



# IEEJ e-NEWSLETTER

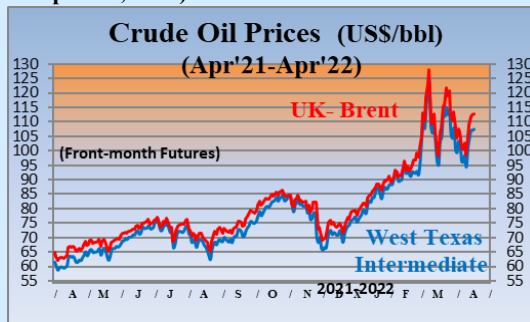
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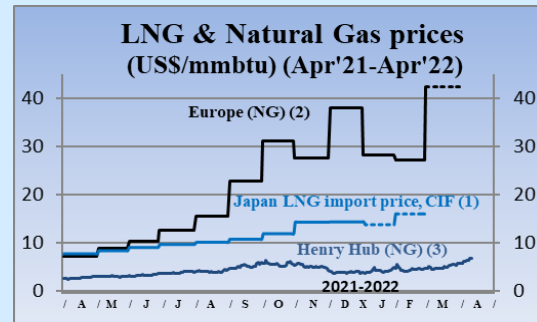
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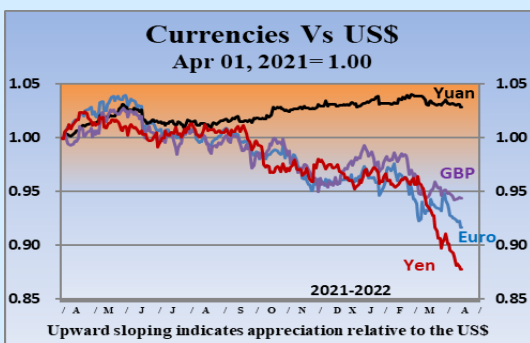
(As of April 18, 2022)



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. 1. US: Realism Emerging in Energy-related Debates**

As energy prices continue to surge, senior government officials have begun to request oil companies to increase supply. The supply-demand outlook issued by the US Energy Information Administration also published policy-neutral outlook.

### **2. EU: Clear Stance of Strengthening Energy Security against Russia**

Russia's invasion of Ukraine has united Europe in their resolve to strengthen energy security against Russia and reduce their dependency on the country. REPowerEU released by the European Commission reflects this change in policy toward Russia.

### **3. China: Pursuing Decarbonization while Ensuring Energy Security**

The government decided to proceed with decarbonization with discipline while aiming for 5.5% economic growth and ensuring energy security. As the Ukraine crisis attracts attention, a government policy mentioned "absolute safety" as a requirement for developing nuclear power.

### **4. ME: Conflicts Spreading behind the Ukraine War**

Having been approaching Russia in recent years, Middle Eastern countries are responding to the Ukraine crisis in various ways. The war in Yemen, in which Saudi Arabia is involved, and the Israel-Iran conflict are prolonging and deteriorating.

### **5. Russia: Putin Administration Increasingly Isolated by the International Community**

As the Russian invasion intensifies, Europe, the US, and Japan are tightening their economic sanctions. With the Putin administration showing no sign of compromise, international pressure is growing while discontent within Russia is also mounting.



## 1. US: Realism Emerging in Energy-related Debates

**Yoshikazu Kobayashi**, Senior Economist  
Manager, CCUS Group  
Fossil Energies & International Cooperation Unit

Inflation continues to rage in the United States. The Consumer Price Index was up 7.9% year-on-year as of February 2022, the highest in 40 years. According to the US Bureau of Labor Statistics, this increase is driven mainly by energy prices, which are believed to account for 26% of the overall inflationary effect. The national average gasoline price was \$4.18 per gallon as of March 14, passing the 4-dollar mark as feared. Domestic electricity prices are also trending upwards as coal and natural gas prices rise.

Amid these circumstances, at an energy-related event held in Houston on March 9, Energy Secretary Jennifer Granholm called on US upstream oil companies to increase supply. When asked if the Biden administration's policies have led to the energy price increase, she replied that the government expects domestic oil and gas supplies to increase and that now is not the time for infighting, and promised to handle the licensing process for development projects swiftly. The fact that Secretary Granholm, who has so far given top priority to climate action, has switched to a more realistic approach indicates renewed recognition of the importance of the balance of the three Es in energy policy—energy security, energy efficiency, and the environment.

