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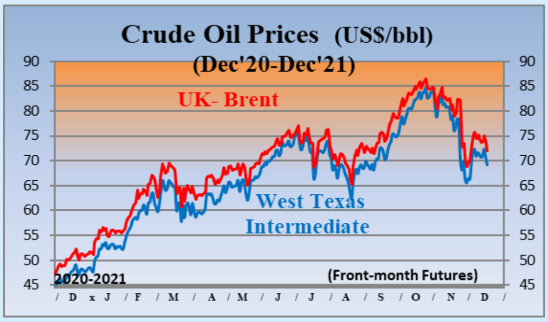

Sources:
(1) DOE-EIA
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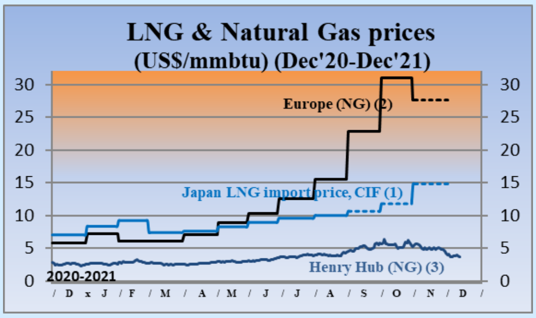
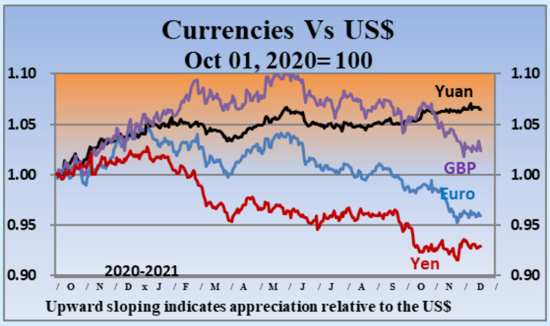


Sources:
(1) Ministry of Finance "Japan Trade Statistics"
(2) World Bank (Netherland Title Transfer Facility)
(3) DOE-EIA, NYMEX (Front-month Futures)



Source: x-rates.com

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

Contents

Summary

【Global Monitoring】

1. US: Dilemma between the Ideal and the Reality of Climate Action

A massive spending plan is being deliberated, but its climate measures and spending have been cut back from the initial plan. Contrary to its intentions, the Biden administration is taking action to boost fossil fuel supplies, including restarting oil and gas lease sales and releasing crude oil reserves.

2. EU: Initiatives by the UK as COP26 Host

As the host of COP26, the UK has announced initiatives before and after the event, including requiring companies to disclose financial information per TCFD and large-scale aid to developing countries, as well as infrastructure investment principles jointly with the US and the European Council.

3. China: Fresh Focus on "3060" Decarbonization Goal: Can China Match Its Words with Deeds?

China's efforts to achieve the "3060 goal" of reaching peak CO_2 emissions before 2030 and net-zero carbon emissions before 2060 are in full swing. By ensuring that actions fully meet its words, China is apparently aiming to fulfill the 3060 goal ahead of schedule.

4. ME: Iran Nuclear Talks to Restart

To revive the Iran nuclear deal, indirect talks between the US and Iran have restarted in Vienna, but both parties are waiting for the other to offer a compromise. Negotiations may take time to move forward.

5. Russia: Update on Nord Stream 2 and Instability in Transit Countries

Amid growing attention on the role of Russia in Europe as a gas supplier, the licensing process for Nord Stream 2 was suspended. There is instability in Belarus and Ukraine, transit countries of Europe-bound gas pipelines.

1. US: Dilemma between the Ideal and the Reality of Climate Action

Yoshikazu Kobayashi, Senior Economist
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On November 15, President Biden signed the 1.2 trillion-dollar infrastructure bill into law. The enactment of the bill will mobilize huge government spending for upgrading and maintaining domestic infrastructure including roads, bridges, and railways over the next five years. Regarding climate measures, $65 billion will be allocated to upgrading power grids around the country and $15 billion to rolling out EV charger facilities to half a million locations nationwide.

Now that the infrastructure bill has been enacted, the focus of US politics has shifted to deliberating the Build Back Better bill, the other major spending bill, which comprises a bigger spending plan than the infrastructure bill of $1.75 trillion. The bill mainly funds support for childcare and education, and healthcare for the elderly, but it also allocates a total budget of $550 billion to climate measures, including $320 billion to tax deduction benefits for companies and individuals that switch to clean energy and $110 billion to build a clean energy supply chain.

