



IEEJ e-NEWSLETTER

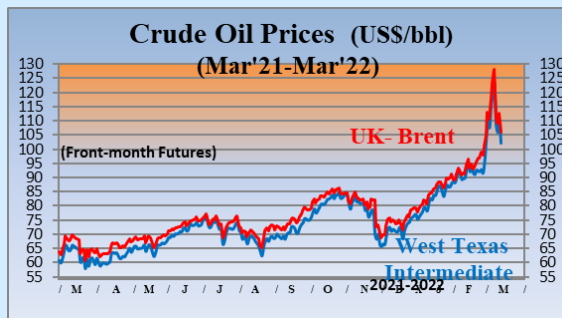
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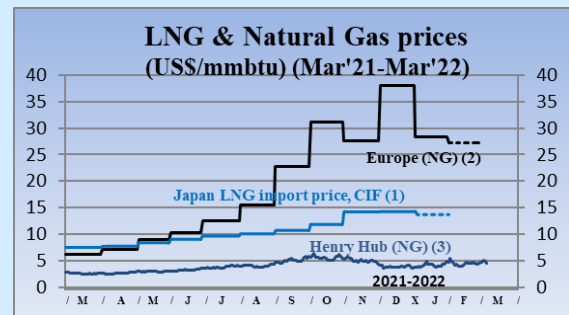
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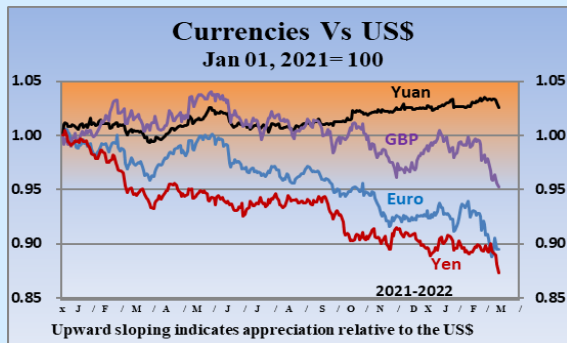
(As of March 14, 2021)



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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Summary

1. US: Biden Administration Faces Difficulty Addressing the Ukraine Situation

With the Ukraine crisis pushing up energy prices, affecting domestic politics, the Biden administration is faced with a difficult policy balancing act as the public remains reluctant to be involved in the crisis.

2. EU: Strengthening Ties with Ukraine

The EU proposed extending a 1.2 billion loan to Ukraine as emergency economic assistance. Russia's actions are making the EU diversify its energy sources by using more renewables and adjusting its stance on nuclear power.

3. China: Decarbonization of Electricity Accelerates, Led by Variable Renewable Electricity

In 2021, the share of renewable power in total power generation grew to 29.7% (including 7.8% wind power and 3.9% solar PV). Renewables will continue to drive decarbonization in 2022, during which electricity demand is predicted to grow by 5–6%.

4. ME: Yemeni War Intensifies and JCPOA Reaches Critical Stage

The Yemeni war is intensifying and the UAE has suffered drone attacks. The Saudi-led coalition has launched a major offensive on South and Central the Yemeni capital. The Iran nuclear deal (JCPOA) is at a critical stage and it is speculated that an agreement will soon be reached.

5. Russia: Tensions Reaching Boiling Point over the Ukraine Crisis

Russia recognized the independence of the Ukrainian territories under the rule of pro-Russian militants and maintains a hardline stance. A national state of emergency was declared in Ukraine. The international community is concerned about a possible full-scale invasion by Russian forces.



1. US: Biden Administration Faces Difficulty Addressing the Ukraine Situation

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Gasoline prices continue to soar in the US. According to the Department of Energy, the national average price of regular gasoline was \$3.37/gallon as of February 14, 2022, rising roughly 1 dollar year-on-year. This is not yet “abnormally high” considering that gasoline prices averaged \$3.45 between 2011 and 2014 and often threatened to surpass \$4. However, prices have surged rapidly from \$1.65 in April 2020, the lowest in this decade, to the current level, causing greater pain for households.

One of the reasons for this price surge is the military tension between Russia and Ukraine. On February 15, President Biden announced that the US will not exercise its military power against Russia and will continue diplomatic efforts instead, while providing military assistance to Ukraine and NATO member states. He went on to state that “freedom and democracy” are at stake and that there will be inevitable costs for US consumers in the form of higher energy prices, and promised to take all possible measures.

