

The Discussion at OPEC Secretariat

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On November 10, the 8th Technical Meeting on Asian Energy and Oil Outlook was held in a face-to-face and online hybrid format at the Secretariat of the Organization of the Petroleum Exporting Countries in Vienna. As explained in “A Japanese Perspective on the International Energy Landscape (455),” the annual Technical Meeting was launched in 2015, originating from regular meetings between the OPEC Secretariat and the Institute of Energy Economics, Japan, including the first one in 1987. At the latest meeting, OPEC Secretariat officials, representatives from OPEC members and experts from countries such as Japan, China, South Korea and India discussed the Asian energy and oil market outlook under the Chatham House rule. In the following, I would like to summarize my comments on the discussion.

First, the meeting gave me an opportunity to strongly feel the difficulty and significance of projecting energy supply and demand at a time when great uncertainties exist in the extremely chaotic international energy situation. While energy prices have spiked in a manner to destabilize the market remarkably, the world is required to accelerate decarbonization as a long-term challenge. Furthermore, geopolitical tensions and the divides of the world have become key challenges. In such situation, predicting even the near future is very difficult. Predicting the next 20, 30 or more years is even more difficult.

There are two mainstream approaches for predicting the future. One is the backcasting approach that fixes a future target or goal and depicts how the world would have to change to achieve the target or goal. The other is the forecasting approach that analyzes changes from the present trends under various assumptions. The IEEJ Outlook 2023 that I reported at the meeting adopts the forecasting approach. So does the OPEC Secretariat's World Oil Outlook 2022. The two outlooks have similarities regarding scenario names and basic concepts. The basic scenario is named “Reference Scenario” in the IEEJ Outlook and “Reference Case” in the OPEC Outlook. A scenario in which the promotion of technological development will change the world is named “Advanced Technology Scenario” in both outlooks. In some sense, these outlooks contrast with the backcasting approach represented by the International Energy Agency's World Energy Outlook that provides a scenario in which the world would reach net-zero emissions in 2050.

The two contrasting approaches have their respective significance and weaknesses. The backcasting approach indicates how the world would have to change from the present to reach a goal, providing specific milestones toward the goal. Decision-makers can build on the milestones to consider and implement specific measures. As the approach sets a goal first, however, the path to the goal may become excessively ambitious or deviate far from realities. If the deviation is extremely far, the path may no longer serve as a milestone. In contrast, the forecasting approach predicts the future

based on realities rather than any ideal goal. It can also predict different future pictures by changing assumptions. However, the forecasting approach tends to depict changes based on past trends and has difficulties in projecting structural, dramatic or revolutionary changes. At a time when the world is filled with unprecedented uncertainties, predicting the future is extremely difficult but valuable. I feel that it is very important to fully understand the strengths and weaknesses of the two approaches and use them appropriately and thoughtfully.

Second, the meeting led me to feel that energy price spikes and market destabilization since the second half of last year are exerting great impacts on the Asian energy market. I understood anew that while the European energy market has been affected most seriously because of its heavy dependence on Russia, developing countries and the Asian energy market have been hard hit by the international energy market destabilization and price hikes. Participants at the meeting cited price hikes' impacts on natural gas and LNG demand, and the comeback of interest in the use of coal and nuclear promotion initiatives, indicating that Asian countries are strongly conscious of the significance of securing stable energy supply and providing energy at affordable prices while the promotion of decarbonization initiatives remains important.

Various energy outlooks commonly predict that economic growth in Asian emerging and developing countries will drive global growth in a manner to boost energy demand. It is also commonly recognized that although the economic trend and relevant energy demand changes in China would have decisive impacts on the international energy situation in the immediate future, energy demand expansion in India, which would replace China as the driver of global economic growth, and in the Association of Southeast Asian Nations would become important over a medium to long term. The common recognition was reaffirmed at the meeting. While having set long-term carbon neutrality goals and promoting relevant initiatives, Asian emerging and developing countries may maintain their current energy market trends until 2030 or later. To realize global decarbonization, steady emission cuts should be promoted, based on the realities in Asian emerging and developing countries poised to become major greenhouse gas emitters. Steady emission cuts should contribute to securing stable energy supply. To this end, some inclusive approach covering all potential options may be required.

Third, participants in the meeting vigorously discussed key factors to ensure stable energy supply and energy security. Particularly emphasized in this respect was the significance of securing energy investment covering fossil fuels as well as other energy sources. After learning that investment shortages have become a key background factor behind the current energy price spikes, the world will have to secure investment to stabilize the market. Participants in the meeting also discussed the significance of long-term LNG contracts and governments' roles in promoting LNG investment. It is also important to secure investment in the electricity and nuclear fields. Relevant markets should be designed to promote investment.

As indicated by an analysis on critical mineral supply and demand in the IEEJ Outlook, the concept of energy security has the potential to cover total cost hikes and destabilization that may accompany energy transition. Just as the case that a renewable energy analysis requires to cover not only power generation costs but also costs for the integration of intermittent renewable energy sources into the grid system, it is important to note that a critical mineral analysis needs to cover overall material supply and demand and total costs related to critical mineral utilization. This kind of comprehensive analysis may provide new viewpoints for talks on energy choices in the world, making some contributions to energy policies.