IEEJ e-NEWSLETTER

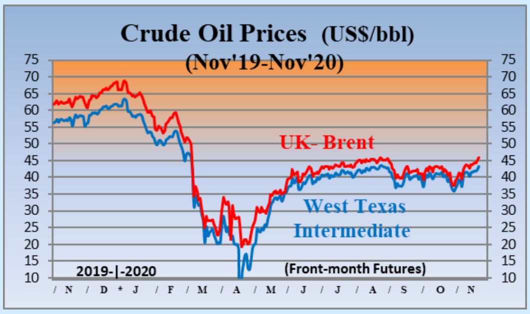
No. 197

(Based on Japanese No. 206)

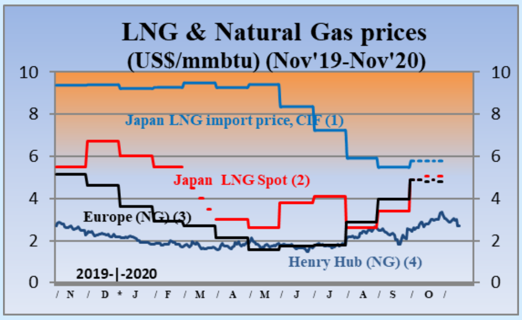
Published: November 23, 2020

The Institute of Energy Economics, Japan

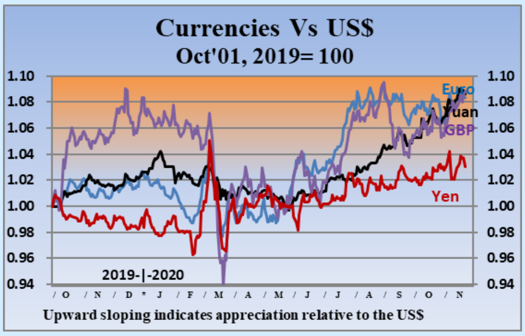
(As of November 23, 2020)



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 (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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Following the death of Shaikh Sabah of Kuwait, Crown Prince Shaikh Nawwaf ascended to the throne, and the deputy head of the National Guard, Shaikh Mishaal, was named the new crown prince. Kuwait faces many difficult problems in foreign affairs and domestic politics; developments must be closely watched.

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With the West strengthening its sanctions against Russia and with great uncertainty about how the world economy will recover from Covid-19 and other issues, it is not clear whether Russia can achieve economic development by increasing oil and gas exports.

1. Growing Attention on the Course of US Climate Policies

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The US is less than a week away from the presidential election. The presidential debate on October 22 was calmer than the previous one and more highly regarded, but it did not greatly boost support for Trump's campaign. Public surveys suggest that the Democrats are likely to maintain their lead heading into voting day.

Climate action was one of the topics covered in the debate. President Trump criticized the Democratic challenger Joe Biden as being hostile to the oil industry, causing Biden to correct himself and explain that there will be no total ban on shale development and restrictions will be imposed only on new development projects on federal lands, while stressing that a "transition" from the oil industry is necessary. Biden also said that his Covid-19 policy will be based on scientific grounds and not fake news; respect for science is a cornerstone of his environmental policy as well.

The Biden campaign's promises include an ambitious target of achieving net carbon-neutrality by 2050 and the principle that emitters bear the social cost of carbon emissions. However, the campaign has discreetly avoided the term "carbon pricing" regarding how to pass on the cost to society. However, "carbon pricing" was mentioned in the action plan adopted by the U.S. House Select Committee on the Climate Crisis in June 2020. The action plan was adopted by only the Democratic lawmakers of the Committee which consists of 10 Democrats and 5 Republicans and proposed, while acknowledging that there are various methods of carbon pricing, that: (1) Congress should formulate a method for carbon pricing covering all economic sectors, (2) maintaining fair competition conditions for energy-intensive, trade-dependent industries, (3) avoiding imposing burdens on low- and middle-income households and minority communities, and (4) respecting existing initiatives of states and municipalities and their lessons learned. As practical measures, the Committee suggested that Congress amend the Federal Power Act to direct the FERC to find the wholesale electricity rates of the market of a certain area as unjust, unreasonable, unduly discriminatory, or preferential (against fossil fuels) if they do not incorporate the external cost of greenhouse gas emissions, thereby leveling the playing field for technologies that will help the power sector to decarbonize.