Ahead of the November mid-term elections, the Democratic Party has a majority in both houses with one of the smallest margins in history, with 222 out of 435 seats in the House of Representatives and 50 out of 100 seats in the Senate. Whether the Party maintains its majority will depend critically on whether voters support the Biden administration’s response to the Ukraine crisis and accept the energy price hikes as “a cost worth paying for.” A poll on the response to the Ukraine crisis released this month showed that 50% agreed with imposing sanctions against Russia and 40% with sending US troops to NATO countries; sending US troops to Ukraine (for noncombat duties) had a support rate of 33% and using military force against Russia had 13%. In another poll, 43% answered that the United States should stand with Ukraine while 53% said that the US should not interfere. Further, 22% of Democratic Party supporters, 40% of Republican Party supporters, and 38% of unaffiliated respondents answered that the Ukraine crisis is unrelated to the United States. One of the Biden administration’s public promises is “foreign policy for the middle class,” in other words, implementing foreign policy while listening to the people. The public’s reluctance to be involved in the crisis is reflected in the administration’s response: the president has reiterated that the US will continue to pursue diplomatic efforts until the end.

In line with public opinion, groups of Democratic and Republican lawmakers who oppose US interference in other countries’ affairs are expanding. On the Democrat side, leftist (progressive) lawmakers are voicing concern about applying military pressure on Russia, such as exercising military force against Russia and providing military assistance and weapons to Ukraine. On the Republican side, while the lawmakers who are calling for immediate sanctions and other means of stronger pressure on Russia are still the mainstream, some lawmakers are demanding that the US should not interfere. As a result, Congress has been unable to agree on more stringent sanctions against Russia.

As of February 24 at the time of writing, Russia has just recognized the two regions in East Ukraine as independent states. The US-Russia foreign ministerial talks scheduled for February 24 have been cancelled, as has the US-Russia summit. Developments deserve close attention.



2. EU: Strengthening Ties with Ukraine

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As the Ukrainian situation grows tense, the EU is strengthening its support to the country. The EU has a macro-financial assistance (MFA) program for crisis response, which extends financial aid to partner countries experiencing a balance of payments crisis. MFA is a long-term, low-interest rate loan program and the funds needed for MFA are financed by the EU through the capital markets. The EU began to extend MFA to Ukraine in 2014 and 5 billion euros in total have been provided in five MFA loans till 2021. On February 1, the European Commission proposed another loan of 1.2 billion euros as emergency MFA. It was tabled at the request of Ukraine to strengthen the country's resilience. This proposal by the European Commission was approved by the Council of the European Union on February 11 and by the European Parliament on the 16th.

Since September 2017, the EU and Ukraine have had the Association Agreement in effect, which includes the Deep and Comprehensive Free Trade Areas (DCFTA). The Agreement serves as the main tool for deepening bilateral ties. On February 11, the seventh EU-Ukraine Association Council meeting was convened to discuss political reforms in Ukraine and economic cooperation. The joint press release issued after the meeting reaffirmed the Association Council's commitment to strengthening the political association and economic integration of the two parties, and expressed support for reassuring the bilateral political and economic ties under the current circumstances. Both parties have reaffirmed the importance of stronger efforts toward the rule of law, ensuring the independent and effective operation of anti-corruption institutions, and comprehensive judicial reforms. It has also been pointed out that issues still remain for Ukraine to be integrated in the EU.

On February 16, the European Parliament discussed EU-Russia relations. In the discussions, European Commission President von der Leyen warned Russia not to weaponize the energy issue. The President assured the EU that its gas supplies are on the "safe side" for this winter as other energy supplies have been stepped up, and noted that the EU must diversify its energy sources to reduce its dependency on Russian gas, as one of the lessons to be drawn from this crisis. The Commission chief has always said that Europe's future lies in renewable energy, and this comment is consistent with that. The recent actions by Russia have strengthened the EU's motivation to use more renewable energy, adding to the reasons for decarbonization. The renewed focus on energy security is thought to have also played a role in changing the treatment of nuclear in the EU Taxonomy, alongside decarbonization.

The Commission President has stated that, should Russia invade Ukraine, the EU would impose economic sanctions not only in the areas of finance and energy but also the export of high-tech products. The EU's sanctions against Russia have just been extended for six months this past January; future developments must be watched.



3. China: Decarbonization of Electricity Accelerates, Led by Variable Renewable Electricity

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China is pushing ahead with transitioning from coal-fired thermal power to non-fossil power sources for achieving sustainable development and establishing a decarbonized society. Major progress was made in 2021, during which China aimed for a green recovery from the pandemic and achieved an economic growth rate of 8.1%.

