



IEEJ e-NEWSLETTER

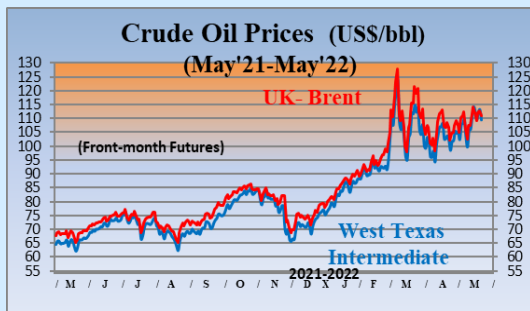
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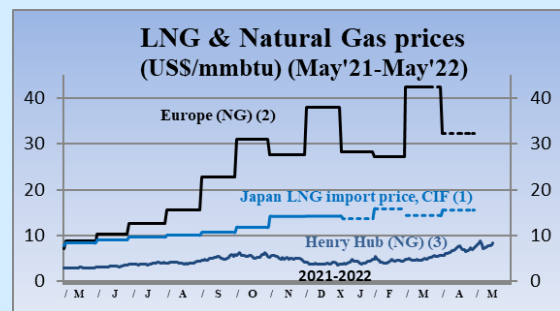
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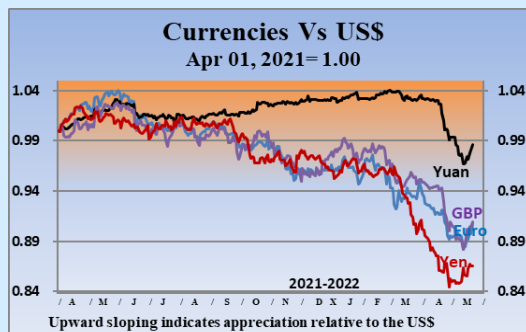
(As of May 23, 2021)



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: Dilemma between Energy Price Controls and Environmental Commitments

As energy prices rise further, the Biden administration has announced a series of initiatives that appear to backtrack on previous environmental commitments. Ahead of the mid-terms, dissatisfaction is growing over the administration's "overcommitment" and "underdelivery."

2 EU: Update on Europe's Reduction of Dependence on Russia

The fifth round of EU sanctions against Russia includes bans on the export of oil refining- and LNG-related equipment and technologies as well as on coal imports. Europe is considering energy security in sync with its moves toward decarbonization.

3. China: Overview of the 14th Five-Year Plan for Modern Energy System

The Chinese government unveiled its 14th Five-Year Plan for accelerating the building of a clean, low-carbon, safe, and highly efficient modern energy system. Developments deserve attention.

4. ME: Two-Month Ceasefire Reached in Yemen

With the UN serving as an intermediary, a two-month ceasefire was agreed in Yemen, which has long been suffering war. The Presidential Leadership Council was newly established and an international airport is reopening, but whether the war will end remains to be seen.

5. Russia: Reduction of CPC Oil Supplies, and Key Infrastructure under Attack

Stormy weather damaged Russian port facilities on the Russian Black Sea coast, forcing CPC crude supplies to be reduced. As Russia's military invasion of Ukraine continues, key energy infrastructure is coming under attack.



1. US: Dilemma between Energy Price Controls and Environmental Commitments

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In his speech on Earth Day, April 22, President Joe Biden reiterated his goal of reducing the US' GHG emissions by 50–52% from 2005 by 2030 and reaching net-zero emissions by 2050. He also highlighted the administration's efforts such as expanded investment in EVs by automakers and progress in the government leasing of public lands for onshore wind power development. However, with the sharp upward pressure on energy worldwide since the start of the year, especially after Russia's invasion of Ukraine, the administration is being urged to control the soaring energy prices (as always, basically by increasing the supply of energy).

On April 12, the government decided to allow the year-round sale of E15 fuel, which is gasoline mixed with 15% ethanol. The ethanol mix gas in circulation in the US is mostly 10% ethanol (E10), and the sale of E15 has been banned in the summer months due to environmental side-effects such as the use of ethanol increasing both the volatility of fossil fuels and the carbon emissions released into the atmosphere. With the lifting of the ban this time, the government hopes that the additional supply of alternative fuels will suppress gasoline prices. However, in addition to environmental concerns, there are doubts about the price lowering effect because of the limited circulation of E15.

