



# IEEJ e-NEWSLETTER

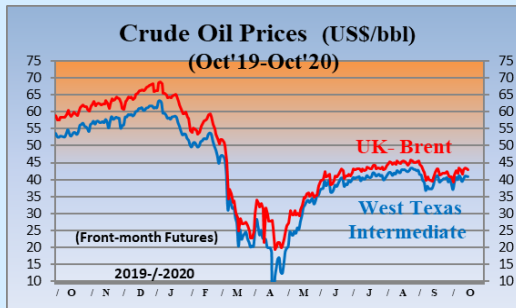
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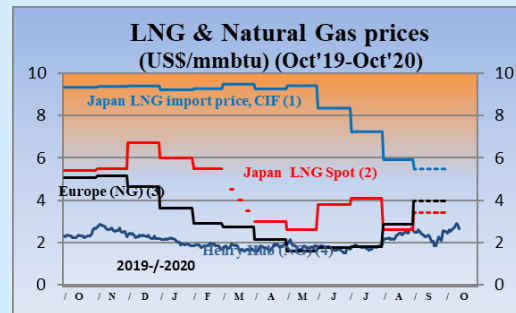
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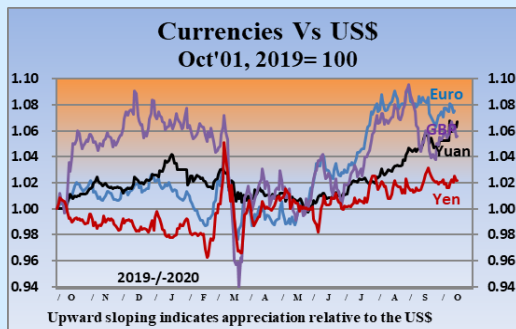
(As of October 16, 2020)



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 (Netherlands 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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## Summary

### **【Global Monitoring】**

#### **1. US: The California Power Crisis and Storage Batteries**

On August 14 and 15, the State of California suffered rolling blackouts for the first time in 19 years due to insufficient electricity supply. Factors included a decline in imports from outside and delayed introduction of storage batteries as a countermeasure.

#### **2. EU: Strengthened Security for Critical Raw Materials**

On September 3, the European Commission released the Action Plan for Critical Raw Materials and the 2020 EU Critical Raw Materials List, newly including lithium. It is hoped that these will benefit Japan's critical raw material security.

#### **3. China: China Declares Plans to Go Carbon-Neutral before 2060**

On September 22, President Xi Jinping declared that China's CO<sub>2</sub> emissions will peak before 2030 and that carbon-neutrality will be achieved before 2060. The future plans being drawn up deserve close attention.

#### **4. ME: Israel Continues to Normalize Diplomatic Ties with Neighboring Countries**

Bahrain signed a diplomatic normalization agreement with Israel following the UAE. A new regional order including Israel is starting to be established in the Middle East as the Palestine issue remains unresolved.

#### **5. Russia: Will the Putin Regime Regain Stability after the Constitutional Revision?**

The Russian Constitution was amended through a referendum amid the deepening Covid-19 crisis, virtually 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. US: The California Power Crisis and Storage Batteries

Junichi OGASAWARA, Senior Research Fellow  
Manager, Electric Power Group  
Assistant Director  
Electric Power Industry & New and Renewable Energy Unit

On August 14 and 15, the State of California suffered rolling blackouts due to insufficient electricity supply as demand soared due to a massive heat wave. A Stage 2 emergency was also declared on September 5–6 as demand soared and customers were urged to curb power consumption. This was the first Stage 2 emergency to be declared in 14 years since 2006, and the Stage 3 emergency, under which rolling blackouts were conducted, was the first in 19 years since the California power crises in 2000 and 2001.

The rolling blackout on August 14 was caused by the failure of power generation equipment at the Blythe Energy Center (loss of 475 MW of power), in addition to a partial load shutdown at 18:36 on the same day due to soaring demand (power distributors were ordered to implement a proportional cut of 1,000 MW in total). The August 15 rolling blackout was reportedly caused by a partial load shutdown conducted at 18:25 as the area imbalance widened to 1,421 MW due to a drop in the initial wind power (a proportional cut of 470 MW in total was ordered). However, the cause was later found to be the scheduling coordinator (equivalent of a balancing group in Japan) issuing an erroneous instruction to cut 248 MW of electricity to the Panoche Energy Center. Another Stage 2 emergency was declared on August 17, but a load shutdown was averted thanks to calls to curb electricity consumption.

The maximum generation on August 14 was 46.78 GW, which exceeded the maximum of 44.30 GW in 2019 but was not abnormal compared to 50.12 GW in 2017 and 46.43 GW in 2018 and was lower than the highest maximum generation of 47.76 GW in five years. Compared to August 2019 when the state depended on imports from outside and renewable power for 40 to 50% of power at the peak, the percentage was around 30% on August 14–18, 2020, and therefore it is considered that the decline in supply capacity was the direct cause of the supply crunch. The supply-demand balance tightened again on September 5 and 6 as the maximum generation soared to 45.96 GW and 46.86 GW but was overcome by requesting users to cut back their power consumption.

