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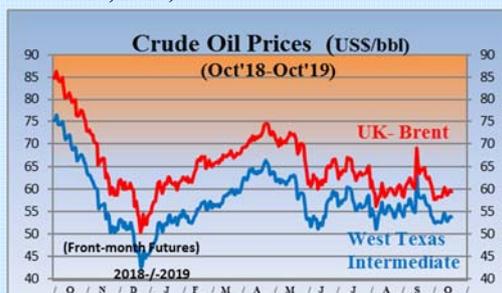
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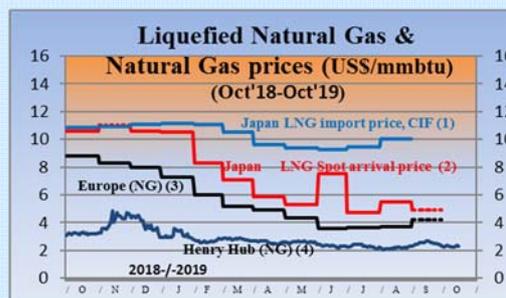
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Sources:
 (1) DOE-EIA
 (2) Investing.com



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

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Summary

【Global Monitoring】

1. US: Ukraine Controversy Sparks Impeachment Inquiry against President

The House of Representatives launched investigations toward impeaching the president in the wake of a whistleblower report alleging that President Trump asked the president of Ukraine to launch an investigation against former Vice President Joe Biden. The impact on the presidential election deserves attention.

2. EU: Developments related to Brexit and the Next European Commission Line-up

Brexit discussions restarted in Parliament after the Supreme Court ruled that the shutdown of Parliament was unlawful, but the turmoil continues. The next President of the European Commission, Ursula von der Leyen, unveiled her picks for the next European Commission. Attention must be paid to the energy and environmental policies going forward.

3. China: US-China Trade War: China Declares Long-term Resistance

The US-China trade war is showing a mix of hard and soft tactics. In future trade talks, China is likely to agree willingly to the expansion of imports and opening of markets, but to continue to rebuff US interference in its internal politics.

4. Putin Administration Ratchets Up Confrontation with the US

While the regional elections once again underlined the declining popularity of the Putin administration, Moscow is becoming increasingly confrontational against the US across all regions including East Asia and the Middle East.



1. US: Ukraine Controversy Sparks Impeachment Inquiry against President

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After media articles appeared about a whistleblower report alleging that President Trump called the president of Ukraine and asked him to launch an investigation against promising Democratic presidential candidate and former Vice President Joe Biden, only 146 House Democrats supported the impeachment as of the day before House Speaker Nancy Pelosi declared an inquiry with a view to impeaching the president. However, the number supporting prosecution steadily increased thereafter, reaching 225 by the 28th, more than half of all the seats of the House. Multiple polls showed that 10-12% more people approve of impeachment than at time of the Special Counsel report on the Russia scandal, and that the rate of disapproval is lower. On September 27, the first House Republican declared support for impeachment proceedings. At present, the odds that the Senate would approve impeachment of the president are low. However, it is said that more than a few Senate Republicans may support impeachment, and some Republican state governors have stated that they may not be able to stand behind the president this time. How the president's weakening momentum will affect the presidential election next year is worth attention.

Former Massachusetts governor and Republican presidential nominee hopeful Bill Weld is also critical of President Trump. None of the three running for nomination including Bill Weld has become a powerful rival to the president. However, there is concern over the widening rift within the Republican party as all three post-war presidents who did not win a second term, in addition to facing a weak economy, had powerful rivals and were therefore unable to secure a solid support base within the party. Reflecting this concern, the Republican party has decided not to hold a primary or caucus in four states including Nevada and Kansas in 2020. This decision, which has drawn criticism as it will shut down opportunities for policy debates, was made solely to allow President Trump, who enjoys firm support among Republican supporters, to focus on the election. As a result, if support for President Trump falls as a result of the Ukraine scandal, in addition to the economic outlook, the plans for the Republican primaries may change as well.

President Trump's approval rating, though it varies among the polling companies, was 36% approval and 42% disapproval as of September 27 after the start of the impeachment process was announced, mostly unchanged from the previous week. The fact is that the president's approval rating is higher than in the first 12 months of his presidency and is nearly 10 points higher than that of President Obama in September of the year before his bid for re-election. Another poll dated September 25 shows that whereas Trump's approval rating was 11% approval and 86% disapproval among Democratic party supporters and 30% approval and 55% disapproval among unaffiliated voters, it was 84% approval and 15% disapproval among Republican party supporters, demonstrating that a loyal Republican support base remains behind the president. However, there are signs of change, and Texas and other traditional Republican strongholds may see a closer contest in the 2020 election.

