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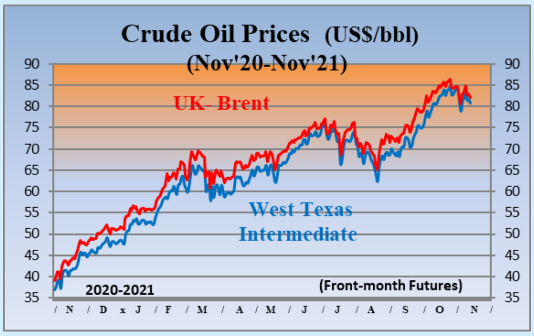
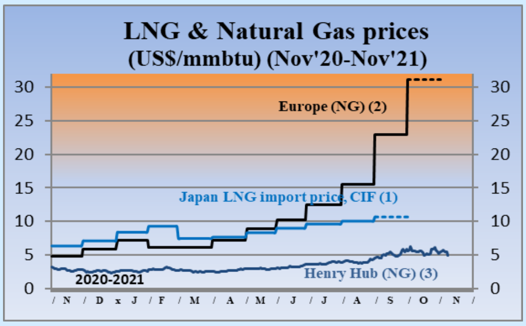
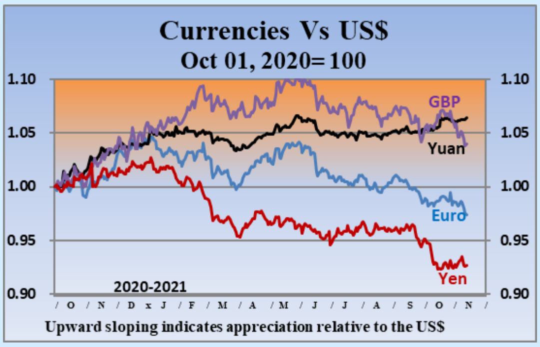


Sources:
(1) DOE-EIA
(2) Investing.com



Sources:
(1) Ministry of Finance "Japan Trade Statistics"
(2) World Bank (Netherland Title Transfer Facility)
(3) DOE-EIA, NYMEX (Front-month Futures)



Source: x-rates.com

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

Contents

Summary

【Global Monitoring】

1. US: Biden's Commitment to the Climate Being Tested

Soaring fuel prices are forcing the Biden administration to address three urgent challenges: inflation, which will impact the course of politics, the administration's trademark climate measures, and international leadership.

2. EU: Response to Soaring Energy Prices

The European Commission released a Communication on Energy Prices. In the UK, soaring energy prices are causing a string of electricity and gas retailers to exit the market. The impact on people's lives and industrial and economic activity deserve attention.

3. China: All-out Battle Launched for the Dual Goals of Decarbonization and Stable Power Supply

To simultaneously achieve decarbonization and a stable electricity supply, China has launched an all-out battle to expand renewables, reform coal thermal power pricing and curb coal prices. Developments in this initiative and its effects will continue to be monitored.

4. ME: Iraq Holds Parliamentary Election, Cabinet To Be Established in 2022

On October 10, Iraq held a parliamentary election to decide its 329 members. The election results are due to be finalized in early November and the cabinet to be formed in the first quarter of 2022. The UAE is improving ties with Qatar.

5. Russia: Surge in Covid-19 Cases and Role as a Major Gas Power

As the Covid-10 case count keeps setting a new record high each day, the government is urgently taking action. Russia denied allegations of politically-motivated reductions of gas supplies to Europe, and expressed its readiness to ramp up supplies at the request of European companies.

1. US: Biden's Commitment to the Climate Being Tested

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Last-minute efforts are continuing to get the Biden administration's climate policy bill through Congress before COP26.

The overall picture of the "human infrastructure" bill covering social security, education, and climate change remains unknown as of October 24, but reportedly, the Clean Electricity Performance Program (CEPP) for decarbonizing the power sector, the bill's key policy, has been dropped. Initially, progressive Democrats envisioned a mechanism that would include the nationwide launch of a clean electricity standard (CES), which would set a clean electricity sales requirement for electricity retailers, and exclude nuclear and natural gas from the scope of clean electricity. When this initial proposal failed to gain sufficient support, the CEPP, worth 150 billion dollars, was incorporated as an incentive program for power retailers to reduce the emission intensity of their electricity sales. However, even the CEPP was eventually dropped and was replaced with a tax credit increase for renewable electricity as a means to decarbonize the power sector. With the "human infrastructure" bill expected to be slashed to 2 trillion dollars from the initial 3.5 trillion, the Biden administration's climate promises, even if they pass Congress, will be much smaller in scale.

