



# IEEJ e-NEWSLETTER

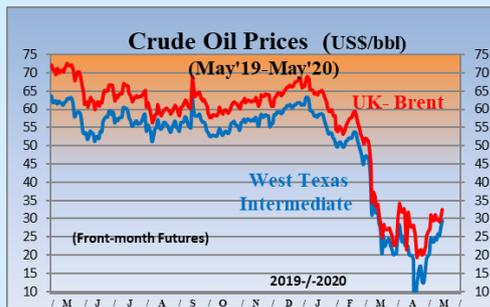
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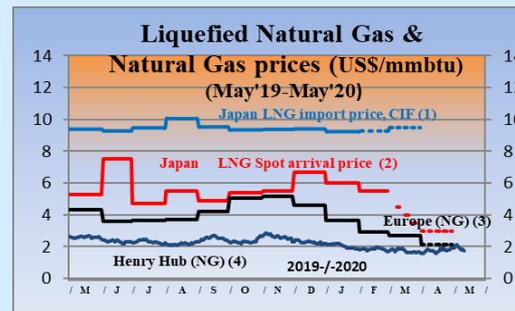
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Source: DOE-EIA, Financial Times, NASDAQ



Sources:

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



Source: x-rates.com



Source: Financial Times

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## Summary

### **【Global Monitoring】**

#### **1. US: US Politics amid the Coronavirus Catastrophe**

In the US which is being hit hard by the coronavirus with the highest number of cases and deaths in the world, the coronavirus crisis and the response strategy are having complex effects on domestic politics, particularly the presidential election.

#### **2. EU: Covid-19 and Europe's Climate Neutrality**

While responding to Covid-19 remains the highest priority for both the EU and member states, there are moves to put climate neutrality at the center of the post-coronavirus economic recovery.

#### **3. China: No End in Sight as Disease Prevention Becomes the New Norm**

The lockdown has been lifted in Wuhan City but the coronavirus epidemic is not over. As preventing infection becomes the new norm, the government has shifted its focus from growth targets to securing stable employment.

#### **4. ME: Economies Struggle with the Coronavirus and Low Oil Prices**

Covid-19 continues to spread in Middle Eastern countries, which have imposed strict lockdowns. Economic activity has stopped, and the Dubai Expo has been postponed. An agreement on an oil production cut has not boosted oil prices, hurting the economies of Gulf oil-producing countries.

#### **5. Russia: Energy Policy Statement and the Deepening Covid-19 Crisis**

Russia's long-term low-carbon development strategy through 2050 and the Revised Energy Strategy through 2035 have been released. Plummeting oil prices and the coronavirus are expected to have a severe impact on the Russian economy.



## 1. US: US Politics amid the Coronavirus Catastrophe

Ayako SUGINO, Senior Researcher

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The media are reporting daily on the disastrous situation in the United States, which is now the country hit hardest by the coronavirus, with roughly 750,000 cases and 36,000 deaths as of April 21. Amid a crisis deeper than the Great Depression of 1929, President Trump has remained eager to quickly restart economic activity throughout the crisis, and released three-phase “guidelines” toward normalization on April 16. These guidelines leave the actual decision on easing stay-at-home orders to each state governor. As the conditions for easing, the chair of the National Governors Association (Governor of Maryland) named: (1) expanding testing capacity, (2) increasing hospital surge capacity, (3) boosting supplies of personal protective equipment, and (4) robust contact tracing.

State governors are criticizing the lack of federal financial assistance. According to one survey, 66% of voters are worried that easing restrictions too soon may trigger a surge in infections, while in several cities, mounting frustration with the government’s restrictions has led to protests.

However, the hastiness of the “guidelines” is debatable, as they require 28 consecutive days of a decrease in new cases to move on to Phase 2, which would then allow limited reopening of schools and gatherings of less than 50 people. These conditions are unlikely to be met in cities until at least mid-May. Every state that has begun to ease restrictions in response to these guidelines is led by a Republican governor, with many of them having a small population and few cases. However, the virus is now spreading rapidly even in these states, with a time lag after the cities. Further, the hurdle for reopening state borders is high due to the competition and conflict between states over sending people home across state borders, medical equipment supplies, and the federal coronavirus response budget. The “new normal” involving much less movement of people is expected to continue as states with badly-hit cities consider they must live with the virus until a vaccine becomes available and plan to maintain their social-distancing policy.

