

Toward Deepening Energy Interdependence between Asia and North America

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From April 2 to 4, the Fourth Pacific Energy Summit took place in Vancouver, Canada. The Summit was organized by the National Bureau of Asian Research (NBR), a U.S. think tank. The Vancouver summit was cosponsored by the NBR and Asia Pacific Foundation in Canada. Under the theme "Forging Trans-Pacific Cooperation for a New Energy Era," discussions at the Summit focused on two timely topics -- how the two major trends of rising Asian energy demand and North America's expanding unconventional energy supply will develop and how energy interdependence between the two regions could deepen amid the two trends.

The first Pacific Energy Summit came to Tokyo, the second to Jakarta and the third to Hanoi. The three earlier Summit meetings in Asia focused on Asian energy problems. For discussions at the latest Summit in North America, Asian problems were joined by two new viewpoints -- the significance of North America's substantial expansion of conventional and unconventional oil and gas supply subject to global attention and the region's deepening relations with the Asian market.

From Canada as the host country, a large number of people including high level government officials and energy industry players participated in the summit, indicating their high interests in the theme. Canadian participants pointed out many Canadian advantages including abundant conventional and unconventional oil and gas resources, Canada's attractiveness and stability as an investment destination, and less regulatory constraints in oil and gas exports, impressing me with their high expectations on their participation in and increasing sales channels to the expanding Asian market.

Behind Canada's expectations on Asia are various problems regarding its strategy for the U.S. market. The problems include the difficult position of gas exports to the United States as a mainstay export destination after a substantial gas price fall amid the shale gas revolution. Furthermore, its crude oil export prices have come under downward pressure as the U.S. West Texas Intermediate crude oil price has been lower than global reference prices represented by the Brent crude. Also among the problems are environmental and other challenges that have stalled the Keystone XL pipeline project to export Canadian oil sand to the U.S. Mexican Gulf coast. Given the U.S. market problems, Canada's rising interest to explore Asian market has some similarity to Russia's shift from its heavy dependence on the European market to the Asian market. Canada's initiative to explore the Asian market may be significant in terms of new market exploration, diversification of sales channels and participation in an expanding market.

Regarding the United States, interesting views were given on the present state and future prospects of the ongoing shale revolution and on domestic arguments over liquefied natural gas exports. Impressively, participants repeatedly made the following points: (1) very abundant resources and expanding supply indicate that U.S. LNG exports to the Asian market including Japan would be natural and inevitable from the viewpoint of economic principles, (2) domestic U.S. discussions still contain the “trauma” of energy scarcity since the 1970s, instead of a sense of energy abundance, and affect energy policy discussion, and (3) the United States, while being expected undoubtedly to go in the direction of improving energy self-sufficiency, will retain its unshaken commitment to stabilizing the international energy market.

Discussions were also heated on Asian energy market trends and prospects. Participants pointed out that Asian energy demand will steadily increase on signs of Japan's economic recovery from a long stagnation amid a stock market upsurge, China's rebound from last year's economic growth deceleration, and economic growth in India and the Association of Southeast Asian Nations, that renewable and nuclear energy consumption are expected to post high growth, and that how to secure stable supply of fossil fuels will be a major challenge for Asia where fossil fuels, including oil and gas as well as coal as a mainstay energy source, will remain dominant in the Asian energy market.

In a natural development in a sense, discussions focused on LNG related issues among others. This is because the United States and Canada are considering and preparing many LNG export plans in which many Asian companies including those from Japan, China and South Korea participate, while it is important for Asia to secure LNG supply and price stability in response to substantial growth in LNG demand. The Summit included roundtable discussions focusing on the LNG price formation issue that has attracted keen attention in Japan as well as in other Asian countries. Participants in the discussions pointed out that LNG procurement at more competitive prices is an urgent challenge for Asian buyers and that LNG imports from North America would be significant for Asia to diversify LNG procurement sources and pricing mechanism to address the challenge. Particularly impressive for me were interesting opinions given on the possible development of Asian gas hubs, the history and present situation of discussions between gas sellers and buyers on gas price formation in the European market, the importance of more liquid LNG markets, the destination clause problem and other issues related to the LNG price formation problem.

Through discussions on Asian problems, I also felt anew that Summit participants were greatly interested in China. It might have been natural for these summit participants to focus interests on the market trends and policy conditions of China that has continued remarkable growth and has been poised to replace the United States as the world's largest oil importer, although Asia has other important factors including growing LNG demand in Japan after the March 2011 Great East Japan Earthquake, the future restart of nuclear reactors in Japan, and future energy demand trends in India, ASEAN and South Korea.

The final impressive point of the latest Pacific Energy Summit for me was that various opinions were frequently presented on the relationship between energy and environmental problems. This may be because there have been familiar and present environmental problems including

worsening air pollution in China, a water contamination problem emerging in connection with unconventional oil and gas development, and environmental concerns regarding the Keystone XL pipeline project involving Canada, as the host of the summit, and the United States. Also impressive were various views given on the importance of energy and other measures against global warming and climate change. Behind discussions on these problems might have been Hurricane Sandy's heavy damage to the United States last year and U.S. President Barack Obama's discussion of the importance of global warming measures in his second term inauguration speech. Given that environmental and energy problems are two sides of the same coin, I realized anew that it is important to keep close watch on U.S. and global developments regarding environmental problems.

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