Such massive government spending will undoubtedly accelerate decarbonization in the United States. However, the spending for the Build Back Better bill has been halved from the initial amount in order to gain consensus within the ruling party and ensure the bill's feasibility; climate measures such as the clean electricity standard (CES), which sets clean electricity sales requirements for power companies and was initially hoped to be part of the bill, have been dropped. Thus, even if the bill is enacted, it may be insufficient to achieve the Biden administration's goal of achieving a carbon-free domestic electricity sector by 2035. The bill has already passed the House of Representatives, but because opposition within the ruling Democratic Party emerged in the Senate, the future of the bill becomes more uncertain.

Despite its key policy goal of abandoning fossil fuels, ironically, the Biden administration is currently being forced to take action to boost oil and natural gas supplies. At the time of his inauguration, President Biden had promised to freeze oil and gas leases on federal lands. Counter to this promise, in June, a U.S. District Court in Louisiana made a decision that requires the federal government to resume oil and gas lease sales, and on November 17, the Interior Department held a lease sale in the Gulf of Mexico. This runs counter to the recent argument that new investments in oil and gas fields are not needed in order to keep the global temperature increase within 1.5°C.

Furthermore, on November 23, President Biden announced the release of crude oil from the national strategic reserves in a bid to hold domestic gasoline prices down, jointly with Japan and other consumer countries. Thanks to its rapidly declining dependency on oil imports due to the shale revolution, the US had been phasing down its strategic reserves since 2015. Until now, the country had never released its strategic reserves explicitly for controlling oil prices, though this depends on how one looks at the release in September 2000. Boosting affordable supplies of petroleum products will not lead to the abandonment of fossil fuels, but the government also has a duty to protect people from the ongoing high gasoline prices. The dilemma between long-term decarbonization goals and short-term economic policies runs deep.

2. EU: Initiatives by the UK as COP26 Host

Ichiro KUTANI, Senior Research Fellow, Manager
Global Energy Group 1, Assistant to Managing Director
Strategy Research Unit

Various countries announced different climate measures around the period of COP26, which lasted roughly 2 weeks from the end of October. Here are several announcements made by the United Kingdom, the host of COP26.

Chancellor of the Exchequer Rishi Sunak announced that companies will be required to set out public plans by 2023 for achieving net-zero emissions, in line with the UK's 2050 net-zero target. Before this announcement, on October 29, the Exchequer had announced jointly with the Department for Business, Energy & Industrial Strategy (BEIS) that it would set a mandate requiring companies with more than 500 employees and sales of more than 500 million pounds (approx. 76 billion yen) to disclose financial information in accordance with the TCFD (Task Force on Climate-related Financial Disclosures) guidance starting April 2022.

This new mandate will undoubtedly have a major impact on British companies. Companies will be required to detail their climate actions as well as the risks and opportunities of such actions on their business, under common procedures and standards. While the impact of market reaction has to be carefully watched, it could become easier to compare the climate efforts of companies more accurately, which could be reflected in the stock and bond markets. Companies' responses must be watched.

The UK has also promised substantial financial support for the green transition of developing countries. Chancellor Sunak pledged assistance worth 576 million pounds (approx. 87.5 billion yen) on November 3, and on November 8, the foreign ministry announced aid worth 274 million pounds (approx. 42 billion yen) for the Indo-Pacific region. The latter is the budget for the CARA (Climate Action for a Resilient Asia) program, which will be implemented over the next seven years to strengthen the climate resilience of island nations in South Asia, Southeast Asia, and the Pacific that are more vulnerable to climate change. For reference, this is far smaller in scale than the support Japan extended to the same regions, which included a grant of 41.9 billion yen and technical cooperation worth 45.2 billion yen from JICA in the Asia Pacific region merely in the FY2020.

On the subject of green investment, Prime Minister Johnson endorsed the following five key principles for infrastructure development together with US President Biden and EU President von der Leyen: (1) Infrastructure should be climate resilient and developed through a climate lens. (2) Strong and inclusive partnerships between host countries, developed country support, and the private sector are critical to developing sustainable infrastructure. (3) Infrastructure should be financed, constructed, developed, operated, and maintained in accordance with high standards. (4) A new paradigm of climate finance is required to mobilize the trillions needed to meet net-zero by 2050. (5) Climate-smart infrastructure development should play an important role in boosting economic recovery and sustainable job creation.

Lastly, trading prices in the EU-ETS are reaching record highs daily. As of November 26, December futures are trading at over 70 euros/ton-CO_2 (approx. 9,000 yen). More than a decade ago, it was estimated that carbon prices of close to \$100 are needed for commercializing CCS. While some of the factors behind soaring CO_2 prices may be short-term, the current price level, if maintained, would make a considerable proportion of decarbonization investments economically rational in Europe.