It is not clear how this crisis may affect US politics. The coronavirus disaster is causing severe economic disruption in the Rust Belt which contributed to Trump’s victory in 2016, and this is starting to affect his campaign strategy of emphasizing economic success.

Meanwhile, Joe Biden, who is now the Democratic nominee, announced plans to revise his environmental promises to gain support from leftist Democrats. Changes to be considered may include bringing forward the target year to achieve a 100% renewable energy economy from 2050 and freezing the construction of fossil fuel infrastructure. For medical and health care policies, which have even higher priority than climate change, party left-wingers are calling for universal healthcare, though ironically, the current administration is pouring huge amounts of federal money into the public healthcare system in response to the coronavirus. Moreover, according to a survey, 7% of party left-wingers may vote for Donald Trump, and not Joe Biden, to spite the party mainstreamers who quickly unified the middle-of-the-road forces to defeat Bernie Sanders, who started so strongly in the primaries. Facing the need to include the left-wingers, respond to the wide-ranging needs of voters, and prepare to take over the presidency possibly during the coronavirus crisis, the Biden campaign will need to offer public promises which include realistic and constructive proposals that would allow the new president to exert leadership from day one in office.

(As of April 24)



## 2. EU: Covid-19 and Europe's Climate Neutrality

**Kei SHIMOGORI**, Senior Researcher  
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The Covid-19 epidemic has yet to be halted in Europe. On April 14, the EU Council adopted a bill to revise the 2020 EU budget to secure funds to fight the pandemic at the EU level. This made it possible to spend almost the entire remainder of the 2020 budget on dealing with the coronavirus, boosting the crisis response budget by 3.57 billion euros to 172.2 billion euros (approx. 20 trillion yen) in total. On the following day, the 15th, the European Commission and the Chair of the European Council released the Joint European Roadmap for a phased lifting of the coronavirus restrictions implemented in each member state. As the major principles for lifting the measures in phases, the roadmap sets out the criteria for deciding when to start relaxing the measures, a common framework that the member states should observe in relaxing the measures, and the actions to be taken in the phased lifting. Among the EU member states, Germany has indicated its intention to start relaxing its restrictions in early May while carefully monitoring the situation.

Although responding to Covid-19 remains the highest priority for both the EU and each member state, moves are being made to set climate neutrality at the center of the post-coronavirus economic recovery.

On April 8, the European Commission launched a consultation to gather opinions on the Renewed Sustainable Finance Strategy. The Strategy is part of a one-trillion-euro package for making the European economy greener by 2030. In launching the consultation, Commission executive vice president Valdis Dombrovskis stated: "We are currently battling the coronavirus outbreak, but we must not lose sight of our long-term sustainability objectives, including making Europe climate-neutral by 2050. Creating a more sustainable and resilient economy will be a key focus of the recovery phase and the Renewed Sustainable Finance Strategy will be essential to mobilizing much-needed capital."

Further, environment ministers of EU member states released a statement on April 9 calling for the European Green Deal to be placed at the center of the EU's post-coronavirus recovery plan. The statement was signed by the environment ministers of 10 countries, namely Austria, Denmark, Finland, Italy, Latvia, Luxembourg, Netherlands, Portugal, Spain, and Sweden, with France and Germany announcing on the next day, the 10th, that they had joined this call. An unofficial alliance called the Green Recovery Alliance was established at the European Parliament on April 14. The Alliance consists of citizen and social groups including 37 CEOs, 28 industry groups, the European Trade Union Confederation, NGOs, and think-tanks, as well as 79 members of the European Parliament. The impact of the coronavirus and how it will unfold remains unknown, and it is not certain whether all the initiatives under the Deal will be implemented as planned. Much remains uncertain on the road ahead, especially with the overriding priority now being fighting Covid-19, and the importance of and interest in climate action waning in comparison. However, the EU may release a major climate initiative after sorting out its priorities; the situation must continue to be monitored. (As of April 24)



### **3. China: No End in Sight as Disease Prevention Becomes the New Norm**

**Li ZHIDONG**, Visiting Researcher  
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On April 8, lockdown was lifted in Wuhan City of Hubei Province, the epicenter of the novel coronavirus-induced pneumonia epidemic, 76 days after it was enforced on January 23. On the 15th, 42,000 support healthcare professionals who came to Wuhan from around the country left the city, and Leishenshan Hospital, the emergency field hospital built in a rush to fight the disease, was closed. The news attracted much publicity as a symbol of victory in the fight against the coronavirus, which had been declared a “people’s war.”