The State of California is currently working to introduce storage batteries, but they are used mostly for secondary adjustment to stabilize the frequency rather than for energy trading which would enable a peak shift. As a result, revision of the system to facilitate the use of storage batteries and EV batteries in energy trading was not completed in time for the recent electricity shortage even though it was at the final stage, preventing the batteries from being used effectively during the problem. In California, the installed capacity of gas-fired thermal power has been declining since 2014. As an alternative source, private power companies have been required to install 1,325 MW of storage batteries since 2020, which is expected to be completed by around 2024. According to a survey by the US Energy Information Administration, the US has 204 MW of installed storage battery capacity as of June 2020, with an additional 694 MW due to be installed in 2020. The supply problems this time occurred during the transition of supply sources and illustrate the difficulty of introducing batteries “as scheduled” based on government policy in a liberalized power market.

Joe Biden maintains his lead in the presidential election, and the presidential TV debates starting on September 29 are eagerly anticipated. (September 25)



## 2. EU: Strengthened Security for Critical Raw Materials

Ichiro Kutani, Senior Research Fellow, Manager  
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On September 3, the European Commission released the Action Plan for Critical Raw Materials (“the Action Plan”) and the 2020 EU Critical Raw Materials List. First published in 2010 and revised in 2014, these documents were revised again to reflect the latest situation. The Action Plan aims to minimize the dependency on supplies from outside the EU for critical raw materials by strengthening the ability to secure such materials within the EU, diversify external supply sources, and correct the distortion in international trade. Regarding the thirty raw materials included in the revised list, the addition of lithium is notable. Lithium is indispensable for manufacturing lithium-ion batteries and its usage is expected to increase for electric vehicles and distributed storage batteries, in addition to mobile devices for which it is already used in huge quantities. However, the production of lithium is dominated by the four countries of Chile, Australia, Argentina, and China, and Japan depends entirely on imports. In view of these circumstances, the security of lithium supplies is clearly critical and the European Commission had every reason to add it to the new list.

According to media reports, Europe is also set to launch a new collaborative framework for critical raw materials at the end of this month. An organization similar to the European Battery Alliance for batteries established in 2017 is being considered. Joined by the European Commission and the governments of its member states, the European Investment Bank, and industry groups, the European Battery Alliance’s goal is for Europe to acquire world-leading technologies and to promote industry. Not only the governments and relevant companies but also financial institutions will be an integral part of its activities. Europe is expected to build a similar structure for critical raw materials and to set up an organization for firmly ensuring the supply security of critical raw materials. Under this framework, Europe, which is not only developing critical raw materials within the region, is expected to urge the international community to “correct distortions in international trade.” This should work in favor of the critical raw material security of Japan, which depends on imports of these materials. The affected countries have not forgotten China’s past export ban on rare earth materials. Enhancing the transparency of critical raw material management around the world and ensuring fair trade are in line with Japan’s interests.

Behind such moves also is the Covid-19 pandemic. A European industry association on critical raw materials has pointed out that Covid-19 has revealed Europe’s vulnerability and high dependence on the import of critical raw materials, threatening the productivity and competitiveness of its major industries. The association has also argued that mineral resources are essential for batteries and renewable energy technologies and a shortage could threaten Europe’s climate actions. The need to diversify and strengthen supply chains and the importance of rare metals in clean technologies are common to Japan as well. Collaborating with Europe to improve the international management of such materials would strengthen Japan’s security for these raw materials. (September 25)





### **3. China: China Declares Plans to Go Carbon-Neutral before 2060**

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On September 22, President Xi Jinping delivered a video speech at the general debates of the UN General Assembly. Concerning preventing climate change, he highly praised the Paris Agreement for clarifying the general direction of the transition to a low-carbon society and called on the international community to comply with the Agreement as the minimum action needed to protect the Earth. At the same time, he declared that China will reach peak CO<sub>2</sub> emissions before 2030 and achieve net-zero emissions, namely, carbon-neutrality before 2060, in a bid to enhance its contribution to the Agreement.

As international negotiations on climate change struggle to make progress and with COP26 postponed to 2021 due to Covid-19, China is trying to enhance its presence as the driver of global warming prevention by showing its commitment to comply with the Agreement to the international community at the UN General Assembly. It also appears to be seeking to highlight its difference from the US Trump Administration which has withdrawn from the Paris Agreement based on its America-first policy, while forging closer collaboration with the EU which is keen to tackle global warming.