3. China: Fresh Focus on "3060" Decarbonization Goal: Can China Match Its Words with Deeds?

Li ZHIDONG, Visiting Researcher
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At the UN General Assembly in September 2020, China announced the "3060 goal" of reaching peak CO_2 emissions before 2030 and achieving net-zero carbon emissions before 2060. Can China match its words with deeds?

On October 28, immediately before COP26 opened, China submitted to the UN its 2030 target (NDC) and long-term low-emission strategy, which include the "3060 goal," thereby raising its 2015 NDC. Specifically, China (1) raised the 2030 emission intensity (CO_2 emissions per unit GDP) reduction target from "60–65%" to "at least 65%" compared with 2005 levels, and the target share of non-fossil energy from 20% to 25%, (2) brought forward the timing of peak CO_2 emissions from "around 2030" to "before 2030", (3) for the first time, set the timing of reaching net-zero emissions to before 2060, or 30 years after the peak, which is shorter than developed countries, and (4) pledged to expand wind and solar PV/heat power generation (530 GW in 2020) to at least 1,200 GW in 2030 and the share of non-fossil energy (15.9% in 2020) to at least 80% in 2060. Meanwhile, China did not accommodate requests from some developed countries for a further increase in its NDC and acceleration of net-zero emissions. China reduced its emission intensity, by 48.4% by 2020, exceeding its voluntary target of reducing emission intensity by 40–45% from 2005 levels, submitted to the United Nations in 2010, and matching its words with deeds before the eyes of the international community. On the contrary, developed countries have failed to meet their promise of mobilizing $100 billion a year by 2020 for developing countries, and have yet to formulate specific measures to achieve their new targets. From the standpoint of the Chinese government, there is no reason why China, which has steadily kept its word and knows that it has set respectable, ambitious targets in line with the 1.5°C target for the increase in atmospheric temperature, should accept the demands of certain developed countries, which do not live up to their words and do not consider the principles of common but differentiated responsibilities and respective capabilities, as well as different national circumstances.

Inside the country, efforts to achieve the 3060 goal are in full swing. The 14th Five-Year Plan for National Economic and Social Development and the Long-Range Objectives through the Year 2035, the first milestone toward net-zero emissions, was adopted at the People's National Congress which closed on March 11 this year. The 2025 targets were set to reduce emission intensity by 18% from 2020 levels and increase the non-fossil energy ratio to 20%. Furthermore, on October 24, the Central Committee of the Communist Party of China and the State Council jointly issued the "opinions on the activities toward achieving the 3060 goal," followed two days later by the "national action plan for reaching peak carbon emissions before 2030" issued by the State Council. The opinions and action plan set out the basic policy and specific measures for achieving the targets, together with numerical targets for some areas. For example, specific measures for the steel industry included reducing steel production capacity, switching from blast furnaces to electric furnaces, and introducing reduction technologies using hydrogen in blast furnaces. Meanwhile, to strengthen energy storage capacity, which is essential for ensuring grid stability when wind power and solar PV become main power sources, the plan sets goals of increasing the pumped-storage hydropower capacity (from 31.49 GW in 2020) to 120 GW in 2030 and the capacity of innovative storage technologies, including chemical power storage, from 3.81 GW in 2020 to 30 GW in 2025.

Hereafter, feasible plans for each area and region are planned to be drafted and implemented in stages. By fully meeting its words with deeds, China clearly aims to fulfill the 3060 goal ahead of schedule. They could even consider a "2555 target" to reach peak carbon emissions before 2025 and net-zero emissions before 2055. Developments deserve attention.

4. ME: Iran Nuclear Talks to Restart

Sachi SAKANASHI, Senior Research Fellow
Assistant Director, JIME Center

The Iran nuclear talks in Vienna are to restart on November 29 following the disruption caused by the country's presidential election in June. To revive the Iran nuclear deal (JCPOA), which President Trump "abandoned" in May 2018, indirect talks between the US and Iran have already been held six times since starting in April this year following the launch of the Biden administration. However, Iran's negotiator has been replaced due to the change in government, causing concern as to whether the negotiations must start from scratch again.

In reality, it is clear that neither the US nor Iran wants the JCPOA to collapse, but neither party seems to think there is any urgency in reviving it. For example, Iran has started work on nuclear development such as 60% uranium enrichment, grossly overstepping the limit set under the JCPOA, and the IAEA is losing its ability to carry out thorough investigations. However, the US merely reiterates its stance that "the possession of nuclear weapons by Iran is a red line" and seems to be quietly watching Iran weaken under the "maximum sanctions against Iran" imposed by the Trump administration, which will be maintained unless the JCPOA is reconstructed.