This initiative for carbon-pricing through market regulation by the FERC has started without waiting for the transition to a Democratic government. In April this year, stakeholders including power companies requested the FERC to organize a meeting to discuss the technological issues that each state and other municipalities may have in incorporating carbon pricing in their wholesale electricity market on their own. In September, a technical meeting was convened for the purpose, at which many participants stressed the benefit of having a standard carbon pricing method for all states rather than each state having its own, and agreed that if ISO/RTO formulates a plan for incorporating carbon pricing in the wholesale electricity price, the FERC would have the legal authority to approve the plan if they believed it to be "just and reasonable." In October, the FERC began to invite comments on suitable considerations in screening ISO/RTO's carbon pricing plan.

The FERC is an independent regulator and its policy decisions are free from intervention by the government or political parties. However, it is believed that the FERC has suffered increasing politicization and partisanship in recent years, with a majority of FERC members currently affiliated with the Republican Party. Nevertheless, the above moves by the FERC indicate that policy does not suddenly change when there is a change in the ruling party or the majority party in Congress.

2. EU: France Releases an Environmental Assessment of Its National Budget

Kei SHIMOGORI, Senior Researcher
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Strategy Research Unit

At the end of September, the French government released its 2021 budget bill. Real GDP growth is expected to shrink by 10% in 2020 but rebound to 8% in 2021 as economic activity resumes. With the publication of the draft budget, a report called the “Green Budget” was released. The report assesses the national budget from the environmental perspective and France thus became the first to conduct such an assessment. France has taken part in the Paris Collaborative on Green Budgeting launched at the UN Climate Action Summit in December 2017, and with this experience, the assessment is considered to be a practical example of green budgeting. The purpose of green budgeting is to evaluate the alignment between a country’s revenue and expenditure processes with climate change and other environmental targets, to use the national budget as a means to help meet environmental targets.

The report describes the status of all considerations made in the national budget for each of the following six environmental target areas, irrespective of whether positive or negative: (1) fight against climate change, (2) adaptation to climate change and prevention of natural risks, (3) management of water resources, (4) circular economy, (5) fight against pollution, and (6) protection of biodiversity, nature, agriculture, and forestry. Of the 574 billion euros subject to assessment, expenditure of about 43 billion euros was determined to be environment-friendly. Further, an impact assessment was carried out for the 100 billion-euro recovery plan from Covid-19 released by France in early September. The assessment determined that 32 billion euros of expenditure are positive (having a favorable impact on the environmental target areas). Roughly 30% of the expenditures in the recovery plan was considered environment-friendly, indicating that France’s efforts are in line with the EU’s policy of “green recovery.” Meanwhile, the percentage of environment-friendly expenditures was less than 10% of the national budget, highlighting the fact that the environment is not the only factor in budgeting.

The recovery plan published by the French government allocates funds to the three preferential areas designated by the government: ecological transition, industrial competitiveness, and social and regional unity. For ecological transition, 30 billion euros will be allocated to helping improve home insulation and decarbonizing industries, green hydrogen, greener transport, and agricultural reforms, aiming to mitigate the impact of economic activity on the environment. Much of the expenditures in the green budget evaluated as favorable to the environment are considered to be related to ecological transition.

At the EU level, the multiannual financial framework (long-term budget, 1.743 trillion euros) and the recovery fund (Next Generation EU, 750 billion euros) each plans to allocate 30% of its expenditures to climate actions. As Europe is strengthening its environmental and climate actions, more countries may follow France and assess their national budgets from the environmental perspective.

The transition period for the UK to withdraw from the EU is approaching the end and negotiations on the future relationship are entering a difficult phase. Guaranteeing fishing rights and fair competition conditions are particularly difficult areas and both sides seem to be demanding concessions from the other. As last-minute adjustments continue heading toward the negotiation deadline, it remains extremely uncertain as to whether a no-deal Brexit can be avoided.

3. China: Efforts to Achieve Net-Zero Carbon Emissions

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On September 22, at the general debates of the UN General Assembly, President Xi Jinping declared that China will reach peak CO_2 emissions before 2030 and achieve net-zero emissions, namely, carbon-neutrality, before 2060. The international community welcomes and appreciates this new target but has pointed out the lack of information on specific measures. For example, Executive Director Fatih Birol of the International Energy Agency (IEA) reportedly said, "We have to see what kind of energy policies the Chinese government will put in place to reach the target, and how and when." Meanwhile, efforts to achieve the target in the country are accelerating.

