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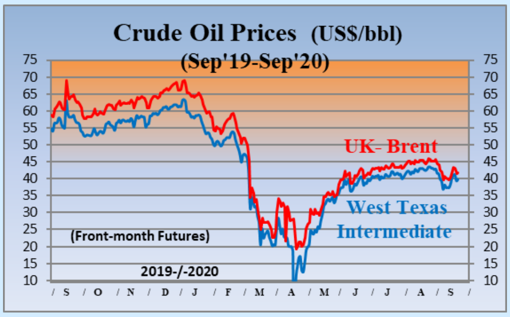
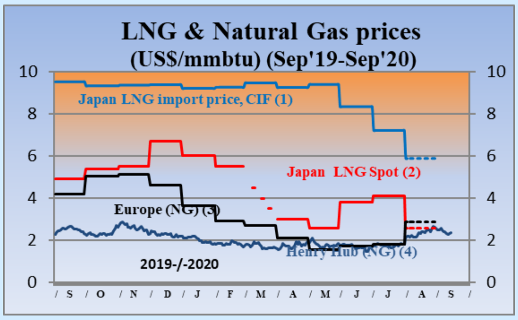
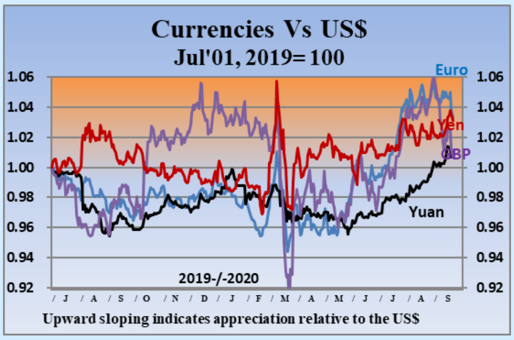



**Sources:**
**(1) DOE-EIA**
**(2) Investing.com**




**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)**




**Source: x-rates.com**


**Sources:**
**(1) Finance. Yahoo.com**
**(2) Investing.com**

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With the Democratic and Republican National Conventions finished, the US presidential election has entered the final stretch culminating on voting day in November. The effects of containing Covid-19 and the economic recovery, as well as the situation of race-fueled riots, require attention.

**2. EU: Recent Moves by European Majors**

There have been significant moves among European majors, including BP which has announced a new strategy centered on greatly ramping up low-carbon investment and cutting oil and gas production by 40%. Fossil fuel companies are also paying attention to the EU's methane strategy.

**3. China: Support for Expanding the Use of New Energy Vehicles**

China decided to scale back the decrease in subsidies for new energy vehicles and to extend their duration, and released the target credit ratio up to 2023. Full-year sales of NEVs are expected to reach 1.1 million units with measures to boost sales.

**4. ME: Israel-UAE Peace Agreement**

The UAE agreed with Israel to establish diplomatic ties, becoming the third Arab nation to do so following Egypt and Jordan. There was a ministerial reorganization in Oman, and new foreign and finance ministers were appointed.

**5. Russia: Draft Hydrogen Energy Development Strategy, Strengthened US Sanctions**

Along with the global moves toward a low-carbon society and utilization of hydrogen, Russia, too, has formulated a hydrogen energy development strategy. Even as the US strengthens sanctions against Russia, Russian fuel oil exports to the US are steadily increasing.

# 1. US: Election Campaign Enters Final Stage as DNC and RNC Close

**Ayako SUGINO**, Senior Researcher
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With the Democratic and Republican National Conventions now behind us, the US presidential election has entered the final stretch culminating on November 3, voting day. Joe Biden has held a constant lead over Donald Trump ever since announcing he was running for president, but the lead, which once grew to 9.8 points in June, has shrunk to 6.9 points as of August 29. With the number of new Covid-19 cases declining since the end of July, the popularity ratio is likely to be affected by indicators showing the pace of decline of infections and the strength of economic recovery. Further, race-based riots continue in various parts of the country. The battle between those criticizing President Trump as racist and those subscribing to his focus on “law and order” looks certain to continue.

In his acceptance speech, Mr. Biden named climate change as one of the four crises the US faces and indicated that it will be tackled as a key issue. At the Republican National Convention, several speakers described Mr. Biden as a “radical leftist” who opposes fossil fuels and hydraulic fracturing and aims to do away with fossil fuels. In reality, Mr. Biden has only called for restricting new fracking on federal lands and shifting the power sector away from fossil fuels, understands the positive effects of shale development on local economies, and admits that fossil fuels must continue to be used for a long time in non-electricity sectors while making necessary improvements in efficiency. However, there is a yawning chasm between the centrists and leftists in the Democratic Party who are far from uniting, and young liberal lawmakers continue to try to grab power from incumbent centrists. Alongside the presidential election, attention must be paid to the Congressional election to see whether the Biden administration, if inaugurated, would be more moderate or progressive than promised during the campaign, and whether there will be a generation change of Democratic lawmakers in Congress, which would result in young lawmakers averse to moderation and compromise heading the negotiations with the president and the Republican Party.