The House probe is unlikely to discover any decisive evidence proving the president's guilt. Nevertheless, the impeachment process will serve as a test that puts pressure on individual lawmakers to declare whether they are "for or against President Trump." It will be interesting to see how these declarations affect the course of the election, together with the economic outlook for voters depending on their region, industries, and attributes.



2. EU: Developments related to Brexit and the Next European Commission Line-up

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On September 24, the UK Supreme Court ruled that the shutdown of parliament by Prime Minister Boris Johnson, allegedly to prevent parliamentary interference in Brexit, was unlawful. The president of the Supreme Court pointed out the lack of a clear reason for the long suspension of five weeks, and said that it had the effect of frustrating the ability of Parliament to carry out its constitutional functions without reasonable justification, and is thus unlawful. Prime Minister Johnson said he would respect the ruling but strongly disagreed with it, re-emphasizing that he would lead the UK out of the EU on October 31, and said that the current goal is to win a better deal.

The EU has said that it is the UK's responsibility to come up with a legal and operational proposal that is compatible with the withdrawal agreement, and has indicated that the UK has yet to submit an appropriate proposal. Meanwhile, based on the bill that Parliament has passed to extend the deadline for the UK's departure from the EU, the UK Prime Minister must request the EU for a three-month extension of the deadline if no deal is struck by October 19. Parliament resumed on September 25 but there has been no significant progress in the deadlocked talks on Brexit and the chaos has worsened.

On September 10, the next President of the European Commission, Ursula von der Leyen, unveiled her picks for the next European Commission. The European Green Deal, which was named one of the key policies in Ms. von der Leyen's speech, will be addressed by Frans Timmermans from the Netherlands as an executive vice president. He will also be managing the climate change policy of the EU. As the nominee for the European Commissioner for the Directorate-General for Energy, long-term member of the Estonian parliament Kadri Simson was nominated. Going forward, the European Parliament will need to collectively approve the European Commissioners for the European Commission. The line-up clearly shows that the new European Commission intends to shift its focus even further toward climate action.

Amid a major change in the structure of the European Commission including the president, an interesting poll was released. In a public opinion poll (Eurobarometer) on the EU's energy policy, one of the questions asked what the priorities of the EU's energy policy are. In response, in which up to three answers could be selected, 41% answered "the shift from fossil fuels to renewable energy sources to combat climate change", 28% answered "EU-wide reduction of energy consumption," and 27% answered "more competitive energy prices for consumers."

The most selected answers by country were the shift from fossil fuels to renewable energy in 17 countries, and competitive energy prices in 8 (Greece, Bulgaria, and some Eastern European countries). The results of the poll underlined the high level of interest of EU citizens in climate change, but also showed that competitive energy prices remain important. Attention must be paid to how the next European Commission, which is expected to focus its initiatives on climate action, will secure affordability and energy security while considering the differences in economic conditions and energy supply environment among the Member States.



3. China: US-China Trade War: China Declares Long-term Resistance

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On September 1, the Trump administration applied the “fourth round” of sanction tariffs and expanded the additional tariff on almost all imports from China (based on the actuals for 2018 of \$540.3 billion according to US statistics). An additional 15% tariff was imposed on 3,243 items worth about \$112 billion including televisions and cameras, and will also be imposed on the remaining 555 items worth \$160 billion on December 15. In retaliation, China imposed additional 5% or 10% tariffs on 5,078 items worth \$75 billion, including US agricultural products and oil, in two stages, and filed litigation with the WTO against the US. Up to this point, China has imposed additional tariffs on \$185 billion of US goods, and in particular, has raised the additional tariff already imposed on \$30 billion of US soybeans and other items up to the “third round” to 30% or 35% from 25%. The US-China trade war is intensifying, now shifting from widening the scope of the tariffs to raising their rates.

Under such circumstances, the two countries have also begun to show signs of compromise. During a ministerial phone meeting held on September 5, an agreement was reached to restart the ministerial trade talks that had been suspended since the end of July. On September 11, China announced that it would exclude 16 items of US products from the scope of additional tariffs. The US has made exemptions six times to date but this was the first one made by China. Nevertheless, President Trump welcomed the decision as a “big move” and announced that it would postpone raising the additional tariff from 25% to 30% on \$250 billion of Chinese goods up to “round three” from October 1 to October 15 as “a gesture of goodwill.” Chinese companies thereafter went back to buying US soybeans, pork, and other agricultural produce on the 12th, and on the 13th, the Chinese government abolished the additional tariffs imposed on those items. On the 20th, the US excluded an additional 437 items of Chinese products from additional tariffs.

