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Discussions on Crude Oil Prices, Shale Revolution and Asian Energy Hubs at the 17th World Knowledge Forum

Ken Koyama, PhD
Chief Economist, Managing Director
The Institute of Energy Economics, Japan

On October 11-13, the 17th World Knowledge Forum (WKF) took place in the South Korean capital of Seoul. As introduced in “A Japanese Perspective on the International Energy Landscape (242),” the annual international conference has been sponsored by Maeil Business Newspaper of South Korea’s Maekyung Media Group since the first one in 2000. As did the past meetings, the 17th WKF focused on the hottest current international topics, positioning “knowledge” as important for resolving various problems and challenges facing the world. Globally famed experts were invited to make presentations at the large-scale meeting.

The three-day forum comprised more than 80 sessions dealing with a diversity of very important topics such as the Brexit and the future of Europe, the U.S. presidential election, the world economy, geopolitical risks in Northeast Asia, Eurasia and the Middle East, and cutting-edge technologies like artificial intelligence, Internet of Things, humanoid robots, cloud computing and drones. Speakers included high-level famous people, chief executive officers of global enterprises and famed academia experts, such as former German Chancellor Gerhard Schrader, former U.S. Vice President Dick Cheney, former U.S. Deputy Secretary of State Strobe Talbot and former U.S. Undersecretary of State for Political Affairs Wendy Sherman. The sponsor gave the total number of participants in the forum at 3,500 on a registration basis.

The latest WKF included multiple sessions on energy and environment problems. I had opportunities to be a panelist in two sessions on “Building the North East Asia Energy Hub” and “Future of Shale: Energy Industry Scenario.” There were also sessions dealing with crude oil price problems, climate change and Asian super-grids. Given that the WKF was designed to focus on the hottest current matters, however, I felt that the most important energy matters of interest to WKF participants included crude oil price problems, Asian liquefied natural gas market problems and the shale revolution behind these problems.

In a session on crude oil prices, participants had active discussions on future developments after crude oil futures prices rose back above $50 per barrel in response to an agreement to cut oil production at an extraordinary meeting of the Organization of the Petroleum Exporting Countries. The most controversial point in the discussions was whether Russia and major OPEC members could effectively coordinate their production restraints. The extraordinary OPEC meeting and the production reduction agreement in September came as a surprise to the oil market, leading crude oil prices to rise back. Since then, however, market players have closely watched the effectiveness and effects of the oil production reduction agreement. In this respect, Russian President Vladimir Putin indicated Russia's readiness to cooperate with OPEC in cutting oil output at the World Energy Conference 2016 in Turkey's Istanbul on October 10, attracting global attention. At the same forum on the day, Saudi Arabian Energy Minister Khalid al-Falih was optimistic about a more specific oil output reduction agreement at an OPEC meeting in November. On October 12, OPEC and non-OPEC oil ministers held an unofficial meeting. These developments naturally led crude oil prices to attract great interest at the WKF.

In the discussions on crude oil prices at WKF, however, many participants gave cautious or skeptical views about oil producing countries' coordinated production reduction. This is because they expect that it would be very difficult for oil producing countries to set country-by-country production quotas to specify and secure how much each country should actually reduce production. Major OPEC members have had difficult negotiations on country-by-country quotas due to their different domestic conditions and have sometimes eventually avoided setting such quotas. OPEC members at their November meeting are dominantly expected to reaffirm the production ceiling as agreed in September at between 32.50 million and 33.00 million barrels per day while falling short of setting country-by-country production quotas to secure the output reduction. Many participants in the discussions were doubtful about Russia's cooperation with OPEC countries, given the lack of any production reduction mechanism and the track records of Russia's cooperation with OPEC in cutting oil production or exports. Furthermore, it is important that the latest OPEC and Russian oil output was at historically high levels. However, no one knows what would happen in reality. We may have to take note of the possibility of another surprise.

Behind oil producing countries' attention-attracting talks on production cuts has been the U.S. shale revolution, of which the significance was discussed in a session on the revolution. OPEC has come up with its strategy of giving priority to market shares and tolerated crude oil prices to decline in a bid to limit an increase in shale oil production. Apparently, OPEC might have expected that shale oil would not be able to survive if crude oil prices fall below a $60-70/bbl range. However, shale oil has toughly survived through thorough cost cuts and the concentration of business resources on promising reserves. Given a large number of uncompleted wells, shale oil production is now expected to stop falling and turn upward if crude oil prices rise back beyond a certain level. Shale oil has become a unique oil supply source. OPEC now has no choice but to take into account the presence of shale oil with a flexible supply potential in developing and implementing strategies. The session on crude oil prices also included an exchange of interesting views on the possibility of a sustainable expansion in U.S. shale oil production, and shale resources development potential and problems in China, Argentina and Russia.

The U.S. shale revolution has exerted great influences on the world's gas and LNG market as well. In a session dealing mainly with LNG trading hubs in Northeast Asia, discussions covered U.S. LNG's role in the global LNG market now plagued with oversupply. While additional LNG supply from Australia is important, the expansion of U.S. LNG that is free from export destination restrictions and more flexible for supply is significant for Northeast Asia. Given the present market conditions, discussions on and initiatives for LNG and gas trading hubs in Asia have been activated. Following relevant initiatives in Singapore and Shanghai, Japan's LNG market strategy announced in May has attracted attention as an LNG trading hub development initiative by the world's largest LNG importer. As for South Korea that had been less proactive about developing an LNG trading hub, an LNG hub plan for Myodo was introduced at the WKF as an initiative put under full consideration since last April. A dominant opinion given at the WKF was that while government support and institutional designs are naturally important for developing LNG hubs, how seriously market players would try to develop a hub is more important. Participants in the WKF discussions also argued that major Asian countries should make their respective efforts and cooperate to expand the flexibility of LNG transactions and enhance LNG market functions.

Contact: report@tky.ieej.or.jp
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