Meanwhile, there is much debate on how the Covid-19 crisis will change lifestyles and industrial activity, and the fossil fuel industry is no exception. Oil field service company Baker Hughes and French oil major Total have reportedly distributed helmets equipped with a camera and communications device to their operating sites around the world, enabling technical troubles at oil fields and refineries to be handled remotely. Oil and gas companies have been digitizing information and operations since long before Covid-19 to streamline the production process and cut costs; it is interesting that the severe restrictions on transport and contact are accelerating the adoption of advanced digital technologies.

Improving production efficiency helps reduce the amount of GHG generated throughout the lifecycle of fossil fuels, but can also result in fewer jobs. Around 120,000 jobs were lost in the US oil industry in the 2014–2015 oil price crash and the situation had not fully recovered when Covid-19 struck. Now with the current advance in digitization, those jobs may be lost forever. Whether the increasingly influential liberals will soften their views on the oil industry that is “decarbonizing and creating more digital-related jobs” or whether the oil industry will lose its sway over even the Republican Party will affect how the elections change the industry’s future prospects and political influence.    (As of August 28)

## 2. EU: Recent Moves by European Majors

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

Due to the impact of Covid-19, European oil majors are suffering poor results also in Q4 2020, and so are revising their future business and management strategies. One example noted is the growing interest in asphalt, a paving material, as the prices of fuels such as gasoline, aviation fuel, and diesel oil remain stagnant. Total announced plans to establish a JV with the Indian Oil Corporation to produce and sell high-quality asphalt and special products for India's fast-growing road construction industry. The new JV will produce high-quality materials such as innovative asphalt products, polymer-modified asphalt, and rubber powder-modified asphalt. The JV plans to first establish a manufacturing network in India but will also seek opportunities in other South Asian markets. With Covid-19 causing havoc in the supply-demand balance of petroleum products and as demand for high-sulfur oil declines due to the IMO's tougher sulfur content regulations for marine fuel oil, these moves by Total indicate how it is adapting to the changing petroleum product market.

Other European majors are taking specific action as part of their energy transition strategies, such as the 2050 net zero-emission target. Below are some of the most recent efforts.

On August 3, Royal Dutch Shell announced that it had agreed to purchase an Australian environmental services company, Select Carbon. Select Carbon engages in carbon farming, in which the carbon dioxide in the atmosphere is captured in the soil through agricultural products, and runs 70 projects covering 9 million hectares of farmland throughout Australia. The purchase is part of Shell's plans to achieve net-zero emissions by 2050, and the company is purchasing an energy retailer for businesses and industry and a residential battery and solar panel manufacturer, and is also investing in solar power producers in Australia.

Meanwhile, BP announced its new strategy for the next 10 years. The company aims to build an integrated portfolio of low-carbon technologies including initial positions of renewable energy, bioenergy, hydrogen, and CCUS within the next 10 years and to increase its annual low-carbon investment by 10-fold to roughly $5 billion. The company aims to have developed around 50 GW of net renewable generating capacity, a 20-fold increase from 2019, by 2030 and expects to reduce its oil and gas production by at least one million barrels of oil equivalent a day, or 40%, over the same period. BP will unveil more details on how it will achieve its net zero emission target in September; its specific long-term strategy based on this announcement remains to be seen.

European oil majors are in the process of selling off non-core assets and expanding investment in the low-carbon business centering on renewable energy development. Fossil fuel companies are awaiting the methane emission regulation which the European Commission is to unveil in September. While the regulation reportedly will not set any binding standards on natural gas, it is expected to have a major impact on each company's efforts for achieving their long-term decarbonization targets. (As of August 28)

## 3. China: Support for Expanding the Use of New Energy Vehicles

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

The number of new energy vehicles (NEVs, such as electric vehicles (EVs) and fuel cell vehicles (FCVs)) sold in China surpassed one million units in 2018, the first country to do so, reaching 1.26 million units. However, sales declined in 2019 by 4% year-on-year to 1.21 million units, the first such fall since sales started in 2009. This was partly due to the 0.5 point year-on-year fall in economic growth to 6.1% because of the severe US-China trade friction, etc. but was probably mainly due to NEV purchase subsidies being cut by up to 58% (the upper limit for subsidies for passenger EVs with a cruising distance of 400 km was lowered from 66,000 yuan to 27,500 yuan). Since the start of this year, sales have constantly been lower than last year, and now with the additional impact of Covid-19. The government therefore launched a quick succession of revisions to NEV expansion policies that can also greatly help the economic recovery.