On April 15, new leases for oil and gas drilling on federal lands were announced. The leases were reopened in response to a federal court decision to revoke the government halt on new leases, and as expected, the decision triggered strong criticism by environmental groups and progressive Democrats who are pushing for climate action. President Biden has long emphasized that fossil fuel leasing fees currently do not include climate change and other environmental costs, and a raise of federal royalties was announced simultaneously. The Biden administration also pointed out, in connection with the pandemic and the Ukraine invasion, that in the past, oil companies have sat on some of the drilling rights acquired, implying that oil companies that have withheld development and production are partly to blame for the current price surge. This view was strongly rejected by oil companies who have faced pressure to decarbonize under the Democratic government, as well as environmentalists who interpreted the comment as an encouragement to develop domestic oil and gas.

The Biden administration's desperate efforts to strike a balance between reducing the burden on consumers and delivering on its environmental commitments are driven by fear that the Democrats may become a minority in both houses of Congress in the November mid-terms. Indeed, President Biden's popularity has dropped since last summer to around 40% currently, compared with 56% at the start of his term. The fall in popularity has also been caused by inflation and the sluggish progress of his environmental commitments, and as he mentioned during the Earth Day speech, the environmental commitment was prevented from passing the Senate by just two votes of centrist Democratic lawmakers. He also criticized the Republican Party as having transformed from a party with which he could seek the middle ground to a MAGA party (referring to former President Trump's slogan, "Make America Great Again"). It is not clear how the President's failure to "heal" America's division, a commitment he made upon inauguration, will affect the administration's policy in the second half of his term and US politics toward 2024.



2. EU: Update on Europe's Reduction of Dependence on Russia

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Hot on the heels of the REPowerEU plan featured in this Newsletter last month, the EU has released several policies and measures for reducing its dependence on Russian energies. On April 8, the EU announced the fifth round of sanctions against Russia, banning all purchases and imports of coal or any other solid fossil fuels produced or exported from Russia, as well as their transfer into EU territories starting August 2022. The coal ban is the EU's first embargo on energy imports since the invasion of Ukraine. The fifth package of sanctions also includes a ban on the sale, supply, transfer, and export of oil refining- and LNG-related equipment and technologies. As Russia depends on the West for many LNG production-related technologies, the ban is likely to affect new LNG projects in Russia.

The European Commission has announced a technological support instrument to help 17 EU member states phase out their reliance on Russian fossil fuels in line with the REPowerEU plan. The provision of technical expertise will help member states identify and implement the best policies and investments in areas such as diversifying energy supplies, accelerating the transition to renewable energy, and improving energy efficiency. The recipients of this support are countries with a high dependence on Russia, namely Belgium, Bulgaria, Czech Republic, Estonia, Ireland, Greece, Spain, Croatia, Italy, Cyprus, Hungary, Poland, Portugal, Romania, Slovenia, Slovakia, and Finland. The European Commission plans to assess the situation of each country and hammer out the details of the REPowerEU plan by the end of May 2022. With the energy mix varying by country, the practicalities of reducing dependence on Russia will be keenly watched.

Furthermore, the European Commission and its member states jointly established an EU Platform for the common purchase of gas, LNG, and hydrogen in April 2022. Preparations for establishing this platform had been mentioned in the Commission's proposal released in March 2022. The platform will help ensure security of supply, in particular the refilling of gas storage facilities in time for next winter, and also ensure the optimal use of existing gas infrastructure. It will also strengthen long-term cooperation with key supply partners such as the US, and will extend the scope of cooperation to hydrogen and renewable energy, possibly through memorandums of understanding. In the near term, attention must be paid to the platform's efforts to address its key challenge of refilling gas storage levels for next winter.

At the national level, countries are working to ensure energy security through expanding renewable energy and using nuclear power. The German Cabinet decided on the Easter Package, a package of amendments to six laws, which aims to cover at least 80% of electricity demand with renewable energy by 2030. The UK has unveiled the British energy security strategy, which includes nuclear new builds. Europe's approach toward energy security appears to be closely aligned with its moves toward decarbonization. (As of April 26)



3. China: Overview of the 14th Five-Year Plan for Modern Energy System

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On March 22, the National Development and Reform Commission and the National Energy Administration released the 14th Five-Year Plan for Modern Energy System, which had been formulated on January 29 before the Ukraine crisis struck. This is the energy version of the Five-Year Plan for National Economic and Social Development adopted at the National People's Congress in March last year. The key points are as follows.

