (statistics by the Central Bank of the Russian Federation). Net capital outflow from Russia reached USD 6.5 billion in 2018, the highest since 1997 (May 22, RBK Daily).

The conflict between the United States and Russia over Turkey is growing. On July 12, the Turkish government announced that the delivery of the Russian-made ground-to-air missile S400 had begun. The US is concerned that the use of Russian-made weapons by Turkey, despite being a NATO (North Atlantic Treaty Organization) member, may cause the leakage of military intelligence to Russia. On July 17, the US announced a freeze on the sale of the latest stealth fighter jet, the F35, to Turkey and on the 19th, the House of Representatives unanimously passed an economic sanctions bill against the country. President Trump is reported to be reluctant to sign the bill, but with Russia signaling that it is prepared to sell its leading-edge fighter jet Sukhoi 35 to Turkey, US-Russia relations may worsen further.

The INF (Intermediate-Range Nuclear Forces) Treaty, of which the United States walked out in February 2019, expired officially on August 2 after a six-month grace period. Russia has not admitted its non-compliance with the INF Treaty which the US has pointed out, and on July 3, President Putin signed an executive order suspending Russia's participation in the Treaty. The West is alarmed by the abolition of the Treaty as it may now become easier for Russia to deploy normal nuclear forces in Europe. Incidentally, there is an unofficial view between the US and Russia that they should revise the INF Target and add China as a new party to meet the "common interest" of both countries. However, it is unlikely that President Putin, despite repeatedly stressing the "solid China-Russia partnership" to the international community, would find a way to convince China to join.

With the sluggish domestic economy and signs of destabilization in domestic politics, the Putin administration would increasingly find it difficult to come up with a solution to the country's diplomatic woes.



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Energy and Economy Indicators of Japan

IEEJ Homepage Top

Back Numbers of *IEEJ e-Newsletter*

Back Numbers of *IEEJ Newsletter* (Original Japanese Version - Members Only)



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