On April 22, the Ministry of Finance and others announced an extension of the end of the NEV acquisition tax exemption (ad valorem duty, 10%) from 2020 to 2022. On the next day, the 23rd, the "Notice on improving the soundness of the financial subsidy system for expanding NEVs" was released. This notice announced a two-year extension of the end of the subsidy, which was initially due to end this year, and the amount of subsidies for 2020–2022 which were set to minus 10%, 20%, and 30% from the previous year, respectively. For example, the upper limit of subsidies for passenger EVs, which was 27,500 yuan in 2019, was originally to be halved to 13,800 yuan in 2020 and to become zero from 2021. However, with the revision, the upper limit was increased to 24,900 yuan in 2020, 19,800 yuan in 2021, and 13,900 in 2022. The aim is to boost sales by scaling back the decrease in subsidies and extending their duration. Further, regarding the requirements for eligibility, the required cruising distance was raised from 250 km to 300 km and a price limit of 300,000 yuan was set for charging-type EVs which would be subsidized, but for replaceable battery EVs, no price limit was set. The aim is to help improve the performance of NEVs and accelerate the development of replaceable battery EVs. For FCVs, the notice states that the type of support will change from purchase subsidies to support for technological development, production, and hydrogen infrastructure construction in model cities. The aim is to allocate limited resources to selected cities, thereby encouraging the commercialization of the FCV industry.

Next, on June 22, the Ministry of Industry and Information Technology and others revised the NEV regulation and credit trading system. The regulation imposes on target companies an NEV sales ratio requirement against their annual sales of engine vehicles. Any excess or shortfall will be settled with trading credits. The system was launched in 2019 aiming to efficiently expand the use of NEVs by using the market mechanism. There was some criticism that the target credit ratio of 10% in 2019 and 12% in 2020 might be too high, but the system was successful in encouraging technological development and market competition. The fact that Japanese, US, and European automakers are running NEV businesses in China is proof of this success. With the revision, the target ratio will be raised to 14% in 2021, 16% in 2022, and 18% in 2023, indicating the country's determination to press ahead with the shift to NEVs despite Covid-19. Further, on July 14, the Ministry and others agreed on a campaign to promote the use of NEVs in rural areas. This aims to expand the NEV market to cover rural areas as well as cities by urging automakers to provide preferential treatment including special discounts.

According to the China Association of Automobile Manufacturers, 486,000 NEVs were sold in January–July, down 33% year-on-year, but the figure rose to 98,000 units in July, up 19% and turning positive for the first time in 12 months. The Association predicts that the full-year sales will reach 1.1 million units as policy effects gradually emerge.

## 4. ME: Israel-UAE Peace Agreement

**Shuji HOSAKA, Board Member**
Director of JIME Center

On August 13, US President Trump, Prime Minister Netanyahu of Israel, and Crown Prince Muhammad bin Zayed of Abu Dhabi, UAE had a telephone conference in which they agreed on the complete normalization of diplomatic relations between the UAE and Israel. If bilateral ties with Israel are indeed established, the UAE will become the third Arab country to do so following Egypt and Jordan.

The UAE had long been at odds with Israel over the Palestinian issue, but began to approach Israel in the mid-1990s, causing speculation about the establishment of diplomatic relations in recent years. According to the joint statement, representatives of the UAE and Israel will sign bilateral agreements regarding investment, tourism, direct flights, security, telecommunications, technology, energy, healthcare, culture, the environment, the establishment of reciprocal embassies, and other areas. Meanwhile, Israel will suspend declaring sovereignty over the occupied West Bank.

The move was welcomed by Egypt and Jordan, which already have diplomatic relations with Israel, as well as Bahrain and Oman, which look set to follow the UAE. However, it outraged Palestine and resulted in the Palestinian foreign ministry recalling its ambassador to the UAE. Further, media reports criticizing the UAE’s actions have appeared in Qatar, which is not on good terms with the UAE.

On August 31, Israel’s National Security Council Chief Meir Ben-Shabat and US Senior Advisor to the President Trump, Jared Kushner visited Abu Dhabi from Tel Aviv using Israel’s EL AL Airlines, and began talks with senior government officials of the UAE. At almost the same time, mysterious gas explosions occurred in the center of Abu Dhabi and Dubai, causing casualties. The UAE authorities denied the possibility of terrorism, but terrorist organizations Islamic State (IS) and Al-Qaeda have both denounced the UAE. In particular, the latter has been calling for attacks on Abu Dhabi’s Crown Prince Muhammad and Saudi Arabia’s Crown Prince Muhammad.