Meanwhile, as consumer prices including energy prices climb, polls show that more voters are blaming the Biden administration's policies for causing inflation, making it more difficult to gain support for climate measures in Congress. In August, as the energy cost burden on households and companies rose, the Biden administration called on OPEC member states to produce more oil to stabilize oil prices, drawing criticism from environmental advocates and the domestic oil industry, as well as Republicans. In October, the administration began to consider releasing strategic petroleum reserves, which are stocks in case of physical supply disruptions, and called on domestic oil companies to take measures to subdue oil prices. Sources in the energy industry pointed out a lack of experts on the oil industry in the administration.

The more immediate cause of the current increase in fuel prices is believed to be the rapid recovery in fuel demand after it nosedived during the pandemic, particularly the robust fuel demand in China. However, it is clear that the current situation, in which national governments are racing to decarbonize their economies and even companies are promising to decarbonize their business, is reducing the incentive to invest in fossil fuels. Coincidentally, the Financial Stability Oversight Council (FSOC), which consists of the secretary of the treasury and the heads of federal financial regulators, recently published a report advising its member agencies to implement GHG emission reduction initiatives within their authority. This is expected to further accelerate moves to withdraw from fossil fuel investments. Once COP26 closes, the administration is expected to deliver a keenly-awaited message on how to ensure consistency between long-term decarbonization goals and the short- to mid-term goal of "a cheap and stable energy supply."

2. EU: Response to Soaring Energy Prices

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In Europe, soaring energy prices have been the center of attention again in October. Gas and electricity prices are spiraling, raising concerns for further supply crunches and price hikes if severe cold weather hits this winter. The impact of the exceptional rise in prices is starting to spill over to consumer and corporate activities, and on October 13, the European Commission released a Communication on Energy Prices to tackle the situation.

As short-term national measures, the communication includes income support for households, state aid for companies, and temporary and targeted tax reductions. As medium-term measures, the Commission presented plans to support investments in renewable energy and energy efficiency, develop energy storage capacities, assess the current design of the electricity market, consider revising the security of supply regulation, and consider joint procurement by member states to fill up gas stocks. In addition, at the plenary session of the European Parliament on October 20, Commission President von der Leyen mentioned that the Commission is strengthening surveillance of gas and carbon markets to prevent speculation and is stepping up outreach to foreign companies to diversify gas suppliers. Unusually high energy prices should be dealt with primarily by member states themselves, but the issue is becoming impossible to ignore at the EU level. As winter approaches, attention is focused on whether the initiatives will produce results.

In the UK, the surging energy prices are causing a string of electricity and gas retailers to exit the market. Fourteen companies have already left the market since August 2021 (as of October 27). The customers of those companies are being transferred automatically to another company by the regulator Ofgem and protected from the price increase with an energy price cap. A number of energy-intensive industries have also announced the suspension and reduction of plant operations. This includes CF Industries Holdings, which temporarily suspended the operation of its ammonia plant in the UK. The company has since reached a provisional agreement with the UK government and an agreement with CO_2 suppliers and has resumed supplying ammonia and CO_2.

There are reports that discussions are under way on providing support to energy-intensive industries within the UK government, and further developments deserve attention. Meanwhile, petroleum products have also been in short supply in the UK since late September, though this was not caused directly by surging energy prices. Rather, the shortage was due to a lack of heavy goods vehicle (HGV) drivers, who are a crucial part of the supply chain, and panic-buying by consumers, even though stocks at refineries and hubs were at normal levels. The situation is a reminder that not only price increases but also product transport has a major impact on supply stability.

As surging energy prices capture attention in the UK, a series of energy strategies and plans are being announced ahead of COP26. Those announced in October include the Fusion Green Paper, a plan to decarbonize the UK's electricity system by 2035, heat and building strategies, and net-zero strategies. The future form and progress of the UK's 2050 net-zero emission initiatives will provide an invaluable reference going forward.

3. China: All-out Battle Launched for the Dual Goals of Decarbonization and Stable Power Supply

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China has been stepping up efforts to improve energy efficiency and transition to a fossil-free energy structure, aiming to achieve net-zero emissions before 2060. Amid these efforts, since the beginning of this year, power supply restrictions have been imposed in more than 20 regions including Guangdong Province, prompting power outages in Liaoning Province in the Northeast from September 23 to 25 to avoid an unscheduled blackout. The government has launched all-out efforts to simultaneously decarbonize the country and ensure energy supply stability, while fighting to beat the pandemic.