In China, the standing committee of the National People's Congress (the equivalent of a national parliament) adopted in 2009 a resolution to aim to achieve a low-carbon society. Since then, the government has ramped up its efforts to lower emissions, while actively participating in the UNFCCC negotiations. To date, China submitted in 2010 its voluntary medium-term action target to reduce its CO<sub>2</sub> emissions per unit GDP (emissions intensity) by 40–45% from 2005 levels by 2020, and submitted in 2015 an NDC (Nationally-Determined Contribution) to reduce the emissions intensity by 60–65% by 2030 and to reach peak total emissions as early as possible by around 2030. In this remarkable third announcement of its aspirations, China brought forward its timing for reaching peak total emissions from “around 2030” to “before 2030” and mentioned for the first time that it will aim for carbon-neutrality, setting a clear deadline of before 2060.

Regarding the global warming prevention effect of the new target, Chinese experts have said that, if achieved, it would bring forward the timing of reaching carbon-neutrality of the entire world by 5–10 years. Climate Action Tracker (CAT), an independent research institute, has estimated that China's new target, if achieved, would curb the rise in temperature due to global warming by 0.2–0.3°C within this century, according to some media reports.

Latest statistics show that China's emissions intensity fell by 48.1% from 2005 levels in 2019, surpassing the 2020 voluntary action target ahead of schedule. This was a result of comprehensive measures including assigning a target for energy saving, renewable energy usage, and emissions reduction for each region and introducing a reprimand system to hold each region responsible for achieving those targets, and providing government assistance for renewable energy development and the spread of new energy vehicles. However, it will not be easy to achieve the new target. The Fourteenth 5-year Plan that starts next year and ends in 2025 and the long-term vision up to 2035 will have to be formulated so as to guarantee that the new target will be achieved. The key is whether a binding control on the total quantity of CO<sub>2</sub> emissions can be implemented and whether a national market for carbon emissions credit trading, which is believed to be effective for efficiently achieving the regulatory targets, can be launched. The frameworks for these future plans are to be deliberated at the Fifth Plenary Session of the 19th CPC (Communist Party of China) Central Committee scheduled for October. The progress deserves close attention.



#### **4. ME: Israel Continues to Normalize Diplomatic Ties with Neighboring Countries**

Sachi SAKANASHI, Senior Research Fellow  
Assistant Director, JIME Center

On September 15, a ceremony was held at the White House for the signing of a treaty on the normalization of diplomatic ties between Israel and the United Arab Emirates (UAE), and a declaration to the same effect between Israel and Bahrain. The ceremony was attended by the UAE Foreign Minister Abdullah bin Zayed Al Nahyan and Bahrain's Foreign Minister Khalid bin Ahmed Al Khalifa, alongside President Trump and Prime Minister Netanyahu of Israel.

Israel declared independence in 1948 after occupying an Arab land originally called Palestine, causing a large number of Palestinians to become refugees and diplomatic normalization with Israel has long been a taboo for Arab nations. After the 1973 Arab–Israeli War, Egypt decided to establish diplomatic ties with Israel on its own in 1979, followed by Israel's neighbor, Jordan, which signed a peace treaty with Israel in 2004. Since then, however, no Arab country had normalized diplomatic ties with Israel in 16 years until the UAE did this summer.

Founded in 1971, neither the UAE nor Bahrain has fought a war with Israel and their confrontational stance against the country was simply due to the “Arab cause.” However, the defenders of the Arab cause have lost influence one after another over time and as a result, the belief that “the Palestine issue must be solved first” appears to have faded.

Thus, the recent moves by UAE and Bahrain will not resolve the Palestine issue (usually called the “Middle East Peace issue”) but rather, have been made possible by setting aside the problem of Palestine. If the other Arab simply ignores the anger of non-Arab nations such as Iran and Turkey and follow UAE and Bahrain, Palestine will only be even more isolated.

The Democratic presidential candidate Joe Biden has welcomed the Israel-UAE peace agreement, and the normalization of diplomatic ties between Israel and neighboring countries is likely to continue even if Mr. Biden wins the election in November. What might change if Mr. Biden becomes president is US policy toward Iran. The Trump Administration's “maximum pressure” policy, starting by withdrawing from the Iran nuclear deal (JCPOA), has met maximum resistance from Iran and the situation has reached a stalemate. In contrast, Mr. Biden has openly stated that the US will return to JCPOA if he becomes president, and in that case, the current maximum pressure policy is expected to be corrected.

However, President Trump has boasted that normalizing relations between Israel and Arab nations is his achievement, trying to make most of it to increase his chance of reelection. Without the knowledge of who will be elected the US president in November, the only thing that is clear is that a new regional order is emerging as a result of the thorough containment of Iran by the Trump Administration, with Israel as its major power. (September 25)



## **5. Russia: Will the Putin Regime Regain Stability after the Constitutional Revision?**

**Shoichi ITOH**, Manager, Senior Analyst  
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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 public opinion 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, already announced that the plan’s deadline would 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 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, mass media are increasingly 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 actions 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 for the next presidential election in 2024. Given that the Putin regime is likely to face more difficulties going forward, Japan and the other countries should take into account of foreseeable volatility in Russian domestic politics in formulating policies and strategies toward Russia, including the field of energy



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