Needless to say, this success was achieved only by sacrificing people’s daily life and economic activities. The National Bureau of Statistics announced on March 17 that the national economic growth rate for the January–March quarter fell by 6.8% year-on-year. At a meeting held on the same day, the Central Politburo of the Communist Party openly expressed its sense of crisis over the unprecedented damage to the economy and social development caused by the coronavirus. Meanwhile, the government has yet to declare the end of the epidemic despite the tremendous sacrifices made. On the contrary, it is reiterating that infection prevention will be the new norm and that people must prepare for a protracted war. Why?

The number of new cases for the entire country peaked on February 12 with 15,000 cases. The average number of new cases per day fell to 52.5 during the period from April 1 to 15 and to 22.3 during the period from April 16 to 19, but did not quite reach zero. If people let their guard down even slightly, the epidemic could come roaring back.

Another concern is the high percentage of people entering China from abroad among the new cases. For example, of the 81 new cases detected between April 16 and 19, 60% were people entering China from other countries. Unless the spread is halted globally, mainly in Europe and the United States, it will be impossible to eradicate the epidemic. Asymptomatic carriers with some transmission potential are also a non-negligible cause of the spread. There were 7,041 asymptomatic carriers in cumulative total as of April 19, of which 1,322 later developed symptoms and were confirmed as patients and 990 remain under isolation and medical observation. However, these carriers were identified only because they were close contacts and high-risk individuals and were tested. It is not clear how many asymptomatic carriers exist, or where. Further, a safe and effective cure or vaccine has yet to be developed even though clinical data for roughly 83,000 patients have been collected and three types of vaccine are now in clinical trials. Thus, there is still no prospect of eradicating the factors that could cause the virus to spread again.

At the Politburo meeting mentioned earlier, the Xi-Li leadership declared that “swift detection, reporting, isolation, and treatment” will continue to be fully applied to prevent the virus from spreading again and to stop cases of infection entering from other countries. As a new measure, PCR tests will be conducted on all suspected high-risk residents and everyone else who wants to take one, and enhanced medical support will be provided for regions bordering foreign countries, such as Heilongjiang Province. The leadership also indicated that they will push forward with economic recovery while remembering that infection prevention has become the new norm, though no reference was made to the economic growth target (undisclosed but estimated at 5.6%). In its World Economic Outlook released on April 14, the International Monetary Fund (IMF) projected an economic growth rate of –3.0% for the world but +1.2% for China in 2020. The People’s Daily and others reported that low growth will not be a problem provided that the economic recovery proceeds and stable employment can be secured, signaling a change in government policy. This is considered to be a realistic policy change.



#### **4. ME: Economies Struggle with the Coronavirus and Low Oil Prices**

**Shuji HOSAKA**, Senior Research Fellow  
President of JIME Center

Covid-19 continues to spread throughout the Middle East. With cases confirmed in Syria, Libya, and Yemen where civil wars continue, cases have now been detected in the entire Middle East. Each country is taking strict measures including massive lockdowns, yet the virus continues to spread. As of April 20, the number of cases has surpassed 80,000 in Turkey and Iran, with the numbers rising rapidly in Israel and Saudi Arabia. There were media reports that many members of the Saudi royal family, including the governor of Riyadh Province, were infected, though this has not been confirmed.

The pandemic and the resulting lockdowns have caused serious damage to the Middle Eastern economies, resulting in a decision to postpone the Dubai Expo scheduled for October. The economic slowdown in the Gulf countries has also caused many foreign workers to lose their jobs, which could lead to social instability. Egypt, whose economy relies heavily on tourism, has already been hit hard, with its airlines losing roughly \$1.6 billion, prompting the central bank to extend emergency preferential loans to the tourism industry. In mid-March, Turkey also announced tax exemptions for the airline and hotel industries, lowering the value-added tax rate from 18% to 1% for three months, and expanding its credit guarantee fund for small- and medium-sized businesses to \$7.7 billion from \$3.35 billion.

Meanwhile, the Saudi-Russia “oil price war” that began in early March caused oil producers to boost production at once, sending the June spot contract prices for Dubai crude below \$20 per barrel. This has caused financial difficulties for the Gulf oil producers whose economies depend mostly on oil revenues. Saudi Arabia has already ordered a budget cut, which is causing concern among those countries involved in Saudi Vision 2030, Saudi Arabia’s economic reform initiative to reduce dependence on oil, that the budget for the initiative may be cut. There have also been media reports that downgrades to the credit ratings of Bahrain and Oman are being considered. The World Bank projects that many Middle Eastern countries will post negative growth, being hit directly by both Covid-19 and low oil prices.