These realistic views are clearly reflected in Annual Energy Outlook 2022 published on March 3. As the first to be published since the Biden administration took full control of the government, the Outlook had been keenly awaited. It envisions a 2050 power mix consisting of 44% renewable electricity (21% in 2021; the same hereafter), 34% natural gas (37%), 12% nuclear (19%), and 10% coal (23%), based on a reference case subject to the current laws and regulations. The Outlook also contains eight more scenarios, but none of them anticipates electricity reaching net-zero emissions in 2035, despite the Biden administration's public promise. Furthermore, natural gas-fired thermal power has a lower share in 2050 than in 2021 but the output itself is actually higher. Moreover, coal-fired thermal power still accounts for 10% of all power even in 2050.

Moreover, the Outlook assumes that the existing fossil-fuel-centered energy supply-demand structure will continue as a whole, with four out of the five scenarios anticipating that domestic natural gas output will continue to increase toward 2050, 79% of new cars will continue to be powered by internal combustion engines (gasoline and diesel oil) in 2050, and that EVs and plug-in hybrids will only account for 13% combined. The US Energy Information Administration has always remained firmly “policy-neutral” and based their analyses on objective assumptions wherever possible. The fact that a US government organization issued an outlook predicting that the country's fossil fuel dependency will continue despite the global tide toward decarbonization suggests that such views are still dominant within the country.



## 2. EU: Clear Stance of Strengthening Energy Security against Russia

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

Europe continues to suffer soaring energy prices. Natural gas and electricity prices have skyrocketed since last summer and remain at high levels. Oil and natural gas supply insecurity has worsened since Russia's invasion of Ukraine, pushing up energy prices further.

There has long been concern about the danger of depending on Russia for energy supplies. In particular, after gas supplies passing through Ukraine were cut off in the middle of winter in 2009, regulations and measures were put in place to strengthen the stability of gas supply. Nevertheless, the responses of EU member states varied, with none specifically targeting Russia. However, Russia's invasion of Ukraine this time was a wake-up call that has forced Europe to ramp up their energy security against Russia and reduce their dependency on the country. The so-called REPowerEU policy released by the European Commission on March 8 reflects the change in the EU's policy toward Russia.

REPowerEU aims for more affordable, stable, and sustainable energy and consists of three pillars: measures to respond to rising energy prices, replenishing gas stocks for next winter, and reducing EU dependency on Russian gas supply.

The actions to deal with rising energy prices are: 1) strengthening monitoring of retail energy prices with price regulation as an option, (2) more taxes on energy companies making excessive profits, (3) considering energy subsidies for companies, and (4) optimizing the structure of the electricity market. Europe has been deregulating its energy markets since the 1990s, and now seems to be correcting its course of action to protect consumers and companies.

Regarding replenishing gas stocks for next winter, the EU will consider setting a minimum stock level aiming to replenish underground gas stores to 90% by October 1, 2022, and will also provide aid for purchasing natural gas to be stocked and monitor the behavior of Gazprom and other facility operators.

For reducing EU dependency on Russian gas supply, six actions have been indicated: (1) reducing fossil energy consumption by households and commercial buildings through solar power, heat pumps, and energy efficiency, (2) decarbonizing industry by switching its energy sources to electricity and hydrogen, (3) speeding up the licensing process for renewable energy, (4) doubling the current target for biomethane production from agricultural wastes, (5) diversifying sources of natural gas imports, (6) strengthening and diversifying hydrogen supply capacities by upgrading storage facilities, ports, and other related infrastructure.

These powerful measures will not only accelerate the EU's comprehensive decarbonization measures centering on energy efficiency and renewable energy, but also encourage various clean energy supplies including hydrogen. Developments in EU energy policies, including the revision of nuclear power in France and elsewhere, deserve close attention.



### 3. China: Pursuing Decarbonization while Ensuring Energy Security

Li ZHIDONG, Visiting Researcher  
Professor at Graduate School  
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According to the National Bureau of Statistics, the GDP growth rate in 2021 was 18.3% for Q1, 7.9% for Q2, 4.9% for Q3, and 4.0% for Q4, and 8.1% for the full year, surpassing the government's target of "at least 6%." The power supply shortages, which affected more than 20 regions including Guangdong Province since the start of the year, were mostly resolved by November thanks to the government's efforts to stabilize energy supply, and this underpinned economic growth. Decarbonization also made progress. Primary energy consumption increased 5.2% to 5.24 billion tce (tons of coal equivalent; 1 tce =  $7 \times 10^6$  Kcal), but the share decreased by 0.9 percentage points to 56% for coal and by 0.4 points to 18.5% for oil while it increased by 0.2 points to 8.6% for natural gas and by 1 point to 16.9% for non-fossil energy (including 14.5% for renewable energy). Energy consumption per unit GDP (energy intensity) decreased by 2.7%, trailing the government's target of around 3%, but CO<sub>2</sub> emissions per unit GDP (emission intensity) decreased by 3.8%.