On September 30, the Ministry of Ecology and Environment (MEE) overseeing China's climate change administration held an expert committee meeting and stated that the new target is a national strategy target that the Central Committee of the Communist Party and the State Council have decided in light of domestic and international circumstances, and the whole of society must be mobilized to achieve them. On October 13, Vice-Premier Han Zheng, who oversees climate actions, instructed the ministry to formulate an action plan for achieving the target and accelerate the preparation of a national market for carbon emissions credit trading. The ministry will be responsible for achieving the target, now that it has been decided top-down and announced as a public promise to the international community.

Is the new target achievable? On October 12, the Institute for Climate Change and Sustainable Development at Tsinghua University (ICCSD) revealed primary findings on China's long-term low-carbon development strategy and transition pathways. The research is a joint study started in January 2019 by 13 leading research institutions, including the Energy Research Institute and the Chinese Academy of Social Sciences, on 18 areas including socioeconomics, urbanization, energy conservation, and power source development. The research assumed four scenarios: (1) extension of the current policy, (2) accelerated reduction, (3) 2℃, and (4) 1.5℃. Energy-sourced CO_2 emissions are forecasted to peak by around 2030 under scenario (1), before 2030 under (2), around 2025 under (3), and before 2025 under (4). Energy-sourced CO_2 emissions in 2050 are estimated to decrease to 9 billion tonnes under (1), 6.2 billion tonnes under (2), 2.9 billion tonnes under (3), and 1.5 billion tonnes under (4). In particular, CO_2 emissions will become net-zero under scenario (4) since the 1.7 billion-tonne CO_2 emissions, when including non-energy sources, will be offset by 0.8 billion tonnes being absorbed by forests, etc. and 0.9 billion tonnes being collected and stored by CCS/BECCS, and real GHG emissions will be just 1.3 billion tonnes of non-carbon emissions. Professor He Jiankun, research leader and deputy director of the National Expert Committee on Climate Change, stressed that the decarbonization path under scenario (4) must be selected to achieve the new target. To do so, according to him, it is necessary to lower the ratio of coal in primary energy consumption to 5% or less in 2050 from 58% in 2019, increase the ratio of non-fossil energy to at least 85% from 15%, and increase the ratio of non-fossil power sources in power generation to at least 90% from 33%. It is estimated that energy-related new investment under scenario (4) will total 138 trillion yuan (2,070 trillion yen) between 2020 and 2050.

Xie Zhenhua, President of ICCSD and Special Advisor for Climate Change at MEE, expressed at this meeting that the research has provided powerful grounds for deciding the new target. This means that feasibility has been taken into account in setting this new target. Meanwhile, Vice Minister of MEE Zhao Yingmin has admitted that it will not be easy to achieve the target, and that the most urgent issues for the ministry are implementing the 5-year plan, which ensures that CO_2 emissions will peak before 2030, and creating the 2035 vision. These measures will be the first step to achieving the target; developments are keenly awaited.

4. ME: New Emir Crowned and New Crown Prince Named in Kuwait

Shuji HOSAKA, Board Member
Director of JIME Center

On September 29, Shaikh Sabah of Kuwait passed away. As a result, Crown Prince Shaikh Nawwaf ascended to the throne and their paternal half-brother and deputy head of the National Guard, Shaikh Mishaal, was named the new crown prince. Both the new emir and the new crown prince are in their 80s; the issue of handing over the monarchy to the next generation was put off. Responses among Arab countries varied, with Qatar and Oman sending their head of state to mourn for the deceased but Saudi Arabia and the UAE chose not to send their ruler.

The late emir Shaikh Sabah had made efforts to mediate between Iran and the Gulf countries and during the Qatar Crisis and the Yemeni war, but unfortunately without success. As the two successors have not played a central diplomatic role, there is concern over whether Sabah's diplomacy will continue. Kuwait has many difficult problems in domestic politics including the national assembly elections and the associated forming of a new cabinet, which will test the new administration's capability to respond.

On September 19, the US declared that all UN Security Council sanctions, which were lifted based on the Iran Nuclear Deal, had been reinstituted with the completion of the snapback procedures (restoring all UNSC sanctions against Iran). On October 8, the US announced the imposition of financial sanctions on Iran's 18 banks. Then, on October 18, it became possible for Iran to import weapons following the expiry of the UN Security Council's ban on exports to Iran. The US, however, has not agreed to the lifting of the ban and has warned that it will punish any organization involved in exporting weapons to Iran.