According to the China Electricity Council (CEC), in 2021, China's generation capacity increased by 7.9% to 2,380 GW and the power output by 9.8% to 8,380 TWh. Of this capacity, coal-fired power increased by 2.8% in capacity to 1,110 GW and by 8.6% in output to 5,030 TWh, but its share in the total installed capacity decreased by 2.3 points to 46.7% and in the total power output by 0.7 point to 60.0%. In contrast, the installed capacity of wind power increased by 16.6% to 328 GW, solar PV/heat power by 20.9% to 307 GW, hydropower by 5.6% to 391 GW, and biomass power by 27.2% to 37.98 GW. The total amount of renewable power increased by 13.8% to 1,065 GW. The share of renewable power sources in the total installed capacity increased by 2.3 points to 44.8% and in the total power output by 0.6 point to 29.7%. The share of variable renewable energy sources, namely wind power and solar PV/heat generation, in the total installed capacity increased by 2.4 points to 26.7% (including 13.8% wind power, up 1 point, and 12.9% solar PV/heat generation, up 1.4 points), and in the total power output by 2.2 points to 11.7% (including 7.8% wind power, up 1.7 points, and 3.9% solar PV/heat generation, up 0.5 point). Nuclear increased by 6.8% to 53.26 GW but its share in the total installed capacity remained unchanged at 2.2%, while its share in the total output increased 0.1 point to 4.9%. The share of non-fossil fuels as a whole grew by 2.3 points to 47% of the total installed capacity and by 0.7 point to 34.6% of the total output. The shift to non-fossil fuels has been driven by variable renewable energy sources. Non-fossil fuels surpassed coal-fired thermal in installed capacity for the first time but its share in the total output is 25.4 points lower than that of coal due to its lower utilization ratio.

In 2022, China is expected to step up efforts to decarbonize power sources. On January 24, the State Council released the Work Plan for Energy Conservation and Reduction of Pollutant Emissions During the Fourteenth 5-Year Plan Period. The plan set a regulatory target for the total amount of energy consumption for each region, but decided to exclude any increase in renewable electricity consumption from 2020 from the amount of consumption. CEC has forecasted that in 2022, the installed generation capacity will increase by 220 GW to 2,600 GW as the electricity demand increases by 5–6% year-on-year in line with stable economic growth. Renewable power sources will grow by 180 GW to 1,244 GW in total, with hydropower increasing to 410 GW, wind power to 380 GW, solar PV/heat generation to 400 GW, and biomass power to 45 GW. The share of renewable power sources in the total installed capacity will increase by 3.1 points to 47.9% (including 30% for variable renewable power sources, up 3.3 points, namely 14.6% wind power, up 0.8 point, and 15.4% solar PV/heat generation, up 2.5 points). Meanwhile, nuclear will expand by 2.31 GW to 55.57 GW, its share in the total installed capacity down 0.1 point to 2.1%. As a result, non-fossil fuel power sources will increase by 182 GW to 1,300 GW and their share in the total installed capacity will increase 3 points to reach 50% for the first time. Variable renewable power sources are likely to continue to drive decarbonization in 2022.

Meanwhile, for coal-fired thermal power, its share in the total installed capacity is expected to decrease to 43.8% but its installed capacity will increase by approximately by 30 GW to 1,140 GW. This is because coal-fired thermal power is still considered indispensable for ensuring supply flexibility as electricity supply stability emerges as a challenge with the increase in variable renewable power sources. How China will gain the understanding of the international community deserves attention.



4. ME: Yemeni War Intensifies and JCPOA Reaches Critical Stage

Shuji HOSAKA, Board Member
Director of JIME Center

The Houthi militants who rule northern Yemen carried out drone attacks on Abu Dhabi International Airport on January 17, and the UAE was attacked again on the 24th and 31st. While the damage has been limited, security concerns have been rising in the UAE since February as an obscure Iraq-based militia calling themselves “True Promise Brigades” claimed responsibility for several attacks on the UAE and there are rumors that Burj Khalifa, the world’s tallest building, as well as the Dubai Expo and port facilities will be targeted. Meanwhile, offensives by Yemen’s legitimate government forces and the Saudi-led coalition are making headway in Shabwa in southern Yemen and the strategically important Marib.

Meanwhile, oil prices climbed as tensions grew over Ukraine, causing WTI futures to rise far above \$90 per barrel. As any military clash could disrupt Russian gas exports to Europe, there is renewed attention on the role of Qatar as one of the world’s key LNG exporters. There is focus on the possibility of diverting Qatar’s LNG to Europe, but doing so would present a major challenge because most of Qatar’s LNG is supplied to Asia on long-term contracts. Meanwhile, on January 31, US President Biden received a visit by Qatari Emir Sheikh Tamim bin Hamad Al Thani and conveyed his intention to designate Qatar a non-NATO ally of the US.

