Special Bulletin

A Japanese Perspective on the International Energy Landscape (312) February 24, 2017

Participation in International Petroleum Week 2017

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On February 21 through 23, "International Petroleum (IP) Week 2017" took place in London, sponsored by the London-based Energy Institute. OPEC Secretary General Mohammad Sanusi Barkindo, Qatari Energy and Industry Minister Mohammed bin Saleh Al-Sada, international oil company top executives and famed experts made presentations and panel discussions at the conference, attracting about 1,500 oil and gas industry stakeholders mainly from the United Kingdom and Europe on a registration basis. They had vigorous discussions on present and future challenges facing the oil and gas industry over the three days. I attended the annual conference for the second time following my first presence at the previous one. In the following, I would like to summarize four points that were impressive to me at the conference.

First, discussions on crude oil prices and peak oil demand were interesting. Last year's IP Week 2016 came as crude oil prices slipped below $30 per barrel. However, IP Week 2017 took place as these prices were in a boxed range between $50/bbl and $55/bbl. The biggest factor behind the steep change in oil prices was a policy shift by the Organization of the Petroleum Exporting Countries and its leader Saudi Arabia, which led to a coordinated oil production cut by OPEC and non-OPEC oil producing countries. OPEC achieved about 90% compliance of its oil production cut target in January, indicating a more serious attitude than earlier expected on the production cut. However, Russia and other non-OPEC oil producing countries have seemed to be failing to comply with the coordinated production cut. At a time when U.S. shale oil production was increasing, I felt that most participants in IP Week 2017 expected the oil market's rebalancing to take considerable time. Impressively, top executives of international and independent oil companies emphasized that they were steadily making their serious efforts to survive the new crude oil price environment by increasing business efficiency and cutting costs to maintain and improve business operations under the current oil prices.

Peak oil demand, though not any near-term urgent problem, could shake the international oil market and oil companies in the world. In the past year, electric vehicle cost reduction and diffusion made rapid progress in major North American, European and Asian countries, leading to uncertainties about the transport sector's oil demand that had been expected to grow stably. As a result, discussions on peak oil demand have been activated. At the IP Week 2017 conference, various experts and top oil company executives provided oil demand forecasts. A dominant view was that global oil demand would continue moderate growth until or beyond 2030. While oil demand for passenger cars is expected to decline over a long time due to the possible rapid diffusion of electric vehicles, oil demand for trucks, ships and aircraft is likely to continue increasing along with that for petrochemical production. Participants in the conference dominantly expected that overall oil demand would continue increasing. Some participants pointed out that non-electric vehicle ownership would increase despite the electric vehicle diffusion as overall vehicle ownership continues expanding in Asian and other developing countries. Other participants noted that overall fuel efficiency improvements and transportation policies rather than the electric vehicle diffusion would affect oil demand. Although participants in the conference dominantly forecast that oil demand would continue increasing, vigorous discussions on peak oil demand indicated that they were growing conscious of the peak. I felt that the problem of peak oil demand would have to be followed up on and analyzed.

Second, IP Week 2017 participants interestingly indicated their great hopes on the natural gas and LNG market with high growth potential and various challenges facing the market. They pointed out that how to enhance price competitiveness for gas and LNG would be important as gas and LNG, though featuring cleanness and abundant supply, face severe competition from coal, renewable energy and nuclear. In this respect, many stakeholders noted that carbon pricing mainly for coal should be introduced. They were conscious of the recent fact that carbon price hikes in the United Kingdom led to a 35% increase in gas consumption and a 65% decline in coal consumption in the power generation sector. They expected that if prices became competitive, with supply flexibility increased to improve convenience for gas use, gas demand growth would accelerate in Asia that would drive gas demand growth in the world. While predicting that oversupply in the Asian LNG market would basically continue until the first half of the 2020s, participants discussed how to enhance the competitiveness and attractiveness of gas and LNG and how to secure long-term supply capacity under the present market environment.

Third, discussions at IP Week 2017 indicated participants' renewed consciousness of the importance of the Asian market. The conference included a session on future Asian energy demand, which was set for the important timeframe of the morning on the first day. All panelists for the session were from major Asian countries, including me. As there was no such session at last year's IP Week conference, I felt that the Asian presence in the conference was less than indicated by the significance of Asia. In this sense, IP Week 2017 led me to feel a major change anew. As the gravity center of energy demand is shifting to Asia, it is the most important challenge for oil and gas industry stakeholders in the world to better understand the present and future situations of the Asian market. As a matter of course, they are highly interested in growing markets including China, India and the Association of Southeast Asian Nations. They also indicated great interests in Japan that is the world's largest LNG importer and is making progress in the restart of nuclear power plants and in electricity and gas market reform. IP Week 2017 gave me an opportunity to become strongly conscious of the fact that it is important for me to enhance my analysis on the Asian market including Japan and communicate such analysis to the world.

Fourth, various arguments about environmental problems including responses to climate change were made at the conference, indicating participants' strong interests in how the oil and gas industry should respond. This is natural, given that responses to climate change have grown even more important since the Paris Agreement took effect in November last year. Many participants in the conference pointed to the importance of using gas, known as a cleaner fuel. Given that gas is a fossil fuel, meanwhile, they indicated concerns and anxiety over whether the present business model would be maintained over a long time. In this context, as noted above, they indicated the importance of introducing carbon pricing to promote a switch from coal to gas. Impressively, many oil and gas industry top executives pointed out that the most urgently important challenge for the industry would be initiatives to develop carbon capture and sequestration/utilization technologies and resolve the problem of methane leaks during oil and gas production, development and transportation to secure the use of fossil fuels over a long time. I would like to further enhance efforts to analyze the important challenges of climate change and the energy mix.

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