



IEEJ e-NEWSLETTER

No. 191

(Based on Japanese No. 203)

Published: August 17, 2020

The Institute of Energy Economics, Japan

Contents

Summary

【Global Monitoring】

- 1. EU: R&D on Decarbonizing the Transport Sector**
- 2. China: Simultaneously Preventing Covid-19 and Achieving Economic Recovery**
- 3. ME: Suspicious Explosions Continue in Iran**
- 4. Russia: Will the Putin Government Regain Stability after Amending the Constitution?**

Summary

【Global Monitoring】

1. EU: R&D on Decarbonizing the Transport Sector

In Europe, R&D on decarbonizing the transport sector is gathering pace. Whether this will lead to a new industry related to the shipping sector and battery development must be watched closely.

2. China: Simultaneously Preventing Covid-19 and Achieving Economic Recovery

China has had early success in containing the virus and in economic recovery, but it is still too early to feel safe. The management skills and initiatives of the leaders in preventing an outbreak and reviving the economy deserve close attention.

3. ME: Suspicious Explosions Continue in Iran

Among the suspicious explosions occurring in Iran, Israel is likely to have been involved in the one at the Natanz nuclear facility. Tensions remain high and could lead to an accidental clash.

4. Russia: Will the Putin Government Regain Stability after Amending the Constitution?

The Russian Constitution was amended through a referendum amid the deepening Covid-19 crisis, allowing the Putin administration to stay in power till 2036. Meanwhile, Russian people are increasingly critical of and frustrated with the administration's heavy-handed policy.



1. EU: R&D on Decarbonizing the Transport Sector

Kei SHIMOGORI, Senior Researcher
Global Energy Group 1
Strategy Research Unit

In Europe, efforts are under way to decarbonize the transport sector. In the shipping sector, several consortiums for R&D have been established. The first is Maersk Mc-Kinney Moller Center for Zero Carbon Shipping, a joint research institute of mainly European shipping-related companies established to develop decarbonization technologies by 2050. The initial members are ABS, A.P. Moller-Maersk, Cargill, MAN Energy Solutions, Mitsubishi Heavy Industries, NYK Line, and Siemens Energy. As an independent research institute, the Center will create roadmaps for decarbonization, accelerate the development of decarbonizing fuels and powering technologies, and support the establishment of regulatory, financial, and commercial means to bring about a shift in fuels. The details of research projects will be unveiled going forward. Also, an EU-funded research project IDEALFUEL was launched to develop shipping fuels to replace heavy fuel oils (HFOs). The project aims to produce sustainable fuels from wood-based non-food biomass, effectively and at low cost, to replace HFOs. Research institutes and fuel-related companies from the Netherlands, Germany, Switzerland, and Spain will participate in the development of fuels.

Regarding the development of batteries, which are the key to decarbonizing the transport sector, the Batteries Europe Technology & Innovation Platform (Batteries Europe) released its vision for the near-term priorities of battery R&D in Europe. Batteries Europe is a research platform established in June 2019 as the R&D arm of the European Battery Alliance (established in October 2017), which aims to develop batteries strategically as a Europe-wide effort. The vision released this time is based on inputs from battery experts in organizations throughout the value chain, and consists of priority topics ranging from sustainable processing of battery raw materials to advanced methods of sorting and recycling battery materials, and to developing next-generation batteries for e-mobility. The Alliance believes that battery research and innovation is an essential element of the European Battery Alliance to strengthen European competitiveness in the battery value chain.

One of the essential e-mobility technologies highlighted in the vision is lithium-ion batteries. Regarding lithium, the raw material for such batteries, the International Organization for Standardization approved a proposal to set up a new technical committee to establish an ISO standard for the element. The proposal was made by China, which will act as the committee's secretariat. The committee is joined by Belgium, Finland, Sweden, and the UK from Europe alongside major lithium-producing countries. Germany will participate as an observer; Japan will not participate. Finland appears particularly ambitious, formulating its battery strategy to strengthen its position as a leader in sustainable battery production.