On October 8, Prime Minister Li Keqiang chaired a standing committee meeting of the State Council. In the meeting, it was stated that the power crunch was caused by the combination of many factors and had disrupted normal economic activity and people's lives. As a comprehensive solution to the problem, the following measures were announced: (1) prioritizing energy supplies for daily life, (2) securing coal supplies, (3) expanding coal-fired thermal power generation, (4) improving the price formation mechanism for coal-fired power, (5) encouraging the development of renewable power sources and strengthening energy storage capabilities, and (6) curbing energy-intensive industries with high emissions of pollutants. Measures (2) to (4) are all related to coal. Why?

China's coal production from January through August this year has increased 4.4% year-on-year, but this trails the increase in power generation, which grew by as much as 11.3% due to the economic recovery from the pandemic. As a result, the price of fuel coal (with a standard calorific value of 5,500 kcal/kg) has increased by 123% since the end of last year (based on average FOB price as of October 14). Meanwhile, because the increase of the electricity sales price of coal-fired power was limited to 10% from the benchmark price, many coal-fired power producers saw their earnings deteriorate the more they produced. In short, the main cause of the electricity shortage, along with soaring coal prices, was that coal power producers reduced output to minimize their losses, despite having a collective installed capacity of 1,100 GW.

At the instruction of the State Council, ministries immediately took action. On October 12, the National Development and Reform Commission (NDRC) issued a notice on further improving the electricity pricing mechanism for coal-fired power to strengthen market-oriented pricing reforms in the sector. Previously, electricity had been sold at a government benchmark price. This was revised to a floating price band of "15% floor to 10% cap" in 2019. The price band was widened to "20% both ways" this time, and electricity sales to energy-intensive companies were excluded from the 20% price cap. Both measures will help boost electricity supply while curbing consumption. The new price system became effective on October 15, and in regions hit by power shortages, the electricity price of coal-fired power rose to near the 20% limit above the benchmark price across the board. Subsequently, on October 19, the NDRC held discussions with key coal companies and industry associations, and China Electricity Council, declared that the recent price increase was a deviation from supply-demand fundamentals and unreasonable, and announced that the government would step in to lower coal prices to a "reasonable range" based on "the price law". Further, an initiative to expand the supply of renewable electricity was also adopted as the key to decarbonization. On October 20, the National Energy Administration required the State Grid Corporation of China and other transmission operators to work on connecting more wind power and solar PV to the grid and purchasing all of the generated electricity.

Simultaneously achieving decarbonization and a stable power supply is a goal for the entire world. With no country yet succeeding, China is mobilizing all of its resources to tackle this challenge. Developments in this initiative and its effects will continue to be monitored.

4. ME: Iraq Holds Parliamentary Election, Cabinet To Be Established in 2022

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JIME Center

On October 10, Iraq held a parliamentary election to decide its 329 members. Even though the term of parliament was until the spring of 2022, the election was held early because Prime Minister Kadhimi, who was appointed as a prime minister last year in the wake of the anti-government protests, had publicly promised to hold a snap election early under new election laws. Since many expected that the election would not greatly change the current political system due to high entry barriers for new parties, there were concerns about low voter turnout that could undermine the legitimacy of the election.

According to the electoral commission, voter turnout was 43%, similar to 44% in 2018. However, voter turnout is based on the number of voters registered with the electoral commission, not the total number of eligible voters. As many people do not register due to growing distrust in politics, it is estimated that less than 40% of eligible voters actually cast a vote. According to media reports, few young people were seen at polling stations as they are disappointed in politics.

In the results, the anti-US populist Sadrist Movement became the leading party with 73 seats (up from 54), while the Iran-backed Fatah Alliance, which represents local Shia militia groups, suffered massive losses, down from 48 seats in the previous election to 15. Many members of the party are calling the election a fraud and are organizing protests in Baghdad, which could trigger military clashes. Meanwhile, the team of observers organized by the UN and the EU to watch over the election reported that the election itself was carried out properly, and so the number of seats is unlikely to change significantly due to election fraud investigations. The election results are due to be finalized in early November, followed by coalition negotiations between parties, including who to nominate the prime minister. If everything goes well, a new government will be in office in the first quarter of 2022. Until then, the incumbent Kadhimi government will remain in power.

