

At the IFGE2016 in Malaysia

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

On December 5 and 6, the International Forum on Global Energy Landscape: Its Implication to Malaysia (IFGE 2016) took place in Putrajaya, Malaysia. This was the first such international conference cosponsored by the Malaysian Energy Commission, Tenaga Nasional Berhad and the Institute of Energy Policy and Research (IEPRE) of Universiti Tenaga Nasional.

As noted in “A Japanese Perspective on the International Energy Landscape (292),” I have served as international adviser to the Energy Commission at Universiti Tenaga Nasional since December 2015, cooperating with the Malaysian sponsors in launching the IFGE 2016 and developing a program for the forum. As indicated by the title, the conference dealt with how we should understand great changes in the global energy landscape, what their implications for Malaysia would be and how Malaysia should respond to them.

Attending the conference were high-level Malaysian participants including the Energy Commission chairman and chief executive officers, as well as famed foreign experts such as Jonathan Stern from the Oxford Institute of Energy Studies, Mikkal Herberg from the U.S. National Bureau of Asian Research, Fareed Mohamedi from the U.S. Rapidan Group, Gao Shixian from China’s Energy Research Institute, Tatiana Mitrova from Columbia University of the United States and Ben Cahill from the U.S. Energy Intelligence Group. I had an opportunity to deliver a keynote address. The conference highlighted excellent and interesting reports and discussions by the abovementioned foreign experts as speakers and panelists. I would like to summarize particularly important points of these reports and discussions.

First, the experts agreed that the international oil market is going in the direction of rebalancing or the elimination of oversupply. However, they differed over the timing of rebalancing and how fast oil prices would increase. A dominant view about the recent oil production cut agreement of the Organization of the Petroleum Exporting Countries was that the market has welcomed the agreement with crude oil prices rising back above \$50 per barrel, while its effectiveness and effects are questionable in reality. Most of the experts forecast that oil prices could turn down again unless the agreement is successfully implemented in the current supply and demand environment including top-heavy prices. However, many of them pointed out that if the present weakness of oil prices were prolonged more, an investment shortfall and oil producing countries’ destabilization could bring about a severely tight supply-demand balance in the future. I would like to note that some experts warned that crude oil prices could soar rapidly on supply shortages before 2020.

A mainstream view about the Asian liquefied natural gas market was that oversupply will remain until at least 2020, or beyond 2020 to 2022 or 2023 depending on conditions. The demand

side includes uncertainties regarding Japan's nuclear power plant operation, Chinese economic growth, competition from coal, domestic gas development and progress in Russian pipeline programs. However, new supply volume exceeding 100 million tons is dominantly expected to surpass demand growth. Given expanding U.S. LNG exports and buyers' request for greater flexibility of terms and conditions for contracts, some experts predicted that the Asian LNG market will steadily grow more flexible and liquid. The experts also discussed the possibility that if the crude oil market is rebalanced with prices rising before the elimination of oversupply in the LNG market, a wide gap between oil-indexed and spot LNG prices may emerge to trigger a debate between LNG sellers and buyers over the LNG pricing approach as seen earlier in Europe.

As the United States goes in the direction of energy self-sufficiency with European energy demand slackening, the gravity center of the international energy market may shift further to Asia. While Asia including Southeast Asia will increase its dependence on energy imports due to demand growth to make energy security more important, the abovementioned international oil and LNG market environment will provide a unique opportunity for Asia, according to some experts. The unique opportunity means that Asian LNG buyers could enjoy concessions that oil and LNG suppliers throughout the world would inevitably offer.

Vigorous discussions came on the fact that major LNG suppliers for Asia are plagued with a great number of problems even amid the loose supply-demand balance, low prices and the buyer's market at present. While investment cuts in the international energy industry and its implications under weak prices are viewed as significant, economic deterioration in major oil producing countries is growing more serious. Some experts noted that at a time when U.S. President-elect Donald Trump's policies are uncertain and unknown, geopolitical risks in the Middle East could deteriorate or grow more serious. Interestingly, some experts called for paying attention to how the United States going in the direction of energy self-sufficiency would engage with the stability of the Middle East and what stance the United States would take for its allies and major Asian countries in regard to the Middle East and sea lane stability. Discussions also took place on details and implications of oil, gas and coal policies under the incoming Trump administration viewed as pro-fossil fuel. Some experts pointed out that as Trump's "America First" foreign policy could affect U.S. energy exports, attention should be paid to future developments.

As for Russia that has key potential for Asia to reduce dependence on the Middle East, it was pointed out that Asia would be the cornerstone of Russia's strategy for expanding and diversifying energy sales channels. Given that Russia has some challenges to further facilitate its Asian strategy including relations with China and Japan, however, some experts noted that the current market environment cannot justify any optimism about Russian energy exports to Asian countries.

Malaysia, as well as all other countries in the world, will have to consider its own energy policy or strategy in the international energy environment filled with uncertainties and challenges as mentioned above. Malaysia has become a net oil importer and started and may expand LNG imports. On the other hand, Malaysia replaced oil with natural gas to reduce dependence on oil in the 1980s and switched to coal to lower excessive dependence on natural gas later. Coal now commands a leading share of primary energy supply or power generation in Malaysia, with coal power generation plans being robust. Malaysia faces the growing importance of energy security amid rising energy imports, responses to environmental problems, energy industry and market reform and other difficult challenges and must consider the best energy mix to appropriately meet these challenges. Remarks

by Malaysian participants in the forum led me to feel that they have such challenges in mind. I would like to pay attention to future energy policy developments in Malaysia and in the whole of Asia.

Contact: report@tky.ieej.or.jp

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