In the previous Five-Year Plan, China decided to aim to build a clean, low-carbon, safe and highly efficient modern energy system. The new Plan positions modern energy system as essential for ensuring energy security and achieving the “3060 goal” of reaching peak CO₂ emissions before 2030, and achieving net-zero carbon emissions before 2060, and pledges to accelerate their establishment. The government's seriousness can also be seen in the tweak in the name of the Plan from “Energy Development” to “Modern Energy System.”

The new Plan highlights energy security. In addition to increasing the primary energy production from 4.08 billion tce (tons of coal equivalent, 1 tce = 7×10⁶ Kcal) in 2020 to a production capacity of at least 4.6 billion tce in 2025, the Plan also sets targets for energy source to maintain oil production at 200 million tons (195 million tons in 2020), and increase natural gas production to at least 230 bcm (from 192.5 bcm in 2020) and the installed generation capacity to around 3,000 GW (from 2,200 GW in 2020).

In the area of decarbonization, the Plan sets new targets to increase the share of non-fossil fuels in the generation output to 39% (from 33.9% in 2020) and the share of electricity in final energy consumption to around 30% (from 27% in 2020), in addition to ongoing targets to reduce the energy consumption per unit GDP by 13.5% in 2025 from 2020 levels and the CO₂ emission per unit GDP by 18%, and to increase the share of non-fossil energy in primary energy consumption to 20% (from 15.9% in 2020).

The Plan also calls for strong development of non-fossil power sources, and in particular, accelerating the construction of a large power generation base in northwest region with abundant wind and solar resources, and the development of offshore wind power farm and solar thermal power. The installed capacity of general hydropower will be expanded to 380 GW in 2025 (from 340 GW in 2020) by developing in suitable lands with priority on ecology. Nuclear power will be developed actively and with discipline while ensuring safety, reaching 70 GW in operation by 2025 (compared to 49.89 GW in 2020). Further, to ensure a stable power supply from new power systems with variable energies a main power source, high-efficiency and flexible coal power will be reinforced in the northwest region, promoted integrally with the construction of an ultra-high voltage transmission network that connects these regions to demand centers. Further, to increase the share of power sources with grid-balancing capabilities to 24% (from around 6% in 2021), at least 200 MW of existing coal power capacity will be renovated to enhance flexibility by 2025 and the installed capacity of pumped-storage hydropower will be increased to 62 GW (from 31.49 GW in 2020). The Plan also sets a demand-side target to increase demand response capabilities to 3–5% of the maximum load by utilizing battery cells and EVs. Progress in these efforts deserves attention.



4. ME: Two-Month Ceasefire Reached in Yemen

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A two-month ceasefire was agreed in war-torn Yemen. The Houthi rebels of Yemen carried out multiple drones and missile attacks on Saudi oil facilities in March, but at the end of the month, announced that they would stop attacks on all fronts for three days. The Saudi-led coalition also announced a temporary halt of the fighting, with a view to holding peace talks during Ramadan (which runs from April 2 to May 1 this year).

Accordingly, peace talks began, mediated by the UN. On April 1, Hans Grundberg, UN Special Envoy for Yemen, announced that both the Houthis and the coalition had agreed to halt all offensive military air, ground and maritime operations inside Yemen and across its borders for two months. The restart of fuel transport to the Port of Hodeidah currently under Houthi control and of commercial flights in and out of Sanaa International Airport in the capital were also agreed on by the parties. If the ceasefire holds, the airport will reopen after a six-year closure and is expected to help mitigate the humanitarian crisis.

On April 7, President Abd Rabbuh Mansur Hadi of the legitimate Yemeni government, which is resisting the Houthis, announced that he would step down and transfer executive authority to the Presidential Leadership Council to be newly established. Rashad al-Alimi, who took the reins of the Council, is said to be close to Crown Prince Muhammad bin Salman of Saudi Arabia. This implies that Hadi has been dethroned by Saudi Arabia, which backs al-Alimi, for not being able to end the civil war.