Meanwhile, on August 18, Sultan Haitham bin Tariq of Oman issued a series of decrees on the sweeping reorganization, integration, and abolition of ministries and government agencies. A new cabinet was also formed, appointing new foreign and finance ministers, posts which have long been served by the former ultan, Qabus. With these appointments and shake-up, Sultan Haitham, who ascended to the throne in January this year, is beginning to demonstrate his originality.

On August 20, US State Secretary Mike Pompeo announced to the UN Security Council that the US would trigger a “snapback” (to restore all UNSC resolutions against Iran) in light of material non-performance of JCPOA by Iran. The State Secretary then argued that the sanctions (against Iran) will be re-imposed on September 20, but this is considered unlikely to happen.

In Libya, where the chaos has been continuing, the Government of National Accord (GNA) based in Tripoli and the House of Representatives based in the east announced that all battles would be halted immediately and a nationwide election would be held soon. However, it is not clear what the Libyan National Army led by ”General” Khalifa Haftar that has advanced into Tripoli will do, nor how Egypt, the UAE, and Russia which have hitherto supported Haftar will react. (As of August 28)

## 5. Russia: Draft Hydrogen Energy Development Strategy, Strengthened US Sanctions

**Sanae Kurita**, Senior Researcher
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Strategy Research Unit

As the use of hydrogen attracts growing attention around the world in the transition to a carbon-free society, Russia has been rushing to draw up a national hydrogen energy strategy. In July, the Ministry of Energy of the Russian Federation submitted a draft road map entitled "Development of hydrogen energy in Russia for 2020–2024" to the government. The road map features the improvement of technical regulations concerning the production, transport, storage, and utilization of hydrogen and its combination with methane, support for pilot hydrogen production projects, and engaging in international cooperation in hydrogen energy. Further, Gazprom and Rosatom are reportedly planning to start producing hydrogen in 2024 for the first time in Russia, with Novatek also showing interest in entering the hydrogen business. Tass News Agency has reported that once the road map is in place, the Ministry of Economic Development, Ministry of Energy, Ministry of Industry and Trade, Ministry of Transport, and other ministries will start work toward the road map's goals. According to Russia's energy strategy up to 2035 approved by the government in June 2020, Russia is aiming to increase the production of hydrogen sourced from renewable and nuclear energies as well as natural gas-sourced hydrogen, and to export 200,000 tonnes of hydrogen in 2024 and 2 million tonnes in 2035.

On July 15, the US State Department made it clear that the government will revise the public guidance under Article 232 of "The Countering America's Adversaries Through Sanctions Act (CAATSA)," a law enforcing economic sanctions against Russia enacted in August 2017, to include energy transport pipelines from Russia including Nord Stream 2 and Turk Stream 2. The Department said that the sanctions may also be applied to investment in pipelines and to offering engineering services related to pipeline-laying ships and the laying of pipelines, and implied that no additional sanctions will be imposed now but would be introduced immediately if required.

Meanwhile, Russian fuel oil exports to the US are steadily increasing. The amount of Russian petroleum product exports to the US surpassed 5.3 million tonnes in the first half of 2020, the highest since 2004. After the US imposed an embargo on Venezuelan oil in 2019, US refineries began to import more fuel oil to replace Venezuelan heavy oil; the recent fall in shipping costs has apparently caused them to turn to reasonably-priced Russian fuel oil. According to media reports, Russian fuel oil exports to the US were 1.08 million tonnes in July, up 16% year-on-year. Ironically, the US economic sanctions on Venezuela eventually ended up benefiting Russia.

On August 11, the Russian Federal State Statistics Service announced the country's real GDP growth rate (preliminary) for the second quarter of 2020. GDP shrank by 8.5% year-on-year, plunging from plus 1.6% for the first quarter of 2020 and marking the worst decline since the 2008–2009 financial crisis. The result directly reflected the negative impact of lockdowns enforced at the end of March after a surge in Covid-19 cases, in which the travel sector saw a decline of 79% and the service sector 37.2%. Prior to this announcement, on June 8, the World Bank had lowered its full-year real GDP growth rate forecast for Russia to minus 6.0% (from plus 1.6% as of January 2020), and in July, the IMF had also lowered its forecast to minus 6.6% (from 5.5% as of April 2020). The number of new Covid-19 cases daily surpassed 10,000 in May, but then gradually eased to 4,993 on August 31. Attention must be paid to future developments, including the effectiveness of the world's first Covid-19 vaccine and its impact on the economy. (As of August 28)

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