The government's activity policies and the annual economic and social development plan for 2022 were adopted at the fifth session of the 13<sup>th</sup> National People's Congress that closed on March 11. The government's GDP target, which attracted attention both in and outside the country, was set to around 5.5%. This is lower than last year's target and result but is higher than the 5.3% predicted by the Chinese Academy of Social Sciences in December last year and the 4.8% announced by the International Monetary Fund (IMF) in January. Heading toward the 20th National Congress of Communist Party of China (CPC), which will decide on the third term of General Secretary (and President) Xi Jinping, employment and social stability are of paramount importance and it is estimated that GDP growth of 5.5% is necessary to secure them. Furthermore, "seeking progress, with stability as the top priority (穩字當頭、穩中求進)" was set as the basic government policy in response to the three pressures facing the Chinese economy of shrinking demand, supply shocks, and weakening expectations, in addition to the uncertain international situation.

As part of the basic governance policy, it was decided to pursue decarbonization with discipline while securing energy security. As specific measures, the government will accelerate the development of domestic resources, ramp up fossil fuel stocks, and curb price increases, while powerfully driving measures forward in an integrated manner such as building large wind and solar power farms, increasing high-efficiency coal-fired thermal power that provides flexibility, and building ultra-high voltage transmission networks that connect these regions with demand centers, all in the northwest region with abundant wind, solar and coal resources. The policy is to use these new coal-fired thermal power plants not as a base power source but as adjustment capacity, which is essential for a stable power supply. For energy conservation, instead of setting an annual target as in other years, it is stated that the target of the five-year plan to decrease energy intensity by 13.5% from 2020 may be reached by 2025. Further, because renewable energy contributes concurrently to decarbonization, energy security, and stable growth, any increase in renewable energy consumption will be excluded from the regulatory target for total energy consumption. The policy also stated that the benchmark for determining whether the target is achieved will be changed from a combination of energy intensity and the regulatory total energy consumption target to CO<sub>2</sub> emission intensity and the regulatory emissions target.

Meanwhile, Prime Minister Li Keqiang did not mention nuclear power in the government's activity report. On the other hand, the annual plan prepared by the National Development and Reform Committee stated that nuclear will be developed actively and with discipline while ensuring "absolute safety." This is more exacting than last year's activity report and annual plan which simply required ensuring "safety." This suggests strong awareness of the issue of how to secure nuclear safety in case of emergency, which has emerged due to the Ukraine crisis. Attention must be paid to nuclear development going forward.



#### **4. ME: Conflicts Spreading behind the Ukraine War**

**Sachi SAKANASHI**, Senior Research Fellow  
Assistant Director, JIME Center

Middle Eastern countries are responding in various ways to Russia's invasion of Ukraine. This is because they have been approaching Russia in recent years as the United States gradually moved away from the region in its attempt to pivot to Asia. For example, the UAE (same as China and India) abstained from voting on the UN Security Council resolution condemning Russia submitted on February 25. Israel, which is on good terms with both Russia and the US, declined to co-sponsor the resolution. Both the UAE and Israel voted in support of the resolution condemning Russia adopted at the UN General Assembly on March 2, but Syria voted against it, while Iran, Iraq, Sudan, and Algeria abstained.

Meanwhile, major Persian Gulf oil-producing countries have not responded to requests to increase production amid soaring energy prices. When the Biden administration failed to win support from Saudi Arabia, with which relations had been cooling, UK Prime Minister Boris Johnson also paid a visit to Saudi Arabia and the UAE, to eventually achieve little. Like the Biden administration, PM Johnson reportedly conveyed "concerns over human rights" to Saudi Arabia, while both Saudi Arabia and the UAE are discontent with the Biden administration. For instance, Yemeni Houthi militants have repeatedly launched attacks on Saudi and UAE oil facilities, threatening stable energy supply. The countries feel that despite these attacks, the Biden administration has not given adequate support to help them fight the Houthis, and is even showing signs of compromising with Iran which backs the Houthis.

