

At the Asia Oil & Gas Conference (AOGC) 2019

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On June 23-25, the Asia Oil & Gas Conference (AOGC) 2019 took place in the Malaysian capital of Kuala Lumpur. The AOGC is a very large-scale international conference sponsored by Malaysian state-run oil company Petronas. Since the first conference in 1996, it has been held annually in the initial phase and biennially in the later phase. The latest one was the 20th. Under the central theme of “Forging a New Energy Future,” an official opening ceremony was followed by two special addresses and discussions in eight sessions, with participants including representatives from the Malaysian government, Petronas, other state-run oil companies and international oil companies, as well as famed experts and journalists. In the following, I would like to summarize the most impressive points for me in the conference.

At the official opening ceremony, the Petronas president’s welcome address was followed by a keynote address by Malaysian Prime Minister Mahathir Mohamad. The speech by the prime minister, turning 94 in July, was very impressive and vigorous. I would like to summarize his speech as follows:

The last AOGC in which I took the rostrum was the eighth one, in 2003, when the Middle East was in chaos amid the Iraq War before crude oil price hikes. The current AOGC also coincides with the Iranian situation that has suddenly grown tense, with Middle Eastern geopolitical risks shaking the world. As the U.S.-China trade war has escalated, the global energy market has come under strong influence of international relations and geopolitics. Given moves to enhance climate change countermeasures and to develop and diffuse innovative technologies, the situation for the oil and gas industry is challenging from the short to long-term viewpoint. As in the past, however, the oil and gas industry is expected to develop and implement adequate strategies to overcome difficulties even at a time when uncertainties make it difficult to forecast the future;

The central theme of “Forging a New Energy Future” for the latest conference implies the impact of enhanced climate change countermeasures on fossil fuels, renewable energy expansion and the electrification of the transportation sector and other future challenges from the medium to long-term viewpoint. In fact, however, geopolitical risks grew due to the current situation. Prime Minister Mahathir’s keynote address impressively and steadfastly covered key short-term challenges as well as long-term ones facing the oil and gas industry.

On the current geopolitical risks and international situation and their influence on the oil and gas market, AOGC Chairman Fereidun Fesharaki, a famed oil and gas industry expert serving as chairman of consulting company Facts Global Energy, presented an interesting analysis in his special address at the outset of the second day of the conference. He pointed out that U.S. President Donald Trump has exerted greater influence on the oil and gas market than any past U.S. president through

his China, Iran and Venezuela policies. Regarding the Iranian situation, Dr. Fesharaki noted that no optimism could be warranted, pointing to a high chance of some clash. Depending on the scale and seriousness of any clash, crude oil prices could spike. His address indicated turbulent developments in the future international oil market.

Many presenters took up the U.S.-China trade war and relevant risks to the global economy in the conference, leading me to feel that oil and gas industry stakeholders in the world have shared these problems as a very important challenge. Given that growth in China's demand and imports has supported the oil and gas market, its economic deceleration is destined to exert downward pressure on demand and prices on the oil and gas/LNG market, as indicated by stock and oil price fluctuations triggered by speculation about a U.S.-China summit.

Pointing out that massive U.S. LNG should have flowed into China if without the U.S.-China trade war, Dr. Fesharaki predicted that the fate of the trade war would continue to have great influence on the future global LNG flow. Apart from the U.S.-China trade war, he forecast that the LNG market would remain weak in the next few years and see a rapidly tightening supply-demand balance before plunging into oversupply again in the second half of the 2020s. He meant that such cyclical market changes would be unavoidable due to the massive initial investment required for LNG projects. While being exposed to such changes, LNG market buyers and sellers are required to make strategic decisions and take adequate measure while responding flexibly to market changes.

Regarding grave long-term challenges for the oil and gas industry, I felt that many speakers at the conference were conscious of how enhanced climate change countermeasures and technological innovation would affect oil and gas demand expansion, or whether the oil and gas market would continue growing or peak. While oil and gas demand is dominantly expected to steadily increase in Asian emerging and developing countries in the future, the rich member countries of the Organization for Economic Cooperation and Development have great uncertainties about future oil and gas demand amid their ongoing energy transition. In Asia, demand is expected to steadily increase for gas/LNG destined to replace coal and contribute to decelerating air pollution as the cleanest fossil fuel. In Europe, however, gas/LNG as fossil fuel has no choice but to be subjected to decarbonation to achieve an ambitious target of cutting greenhouse gas emissions by more than 80% by 2050. The environments surrounding oil and gas industries widely differ by region or country. Overall, however, oil and gas suppliers will place even greater hopes on the growing Asian market.

In such circumstances, the global oil and gas industry's strategy features (1) enhanced business initiatives for gas/LNG as cleaner fossil fuel, (2) expansion into renewable energy on which hopes are growing globally, (3) initiatives for hydrogen and other innovative energy technologies or options, (4) initiatives for carbon capture and storage, carbon recycling and other CO₂ measures and (5) Giving due consideration to the so-called ESG investment and reputation risks. However, these initiatives are not easy to implement. As for the first initiatives regarding gas/LNG business, the industry must address not only the long-term impact of enhanced climate change countermeasures but also the price affordability as an immediate issue to realize demand expansion in Asia with a gas/LNG market expected to grow. Regarding innovative technologies, the biggest challenge is to substantially cut costs and develop social infrastructure for their diffusion. In the renewable energy

business, it is hard to expect to get the profits as large as that the oil and gas industry enjoyed in the past based on its “super normal profits”. The oil and gas industry will have to closely watch future developments regarding international relations and geopolitical risks, analyze major countries’ energy and environmental policy trends and the development and diffusion of innovative and other energy technologies and develop flexible strategies responding to the uncertain world.

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