Meanwhile, OPEC Plus has agreed on a production cut of 9.7 mb/d. Saudi Arabia, which has agreed to a 2.5 mb/d cut, has also proposed a voluntary additional reduction with the UAE to push the OPEC Plus’s production cut effectively to 12.5 mb/d, but not even this has revived oil prices.

In Iraq, Prime Minister-designate Adnan Al-Zurfi failed to form a new government. President Salih then ordered former journalist and head of the National Intelligence Service Mustafa Kazemi to form a government on April 9, but the future remains uncertain. Attacks by the Houthis on Saudi Arabia and Saudi Arabia’s retaliation in the Yemeni civil war had been continuing, but on April 8, the Saudi-led coalition called a two-week ceasefire in Yemen in response to the coronavirus. With the Houthis now also proposing peace conditions, the virus may lead to a ceasefire. (As of April 24)



## 5. Russia: Energy Policy Statement and the Deepening Covid-19 Crisis

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On March 27, Russia's Ministry for Economic Development released its long-term low-carbon development strategy through 2050. The reference scenario aims to lower the national carbon intensity (CO<sub>2</sub> emission per GDP) by 9% from 2017 levels by 2030 and by 48% by 2050. Achieving this target will require higher energy efficiency in industry, buildings, energy production, and transportation; introduction of carbon pricing; expansion of nuclear and renewable capacities; reduction in complete deforestation; and larger forest conservation areas. Meanwhile, the low-carbon scenario aims to achieve net carbon-neutrality by 2050. To achieve this target, on top of the efforts under the reference scenario, a further reduction in the national carbon intensity in the above four areas, major electrification and digitalization in the transportation and industrial sectors, further expansion of renewable energy, introduction of CCS and CO<sub>2</sub> processing technologies, prohibition of complete deforestation, and further expansion of forest conservation areas will be required. The draft strategy will be discussed and amended before being submitted to the government.

On April 2, the Russian government approved the Revised Energy Strategy of Russia until 2035. Gas output has been revised upward to 795–820 billion m<sup>3</sup> by 2024 and 859.7 billion – 1 trillion m<sup>3</sup> by 2035 (from 850–924 billion m<sup>3</sup> in the December 2019 revision). Pipeline gas exports will increase to 243.9–250.4 billion m<sup>3</sup> by 2024 and to 255.4–300.6 billion m<sup>3</sup> by 2035. The LNG production target was also revised upward to 80–140 million tonnes in 2035 (from 70–82 million tonnes in the 2019 revision). Throughout the discussions on formulating the strategy, the Ministry for Economic Development has been demanding more ambitious gas production targets for the sake of economic and social development. Meanwhile, the forecast for oil production has not been changed in the latest revision, with 11.0–11.2 mb/d for 2024 and 9.8–11.0 mb/d for 2035. In the discussion on this revision, a “stress scenario” that takes into account the low international oil prices and a decline in demand for Russian energy has also been considered. The revision clearly states that in the event of significant adverse impacts on the Russian oil industry, the scenario must be updated to a crisis response scenario. Accordingly, a scenario that takes into account the impact of the sharp decline in oil prices and Covid-19 will be considered for inclusion in the next revision.

The coronavirus is expected to hit the Russian economy hard. In its latest economic outlook released on April 8, the World Bank revised down its forecast for GDP growth rate in 2020 to –1.0% from the previous +1.6%. In the IMF's revised World Economic Outlook released on the 14th, the Russian economy is projected to shrink by 5.5% full-year in 2020, declining drastically from 1.3% growth in 2019.

On April 12, OPEC Plus agreed on a production cut of 9.7 mb/d in total. Russia had reduced its production to about 8.5 mb/d in May and June and was set to ease the reduction in phases starting from July. In March, Russia announced its withdrawal from OPEC Plus and plans to boost production, an angry response to the OPEC Plus's calls for further production cuts. Senior government officials were confident when oil prices first began to fall, saying that “the national finances can endure oil prices of \$25–30 for six to ten years by drawing funds from the National Welfare Fund.” However, when oil demand collapsed worldwide as the coronavirus spread, and with further falls in prices and a prolonged slump looking likely, Russia revised its oil policy and returned to the OPEC Plus joint production cut. (As of April 24)



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