It has been expected that the Iran nuclear deal (JCPOA) will be rebuilt through the ongoing negotiations between the US and Iran, which would result in the lifting of the US sanctions against the Iranian oil, which would help ease supply and demand. However, the negotiations are not proceeding as had been hoped. Iran is demanding that the US lift its designation of the Islamic Revolutionary Guard Corps (IRGC) as a terrorist organization, but not only Saudi Arabia and Israel but also the US Congress is strongly opposed to agreeing to this demand, claiming that "the regional activities of the IRGC (such as supporting the Yemeni Houthis) have not changed." As a result, Iran's nuclear activities—the country's leverage for rebuilding the JCPOA—have made substantial progress and the country is now producing near-weapons-grade (90%) uranium enriched up to 60%. In response, Israel is stepping up its covert operations in Iran and a series of mysterious explosions have occurred at Iranian nuclear facilities, while Iran's nuclear activities continue.

Increasingly wary of Iran's regional activities, Israel launched drone strikes on February 14 on an armory of the IRGC in western Iran, destroying hundreds of drones stored there. In response, on March 13, the IRGC launched missile attacks on an "Israeli target" in Kurdistan in neighboring Iraq as a warning to the country. In sync with the war in Ukraine, the confrontation between Iran and Israel, which had continued behind the scenes in recent years, is gradually becoming more open and fierce.



## 5. Russia: Putin Administration Increasingly Isolated by the International Community

**Shoichi ITOH**, Manager, Senior Analyst  
Global Energy Group 2, Strategy Research Unit

Despite severe criticism from the international community, Russia continues to invade Ukraine. On March 2, an emergency special session of the UN General Assembly adopted a resolution deploring Russia's actions in the strongest terms, with 141 countries voting in support. However, on the same day, Russia's foreign minister Sergei Lavrov warned the international community that a third world war would be nuclear.

Russian forces seized Kherson province in Southern Ukraine on March 15 and Iziium to the southeast of Kharkiv, the country's second largest city, on the 17th. On March 22, in Mariupol, a city on the coast of the Sea of Azov under siege and which the Russian forces had demanded its surrender, the number of deaths topped 3,000, with hundreds of thousands of civilians reportedly trapped in buildings. UN Secretary General Antonio Guterres made a strong appeal to end the living hell that the Ukrainian people are enduring. As of the same date, there have been 7,000 to 15,000 deaths among Russian forces since the start of the invasion (estimate by the North Atlantic Treaty Organization (NATO)). Believed to be suffering a decline in morale and supply shortages, and reported to have given up on the initial objective of seizing Kyiv, the Russian forces are facing staunch resistance by the Ukrainian forces in many regions.

Ukrainian president Volodymyr Zelensky is steadily broadening the circle of support for Ukraine among the international community, delivering speeches online in the parliaments of G7 countries starting with the UK on March 8, followed by the US and Japan on March 16 and 23, as well as Israel. On March 12, the Society for Worldwide Interbank Financial Telecommunication (SWIFT) announced that it will remove seven of Russia's major banks from its computer system as part of economic sanctions by the West and Japan. Further, on March 15, 14 members of the World Trade Organization (WTO) including Japan, the US, the EU, and Australia issued a statement announcing the revocation of Russia's most-favored-nation status and condemning Russia for its egregious violation of international law and disrespect for international institutions. Meanwhile, President Putin demanded that "unfriendly countries" pay for Russian gas exports in rubles.

In Russia, the impacts of the economic sanctions are spreading; inflation is accelerating (up 12.54% year-on-year as of March 11, the greatest since the 1998 financial crisis) as the ruble plunges and logistics are disrupted. Meanwhile, the Putin administration is tightening censorship and clamping down on anti-war protests. On March 14, a female staff courageously interrupted a live broadcast on Russian state TV carrying an anti-war message, attracting global attention. Senior government officials have also resigned, including major figures such as Anatoly Chubais, special envoy of the Russian president (for relations with international organizations).

On March 24, at the G7 emergency summit held after the NATO emergency summit in Brussels, the leaders issued a joint statement confirming that they will spare no effort to hold President Putin accountable for his actions, warn against the use of chemical, biological and nuclear weapons, support the gathering of evidence of war crimes, and fully implement announced sanctions. The international community is observing the stance of Japan as the only G7 member from Asia.



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