On the Iran side, the newly-launched Raisi government is eager to have the sanctions lifted, which the Rouhani government failed to achieve, but seems unlikely to compromise so readily. Although lifting of the sanctions would be good, Iran is managing to keep its lifelines going thanks, allegedly, to continued oil exports to China and other countries despite the US sanctions. The situation suggests that Iran knows an immediate compromise is not necessary. Thus, both the US and Iran may continue to wait a while for the other party to compromise.

Diplomatic activity remains brisk in the Middle East on the back of the new situation in the region. Iran and Saudi Arabia are set to continue bilateral talks amid persistent attacks on Saudi Arabia by the Yemeni Houthis. Meanwhile, tensions between Turkey and the UAE, which had worsened in recent years, are also easing, with Crown Prince Mohammed of Abu Dhabi visiting Turkey. Meanwhile, the home of Iraqi Prime Minister Mustafa al-Kadhimi suffered a drone attack in an attempted assassination. Immediately after the incident, Commander Esmail Qaani of the Quds Force of Iran's Islamic Revolutionary Guard Corps, which have deep ties with the Shia militants who are suspected of carrying out the attack, visited Iraq for talks with Prime Minister Kadhimi.

In Libya in North Africa, Khalifa Belqasim Haftar, Commander of the Libyan National Army, threw his hat in the ring for the December 24 presidential election. Saif al-Islam Gaddafi, the second son of the late Libyan leader Muammar Gaddafi, also filed to register as a candidate, but was rejected for "not meeting the qualifications." Regarding the release of national petroleum reserves by the US and others, the Gulf countries including Saudi Arabia have shown almost no reaction, seeing the release as a "matter for the US to decide."

5. Russia: Update on Nord Stream 2 and Instability in Transit Countries

Sanae KURITA, Senior Researcher
Global Energy Group 2
Strategy Research Unit

On October 29, the Russian government approved its new strategy for social and economic development. The strategy includes introducing decarbonization technologies, reducing GHG emissions by 60% from 2019 levels by 2050, and becoming "carbon neutral" by 2060. According to the strategy, Russia will increase the share of gas-fired thermal, nuclear, hydropower, and renewables in the power mix, while providing support for introducing decarbonization technologies to coal-fired thermal power, promoting energy recycling, changing the tax system, green finance, GHG capture, and increasing GHG absorption by the ecosystem, including forests.

As German regulator BNetzA continues with the licensing process for the Nord Stream 2 gas pipeline connecting Russia and Germany, the pipeline's project company, a Swiss corporation, revealed plans to set up a German subsidiary as the owner and operator of the German section of Nord Stream 2. The new company is to be set up to comply with an EU directive that requires the pipeline owner and the gas supplier to be legally independent of each other and prohibits exclusive access rights, as well as the requirements under Germany's energy industrial laws. In response, on November 16, BNetzA announced the suspension of the licensing process for the Nord Stream 2 project company as an independent transport operator. The suspension will continue until the main assets and human resources have been transferred to the newly-established subsidiary, and the company submits the necessary documents as the new applicant and has them confirmed by the regulator to be free of any flaws. Germany's Federal Ministry for Economic Affairs and Energy and the EU have already submitted to BNetzA analysis results on October 26 showing that Nord Stream 2 would not threaten the safety of gas supplies to Germany and the EU.

As natural gas prices rise globally, highlighting the role of Russia as a major gas supplier particularly in Europe, tensions are rising in Belarus and Ukraine, transit countries of Europe-bound gas pipelines. On November 15, the foreign ministers of EU countries agreed to strengthen economic sanctions on Belarus. The reason is the "hybrid attack" carried out by the country, in which thousands of migrants from the Middle East, Afghanistan, and Africa are being sent to EU borders to cross them. The sanctions are set to be introduced following a detailed consideration.

Furthermore, on November 18, the G7 foreign ministers and the senior representatives of the EU released a statement criticizing the Lukashenko administration for its acts. Reacting strongly to the words and actions of the EU, President Lukashenko threatened to shut down Europe-bound pipelines. On the next day, the 12th, the press secretary to the Russian president stated that Russia will fulfill its obligations to supply gas to Europe, denying its involvement in anything President Lukashenko said or did, in an attempt to allay fears of supply disruptions. Regarding Ukraine, since November, the US, NATO, and Ukrainian government officials have condemned Russia for the observed build-up of arms by pro-Russian forces in eastern Ukraine and the gathering of Russian troops near the border. On the contrary, Russia argued that NATO is accelerating its activities in the regions around Ukraine. It is not clear how the instability in the two transit countries will affect gas exports to Europe.

Past IEEJ Events

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IEEJ Homepage Top

Back Numbers of *IEEJ e-Newsletter*

Back Numbers of *IEEJ Newsletter* (Original Japanese Version - Members Only)

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