With the fighting now in its seventh year since 2015, the ceasefire marks a step forward for Yemen. However, it is not clear whether it will settle the war permanently as peace talks have failed several times in the past.

Meanwhile, fears over another conflict are mounting in Palestine. Sporadic fighting has occurred between Palestinians and Israelis possibly fueled by the overlap this year between Ramadan, during which Muslims have a heightened sense of faith, and the Jewish celebration of Passover. On April 7, shooting broke out in the Israeli commercial city of Tel Aviv, killing three. On the 15th, Israeli police officers clashed with Palestinians in the Old City of Jerusalem, home to a holy site for both the Islam and Jewish faiths, injuring more than 150. Then, on the 18th, rockets were fired from the Gaza District into Israel, resulting in Israeli forces air-bombing the southern part of Gaza in retaliation on 19th. No deaths were reported in either case, but tensions are clearly rising. With no end in sight for resolving the Palestinian issue, these exchanges of violence could escalate into larger military clashes.

Countries such as Israel and Turkey are trying to act as mediator in the Ukraine crisis. Ceasefire talks were held at the end of March with the mediation of Turkey, and these countries could serve as a channel for resolving the conflict.



5. Russia: Reduction of CPC Oil Supplies, and Key Infrastructure under Attack

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On March 23, Russia's Deputy Prime Minister Alexander Novak told the State Duma that shipments of oil from the Port of Novorossiysk on the Russian Black Sea coast were expected to be reduced for six weeks to two months in order to repair damage to the oil shipping facilities caused by storms. This has caused concern over a decline in global exports of the CPC (Caspian Pipeline Consortium) crude spread, sending the closing price of WTI (May contract) to \$114.93/bbl, up \$5.66 or 5.2% from the day before. The unscheduled repair of the port caused the terminal to fill up with stocks, and on March 29, the Kazakh Department of Energy announced that the country would need to cut production by 0.32 mb/d for one month until the port recovers fully.

The CPC Pipeline (1,511 km, transportation capacity of 1.35 mb/d) runs from the Caspian Sea coast in western Kazakhstan to the Port of Novorossiysk on the Russian Black Sea coast through Russian territory. As it is co-funded by the Russian government (with the largest stake of 24%), Chevron, KazMunayGas, and a Lukoil subsidiary, among others, there was a risk of sanctions by the US. On March 8, the Office of Foreign Assets Control (OFAC) of the US Treasury Department announced on its FAQ website that even though US Executive Order 14066 prohibits all imports of Russian oil and petroleum products by the US, restrictions will not be applied to non-Russian crude imports by the US transported through Russian territory and shipped from a Russian port.

Regarding Ukraine, the international community has expressed strong concern that the Russian occupation of Ukraine's Zaporizhzhia and Chernobyl nuclear power plants is causing accumulated fatigue and extreme stress for the plant staff, heightening the risk of an accident. On March 25, it became clear that Ukraine's key infrastructure including hydropower plants and thermal power plants are also under Russian control. On April 3, the Kremenchuk Oil Refinery (0.37 mb/d) was completely destroyed by Russian attacks. Ukraine's refinery industry has long been declining and the country has been importing about 90% of its domestic petroleum product supplies. The refinery was the last one in operation among a total of seven in the country.

On April 12, the Ukrainian government announced that the computers that control Ukraine's high-voltage substations were hit by cyberattacks, presumably by Russian military hackers, in the previous week, but the attacks were narrowly blocked by regional power system experts with the help of the counter-cyberattack specialists of CERT-UA (Computer Emergency Response Team of Ukraine). According to Deputy Energy Minister Farid Safarov, the number of cyberattacks on Ukraine's key energy infrastructure has been soaring, with over 200,000 cybersecurity incidents (as opposed to around 900,000 for the full year last year) and over 50 DDoS attacks (in which the attacker floods a target server with internet traffic; two occurred last year) detected in the past 47 days. After the cyberattacks on the country's power system in 2015 and 2016, which caused major blackouts, Ukraine has been stepping up countermeasures in collaboration with the West. With both the targets and the number of cyberattacks expected to increase, continued vigilance is required.



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