While this reciprocal goodwill is a sign that both countries wish to stop the trade war from intensifying, the success or failure of the talks is still unpredictable. President Trump suggested the possibility of an “interim agreement” on September 12, but on the 20th, the day the vice-ministerial talks that were described as “constructive” ended, he publicly stated that he is “looking for a complete deal.” He went on to criticize China’s trade practices in his speech at the UN General Assembly on the 24th and said he would not accept a “bad deal,” but then said on the 25th that a deal may be reached earlier than expected. The inconsistency of the president’s words is a sign of US impatience.

Meanwhile, China has consistently held its stance that “China does not want a trade war but will fight one if necessary” and “will conduct consultations based on equality, mutual benefit, sincerity, and trust.” The State Council issued an official statement on June 2 listing the prerequisites for reaching an agreement: removing all additional tariffs imposed by the US, setting rational numerical targets regarding the expanded imports of US goods, and ensuring a proper balance in the text of the agreement. Further, President Xi Jinping, in his address on September 3 at the opening ceremony of the autumn training program at the Central Party School of CPC for training elite officials, emphasized the need for “struggles” to protect the core interests of China in foreign relations, national security, Hong Kong, Taiwan, and so on before the mid-21st century when China becomes a modern socialist country. This is considered to be a mobilization order for a long-term protest against the US. In future trade talks, China is likely to continue to refuse the US’ technological blockade against China intended to maintain US technological hegemony or any interference in China’s internal politics including the development of technology and industry, but to agree willingly to the expansion of imports and opening of markets.



4. Russia: Putin Administration Ratchets Up Confrontation with the US

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On September 8, regional elections were held to elect the governors of 16 municipalities including Saint Petersburg and Sakhalin Oblast, parliamentary elections for 13 oblasts (federal subjects equivalent to Japanese prefectures), and 22 city councils. Candidates affiliated with the ruling United Russia party won in all the gubernatorial elections. However, despite blatant government interference in the elections, the ruling party faced a setback in various regions due to the prolonged economic slowdown, as was widely anticipated. For example, the ruling party kept its majority but lost seats, which fell from 38 to 25 in the Moscow City Duma election, and from 30 to just 2 in the Khabarovsk City Duma in the Far East. Since the elections, the Russian authorities have cracked down on the bases of Anti-Putin activists.

On September 4-6, the Fifth Eastern Economic Forum was held in Vladivostok hosted by President Putin and joined by about 8,500 participants from 65 countries, with Japan accounting for the highest number of visitors with 588 (followed by China with 395). President Putin pointed out that it is an urgent challenge for the Far Eastern region to improve the standard of living and to attract an influx of people by developing the regional economy. The Forum was attended by 440 companies, and 270 agreements were signed.

On September 5, the final agreement on Arctic LNG-2 was announced. Novatek, Russian independent gas company, has a 60% share in the project (total development cost of \$21.3 billion) while China National Petroleum Corporation (CNPC), China National Offshore Oil Corporation (CNOOC), a French oil company Total, and a Japanese joint-venture comprising Mitsui Corporation and JOGMEC each have 10%. The then METI Minister Hiroshige Seko said that Arctic LNG-2 is one of the largest projects in the history of Japan-Russia relations and will further strengthen the bilateral ties. Meanwhile, there was no substantial progress in the effort to sign a peace treaty at the Japan-Russia summit held on the same day. President Putin emphasized once again that the security cooperation between Japan and the US is the barrier. At the Forum, the president expressed his view that the US is attempting to expand its military presence in East Asia by capitalizing on the expiry of the Intermediate-Range Nuclear Forces (INF) Treaty.

On September 16-21, a major military exercise, Centre 2019, was held in Russia's Orenburg Oblast bordering Kazakhstan, with the participation of Chinese forces for the second consecutive year. Behind this allegedly is the intent of China and Russia to jointly keep the US in check. On September 18, in a talk between Chinese Prime Minister Li Keqiang and President Putin in Moscow, the president said that China-Russia relations have become the most important bilateral relationship in the world. In time for the Chinese prime minister's visit to Russia, the two countries agreed to increase trade to \$200 billion by 2024 (almost twice the 2018 level) and to make joint investments in the field of high technologies, including AI (artificial intelligence).

In the wake of the drone attacks on Saudi Aramco oil facilities on September 14, Russia announced that its position concerning Saudi Arabia and Iran is "neutral" and diplomatically supported the need for a peaceful resolution. Meanwhile, rising tensions in the Middle East give Russia market opportunities to sell its weapons amid the slowdown of its domestic economy.



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