The discussions on rebuilding the Iran nuclear deal (JCPOA) have reached a critical stage and the US and Iran are reportedly hammering out the details of the draft agreement. According to media reports, the deal will be rebuilt in phases with Iran fulfilling its obligations to suspend uranium enrichment above 5% before the United States lifts its sanctions.

Meanwhile, several changes were observed in the regional power balance in the Middle East. The dialog between Saudi Arabia and Iran mediated by Iraq continues and this, along with the JCPOA negotiations, may affect the course of the situation in Yemen. Furthermore, the guests from the Middle East at the opening ceremony of the Beijing Winter Olympic Games included President Abdel Fattah el-Sisi of Egypt, Emir Sheikh Tamim bin Hamad Al Thani of Qatar, and Crown Prince Muhammad bin Zayed (known as MbZ), highlighting the region’s strong ties with China. Emir Tamim and Crown Prince MbZ had talks in Beijing, which emphasized the improved relations since the signing of the Ula Agreement in January 2021.

Israel reinforced its ties with the Gulf countries. President Herzog of Israel visited the UAE, becoming the country’s first president to do so, had a meeting with Crown Prince MbZ, and visited the Dubai Expo. Further, Defense Minister Gantz of Israel visited Bahrain in February, followed by Prime Minister Bennett in the same month as the first prime minister to do so in the country’s history and spoke with King Hamad. Turkey has also improved ties with Armenia, Bahrain, and the UAE, with whom the country has had difficult relations, and also offered to act as intermediary in the Russia-Ukraine confrontation.

On February 3, the US announced the death of Abu Ibrahim al-Hashimi al-Qurashi, the leader of the terrorist group Islamic State (IS.) IS confirmed the death of its leader and announced Abu al-Hasan became its new leader.



5. Russia: Tensions Reaching Boiling Point over the Ukraine Crisis

Shoichi ITOH, Manager, Senior Analyst
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On February 18, UN Secretary-General Antonio Guterres spoke at the Munich Security Conference about the Ukraine crisis, an issue of deep concern for the world, defended the UN Charter as the fundamental pillar of international law, and stressed the need for all nations to “settle their international disputes by peaceful means.” He went on to say that the threat to global security today is “more complex and probably higher” than during the Cold War when safeguards and safety checks existed behind the scenes, and warned that any military clash over Ukraine “would be catastrophic.”

Since the end of October 2021, the US media have been reporting that Russia is amassing troops near the Ukrainian border. On January 7, 2022, State Secretary Blinken warned that the number of troops had reached 100,000, and on February 18, Michael Carpenter, US Ambassador to OSCE (Organization for Security and Cooperation in Europe), warned that the number had reached up to 190,000, the largest since World War II. Russia is demanding a written guarantee banning Ukraine from joining NATO, while the West maintains that there are no plans for Ukraine to join NATO and that Ukraine should choose its future as a sovereign nation.

The crisis has brought renewed attention to President Putin’s essay titled “On the Historical Unity of Russians and Ukrainians” published in July 2021 as a basis for Russia’s unrelenting stance toward Ukraine. The essay emphasizes that the Russians and Ukrainians are historically indivisible and that Russia will not recognize Ukraine’s sovereignty if it “separates itself” from Russia; the writing was condemned by the international community as well as Ukraine. In a poll released on February 17 in Ukraine, the percentage supporting Ukraine’s joining NATO reached an all-time high of 62%, with reports that even in Eastern Ukraine regions where high pro-Russian sentiment is relatively high, the public are increasingly frustrated by the Putin government’s military hostility, although still calling for a stable relationship with Russia.

Russian troops stayed on in Belarus (Ukraine’s northern neighbor) after the end of a joint military exercise by the two countries (which began on February 10). On February 21, President Putin signed an executive order that recognizes the Eastern Ukrainian provinces of Donetsk and Luhansk as independent states and issued an order to send in Russian troops in the name of “peacekeeping.” On the 22nd, UN Secretary-General Guterres expressed his concern about Russia’s “perversion of the concept of peacekeeping,” while US President Biden criticized President Putin’s actions as “the start of the invasion of Ukraine” and the scheduled US-Russia summit and foreign ministerial talks were cancelled. On the 23rd, President Putin addressed the nation and declared that there is no room for negotiation on matters of national interest and security, and has since maintained a hardline stance.

On February 24, Ukrainian President Zelensky declared a nationwide state of emergency (except in parts of Eastern Ukraine which Russia has recognized as independent). As the West begins to step up economic sanctions, the international community is increasingly alarmed by the threat of Russia’s full-scale invasion of Ukraine.

(This report was written on February 24.)



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