Decarbonization of the transport sector and the R&D associated with it are essential for Europe, not only for meeting its ambitious climate targets but also for economic recovery from Covid-19 and its growth strategy. Whether the results of the R&D will lead to a new industry must be watched closely. (As of July 29)



2. China: Simultaneously Preventing Covid-19 and Achieving Economic Recovery

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

In China, the Xi-Li leadership declared the fight against the coronavirus a “people’s war” and implemented emergency measures including lockdowns and stay-at-home orders. As a result, the number of new cases per day fell below 100 in early March. However, these measures resulted in a 6.8% year-on-year drop in GDP in Q1 and the first negative growth since 1992 when the release of quarterly data began. From mid-March, the government launched full-scale efforts to both prevent another wave of the epidemic and normalize social and economic activities. As a result, according to the July announcement by the National Bureau of Statistics, GDP growth increased to 3.2% in Q2, turning positive for the first time in two quarters. This attracted much attention among the major domestic media, which reported that China had overcome the coronavirus crisis ahead of other countries and attained a V-shaped economic recovery. Some media went further, claiming that China had demonstrated to the world that it is possible to achieve economic recovery while preventing the disease, and is invigorating the world economy by returning to growth.

Certainly, China has had early success in containing the virus and achieving an economic comeback compared to many other countries that are still suffering outbreaks and economic slowdown. For example, the number of new cases in the US was over 60,000 on July 20 whereas China has very few new cases (just 11 on the same day). The US has had roughly 3.9 million cases so far compared to China’s 90,000. Further, the International Monetary Fund predicts that the US will post double-digit negative economic growth for Q2.

Nevertheless, it is still too early for China to feel safe. First, although economic growth turned positive for Q2, it is still negative at -1.6% for the first half of the year. The economy has yet to return to pre-outbreak levels and fully recover. Further, while government investment increased by 2.8% in the first half of the year, private investment and total retail sales of social consumer goods fell by 7.3% and 11.4%, respectively, causing concern. In short, the current economic recovery is driven by public investment and its future path will depend on the extent to which private demand can be generated.

In China, strict containment of the virus and providing the private sector with a reliable environment for investment and consumption are recognized as the best economic stimulus measure. The government has achieved major strategic success by putting people’s lives first and focusing on early detection, reporting, isolation, and treatment. However, the outbreak has not yet been completely eradicated. Until a safe and effective treatment and vaccine are developed, the second wave of infections must be contained quickly and effectively. On June 11, Beijing City saw the first new case in 57 days. The City took emergency measures including more than 11 million PCR tests, and kept the total number of cases to 335. No new cases have been detected since July 6. However, it is not certain whether other regions could overcome an unexpected second wave as effectively as Beijing.

Moreover, further deterioration of the world economy and US-China relations are additional sources of concern for China’s economic recovery.

In a meeting with entrepreneurs he chaired on July 21, President Xi Jinping called for efforts to make up for the losses caused by the pandemic, underscoring the difficulty of preventing the disease while achieving economic recovery. The management skills and initiatives of the leaders deserve close attention.



3. ME: Suspicious Explosions Continue in Iran

Sachi SAKANASHI, Senior Research Fellow
Assistant Director, JIME Center

A major blast in east Tehran, Iran on June 26 was followed by a series of suspicious explosions at key infrastructure including military sites and nuclear facilities in various parts of the country. While some of them may have been pure accidents, others indicate clear signs of sabotage. Above all, the explosion on July 2 at the Natanz nuclear facility (uranium enrichment facility) in central Iran is highly likely to have been an act of sabotage.

Regarding the explosion at the Natanz nuclear facility, a group called “Homeland Cheetahs,” who claim to be “dissidents operating within Iran’s security establishment,” sent a statement to BBC journalists claiming responsibility for the attack. While the credibility of the statement is unclear, more than a few senior officials of the Israeli government have indicated Israel’s involvement in the blast. Further, Kuwaiti Al-Jarida newspaper reported that Israel was behind not only the explosion at Natanz but also the one at a military site in east Tehran on June 26.