In politically unstable Lebanon, a deadly gunfight occurred in the capital Beirut on October 14, killing seven people and injuring more than 30. Though the course of events is unclear, the battle apparently broke out as supporters of the Shia political forces Hezbollah and Amal Movement were protesting and demanding the resignation of Judge Tarek Bitar, who led the investigation into the Beirut Port explosion in August last year. The situation has since calmed down, but in a society with many militant groups possessing guns, similar incidents could occur in city areas.

In the Gulf, long-standing tensions between the UAE and Qatar are starting to ease. The countries have begun holding talks between their dignitaries since around August, and on October 6, Qatari Deputy Prime Minister and Minister of Foreign Affairs Mohammed bin Abdulrahman visited Abu Dhabi to talk with Crown Prince Mohamed bin Zayed. The Crown Prince is the de facto leader of Abu Dhabi and was the central figure behind the severing of ties with Qatar (2017–2021). The fact that the Crown Prince received a visit by a Qatari dignitary suggests that the UAE-Qatar relationship is steadily improving. The UAE has taken a hardline diplomatic and national security strategy since the Arab Spring in 2011, but recently has softened its policy to a more realistic one. Apart from Qatar, the country is also improving ties with Iran and Turkey.

5. Russia: Surge in Covid-19 Cases and Role as a Major Gas Power

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The number of infections and deaths from Covid-19 is escalating in Russia. The country entered a fourth wave of infections before the third wave, which peaked in July this year, had fully subsided. On October 21, the daily case count hit a record high of over 36,000. Regional governments have set about securing hospital beds dedicated to Covid-19, strengthening vaccinations, and applying restrictions on activities. In Moscow, new restrictions on activities for the public went into effect on October 25 and are to last till February 25 next year, along with a work-from-home mandate of at least 30% of the workforce for corporate and other employers. On October 20, President Putin signed an executive order designating paid non-working days to prevent the spread of infections (from October 30 through November 7).

On October 13, President Putin vowed to “aim to achieve carbon neutrality by 2060” at Russian Energy Week held in Moscow. He added that Russia is ready to increase natural gas supplies at the request of European countries, obliquely denying claims that Russia is withholding gas supplies for political reasons. He went on to point out that many European states did not increase their natural gas stocks when demand soared during the exceptionally cold 2020–2021 winter season but instead continued to rely on spot transactions, and as a result, the increase in demand had caused prices to rise under market conditions. While EU politicians have criticized Russia for politically limiting gas supplies in order to win an operating license for Nord Stream 2, the Russian government and Gazprom have explained that they are fulfilling their supply obligations for Europe under contracts, are not reducing supplies for political reasons, and have not received any request for additional supplies from any European company. The argument has yet to be resolved.

On September 27, Russia’s Gazprom Export and Hungary’s MVM CEEnergy signed a long-term contract to supply 4.5 bcm of gas per year for 15 years starting October 1 this year, as part of gas supply to Central and Eastern Europe through TurkStream that connects Russia to Turkey via the Black Sea. Most of the deliveries under the new contract will arrive through TurkStream and the new gas pipeline built between Serbia and Hungary. In January this year, Gazprom began to supply gas to Serbia and Bosnia-Herzegovina through a new route that passes through TurkStream, then Turkey and Bulgaria. According to Gazprom, in the nine and a half months since January, the company’s exports to outside the former-Soviet bloc have increased by 13% year-on-year to 152.2 bcm (preliminary figure), up 125% for Turkey, 28% for Germany, 16% for Italy, 289% for Romania, 112% for Serbia, 53% for Bulgaria, 10% for Poland, 13% for Greece, and 15% for Finland. The increase in supplies through TurkStream is particularly striking. Exports to some other countries have presumably dropped significantly, but a breakdown by country and details have not been released.

Poland and Ukraine, which have long been transit countries, are demanding relevant parties to block the start of Nord Stream 2 that circumvents their countries. Polish state energy firm PGNiG and its subsidiary have applied to participate in the licensing process of Nord Stream 2 with German regulator BNetzA, and permission has been granted. Ukrainian state gas company Naftogaz is also applying to participate, harshly criticizing Nord Stream 2 and claiming that it cannot operate unless it meets EU laws. Amid these moves, the first string of Nord Stream 2 is now filled with gas, and preparations are under way for a test run of the second string. It will be interesting to see whether the coordination of interests with Europe will progress and the pipeline will start operation this year.

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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)

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