In Iraq, meanwhile, there has been a succession of attacks by Shia militant forces on US interests. US State Secretary Pompeo has told Iraq's Prime Minister al-Kadhimi that "the US will consider a full withdrawal from its embassy in Baghdad if the Iraqi government fails to take action against the attacks by pro-Iran militias on the US and the coalition of the willing," placing Iraq in a difficult position between the US and Iran. At the general debate of the UN General Assembly that began on September 22, Saudi Arabia and the UAE criticized Iran in their speeches, whereas Kuwait called for dialog with Iran, highlighting the division among Arab countries over their relations with the country. Furthermore, Iran's Foreign Minister Zarif visited China and met Foreign Minister Wang Yi on October 10, turning toward China as the US applies more pressure.

The UAE and Israel have rapidly deepened their mutual ties after signing a peace treaty, agreeing on a mutual visa exemption, and launching 28 flights a week by private airlines. At the private corporate level, a memorandum of cooperation has been signed between investment companies from both countries and business matching is under way between an Israeli high-tech firm and UAE oil money. Bahrain has also agreed with Israel to establish diplomatic relations. On October 23, news came in that Sudan and Israel had agreed to normalize diplomatic relations.

Meanwhile, Covid-19 is spreading rapidly in parts of the Middle East, with more than 5,000 new cases being confirmed in Iran and lockdowns being implemented in Israel, Jordan, and Oman.

5. Russia: The West Tightens Sanctions

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Strategy Research Unit

On September 26, Russia's Economic Development Ministry released a socioeconomic development forecast for 2021-2023. On the back of oil prices returning to $40 and the recovery of domestic spending, GDP growth is expected to turn positive to 3.3% year-on-year in 2021, 3.4% in 2022, and 3.3% in 2023 from minus 3.9% in 2020. This forecast is based on the following conditions: Urals oil price: $45.32/bbl in 2021, $46.6/bbl in 2022, and $47.5/bbl in 2023; oil exports: 231 million tonnes in 2021, 256.6 million tonnes in 2022, and 266.20 million tonnes in 2023; pipeline gas exports: 220.2 billion m^3 in 2021, 238.4 billion m^3 in 2022, and 240.5 billion m^3 in 2023; LNG exports: 30.3 million tonnes in 2021, 30.3 million tonnes in 2022, and 37.8 million tonnes in 2023.

On October 7, Polish competition authority UOKiK announced a fine of 29 billion zlotys (approx. $7.6 billion) against the Russian state-run firm Gazprom for laying pipes for the Nord Stream 2 pipeline without the authorities' approval. Nord Stream 2 will transport Russian gas to Europe via the Baltic Sea. Gazprom is unhappy with the decision and said it will appeal against the fine. UOKiK has also fined the five companies that are jointly funding 50% of this Gazprom-led project, namely Uniper (Germany), Wintershall (Germany), Shell, OMV (Austria), and ENGIE (France), a total of 234 million zlotys (approx. $61.32 million). On October 8, a Russian Foreign Ministry spokesperson condemned the Polish authorities, claiming that Poland's mammoth fine was driven by its intention to become the resale hub of US gas for Eastern European countries.

Since early October, the West has expanded the scope of its sanctions against Russia. On October 1, the EU Council decided to add four Russian firms and two persons to the sanctions list for engaging in acts that threaten the integrity, sovereignty, and independence of Ukrainian territories. On the 15th, in connection to the poisoning of Russian anti-government leader Alexei Navalny, the Council triggered sanctions against six Russian senior government officials close to President Putin and the research institution suspected of supplying the nerve agent Novichok. On the same day, Russian businessman and President Putin's close associate Yevgeny Prigozhin was also added to the sanctions list in connection with Russia's intervention in the civil war in Libya. On October 20, the US State Department released public guidance on Protecting Europe's Energy Security Act (PEESA), which was enacted in December 2019 as part of the National Defense Authorization Act. The guideline states that for the Nord Stream 2 or TurkStream pipeline project, or any project that is a successor to either project, the scope of the sanctions may include foreign firms or individuals who provide certain services or goods that are necessary or essential to the provision or operation of a vessel engaged in the pipe-laying process for such projects, not only those providing the pipe-laying vessels per se, as well as activities such as providing services, facilities, or funding for upgrades or installation of equipment for those vessels, thus expanding the scope of the sanctions.

For Russia to achieve the economic growth cited in the government's forecast, it must restore its oil exports to 2019 levels by 2023 and boost pipeline gas and LNG exports. However, with the West ratcheting up its sanctions against Russia and with uncertainty about the recovery of the world economy from Covid-19 and the global trend away from fossil-fuel based energies, it is not clear whether Russia can achieve economic development by increasing oil and gas exports.

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