It is believed that Israel has assassinated at least six Iranian nuclear physicists inside Iran, and from 2009 to 2010, destroyed Iran’s centrifuges using malware called Stuxnet in cooperation with the US to hinder Iran’s nuclear activities. As the only country that possesses nuclear weapons in the Middle East, Israel finds it crucial for its national security to prevent any neighbors from obtaining nuclear capabilities.

Iranian economy is currently under severe pressure due to the US sanctions as well as the coronavirus, and the Iranian government is in quite a vulnerable situation. While the Iran nuclear deal (JCPOA) has lost its substance, the US has made it clear that it will do everything to block the lifting of the UN-imposed arms embargo on Iran, which, according to the JCPOA, is scheduled for October 18 this year. If Iran “retaliates” in any way against possible act of sabotage, it could cause even fiercer pressure from the US, which is presumably why Israel chose this moment to carry out attacks on Iran, when it cannot easily strike back.

The Trump administration does not seem to strongly oppose these acts by Israel, while Israel could be trying to “weaken” Iran as much as possible while President Trump is in office. Such attacks against Iran could therefore continue, and with Iran warning that it will “act firmly if any red line is crossed,” the level of tension is likely to remain high. The possibility of an unintended clash cannot be ruled out under such circumstances either, which could happen as a consequence of retaliation against carefully-prepared attacks conducted under the surface.



4. Russia: Will the Putin Government Regain Stability after Amending the Constitution?

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

On July 1, Russia held a referendum on the Constitution. The draft amendments were approved with a voter turnout of 65% (minimum turnout of 50% required) and about 78% voting “yes.” This referendum was held amid a prolonged economic slump particularly after the annexation of Crimea, a sharp rise in the number of Covid-19 cases, and a decline in President Putin’s popularity in surveys. Regarding the referendum, crackdowns on anti-government activists by the Putin administration, as well as vote-rigging in various parts of the country, were widely reported by the Russian media.

On July 15, the Central Bank of Russian Federation released an estimate that the country’s economy shrank by 9.5–10% year-on-year in the second quarter of 2020. Further, industrial production decreased by 9.4% year-on-year in June after falling for three consecutive quarters. Ahead of the referendum, President Putin had laid out a \$360 billion national development plan featuring enhanced social and economic security, but on July 13, announced that the plan’s deadline will be postponed from 2024 to 2030 due to the severe squeeze on government finances.

According to an official announcement, the number of Covid-19 cases in Russia had reached 810,000 as of July 26. The announcement also stated that the number of new cases had peaked one week before the referendum at over 6,000 cases per day, and President Putin is now proudly declaring that Covid-19 is starting to subside in Russia. However, while the administration considers that the regional governments are responsible for handling Covid-19, more media are criticizing the government’s efforts to smother reports about the soaring number of cases and demanding that the truth be revealed.

Protests against the Putin administration are also gaining momentum in the regions. On July 9, in Khabarovsk Krai in Far Eastern Russia (population: 590,000), the governor Sergei Furgal, who had been critical of the administration, was arrested on charges of involvement in several murders in 2004-2005. This sparked a protest on July 11 by 30,000 citizens claiming that the arrest was politically motivated and demanding his immediate release. On July 18, an anti-Putin rally was held, gathering around 20,000 people. The protests have inspired similar social action in other regions including Vladivostok, the capital of the neighboring Primorsky Krai.

The Constitutional amendment in theory allows President Putin to stay in power for two more terms or till 2036. However, widespread frustration over the government’s heavy-handed approach has been mounting, fueled by a prolonged economic recession. President Putin has said that it has not yet been decided whether he will run in the next presidential election (2024), but his administration is certain to face difficulties going forward. As such, Japan and other countries must draw up their Russia policies (including for energy) flexibly, anticipating volatility in Russia’s domestic politics. (As of July 29)



Past IEEJ Events

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)



IEEJ e-Newsletter Editor: Yukari Yamashita, Director
IEEJ Newsletter Editor: Ken Koyama, Managing Director
Inui Bldg. Kachidoki, 13-1 Kachidoki 1-chome, Chuo-ku, Tokyo 104-0054
Tel: +81-3-5547-0211 Fax: +81-3-5547-0223



IEEJ : August 2020 ©IEEJ 2020