

Prospects for Future Oil/Energy Situation

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On February 9, an international panel discussion on the future oil/energy situation took place on an online basis, cosponsored by ENEOS Corporation, ENEOS Research Institute, Ltd. and the Institute of Energy Economics, Japan. I and two others participated in the panel discussion as panelists. The other two were Fereidun Fesharaki, chairman of FACTS Global Energy Group, and Ben Cahill, a senior fellow at the U.S. Center for Strategic and International Studies. Nikkei Shimbun editorial writer Hirofumi Matsuo served as moderator. The 32nd annual international panel discussion on the matter, as well as the past discussions, covered prospects and challenges for the international oil situation and global natural gas and LNG markets over the short, medium and long term, including international energy security after the Ukraine crisis and the decarbonization issue.

The most impressive point to me regarding the latest panel discussion is that extremely interesting arguments came from the three panelists about what direction the world would go after dramatic changes in the international energy situation one year after Russia's invasion of Ukraine began. As stable energy supply and energy security has loomed as the top priority in a world shaken by energy price spikes and market destabilization, the division of the world through deepening confrontation between the Western bloc and the China-Russia group has become a key background factor that sways the international energy order. Then, the Middle East has grown even more important, with Saudi Arabia and Qatar increasing their presence. The United States has enhanced its influence on the international energy market on the strength of its expanding oil and gas production and LNG exports. Another key issue at the discussion was how the emphasis on energy security would affect climate change countermeasures including decarbonization initiatives. Important arguments also came about the impact of the critical mineral supply issue on decarbonization. My participation in the discussion on these issues inspired me very much. In the following, I would like to make comments on the most interesting arguments at the discussion.

In the international oil market, prices have recently remained in the \$70-90 per barrel range, though plunging from last year's peaks. Global oil demand is expected to remain robust in the future. Russian oil supply is likely to decline moderately. The world's dependence on the Middle East for oil supply is expected to increase, leading a few oil producing countries such as Saudi Arabia to possess surplus production capacity. The OPEC-plus group of oil producing countries is projected to continue its oil production adjustment to keep oil prices high. Given these points, oil prices are likely to stay around \$90/bbl as indicated by the panelists. Depending on a recovery in China's economy and oil demand, the oil supply-demand balance may tighten further. As a matter of course, there is the possibility of global economic deceleration exerting downside pressure on crude oil prices. Anyway, oil prices are likely to remain high or rise further depending on some events. We will have to keep close watch on oil prices.

The panelists also discussed the Russian oil price cap. The cap on Russian crude oil prices

was launched in December, followed by that on Russian petroleum products prices introduced in early February. The panelists roughly agreed that while the price cap suppresses Russian oil revenue to some extent, Russia may find sales channels for its oil through various initiatives even under the price cap as far as demand exists for Russian oil. As the oil embargo and price cap (and relevant constraints on oil transportation) complicate oil transactions and require longer transportation distances, international oil trade may deviate from the optimum international trade to seriously affect market efficiency. Although the price cap was earlier feared to become a new trigger of oil supply disruptions, Russian oil has so far continued to flow into the market, even though market efficiency was affected.

As for the gas/LNG market, however, more pessimistic prospects were indicated in the panel discussion. The combination of warmer winter weather conditions, European countries' desperate efforts to secure gas supply and a decline in Chinese LNG demand has prevented an earlier-anticipated critical situation including European gas shortages this winter. However, the panelists were conscious that the gas supply-demand balance may tighten greatly toward the next winter as constraints remain on inventory accumulation from low levels in early spring. In this respect, the Chinese LNG demand trend is greatly uncertain. In 2022, Chinese LNG demand decreased substantially amid economic deceleration and the strict zero-COVID policy. The decrease allowed more LNG to flow into Europe, helping to ease the supply-demand balance in Europe. If LNG demand expands in China in the future, however, the international LNG supply-demand balance may tighten substantially, leading to a fierce global race to procure LNG.

The panelists mostly predicted that the global gas/LNG market may see a tight supply-demand balance for the immediate future. One indicated that the supply-demand balance may stay tight until U.S. LNG supply starts full-fledged expansion in 2026. To stabilize the market, investment to meet demand will have to be implemented. It may have to be globally reaffirmed that appropriate investment in fossil fuels including LNG must be secured to stabilize the international energy market. As the host of this year's Group of Seven summit, Japan may be required to take leadership in discussing the fossil fuel investment and producing an agreement to serve global interests such as the international market stability and the maintenance of market order, instead of allowing each country to look only to its own stable energy supply. It was pointed out at the panel discussion that oil supply capacity to meet demand should be secured. The panelists were conscious that the international oil market may see supply shortages if constraints remain on supply from not only Russia but also Iran and Venezuela under foreign sanctions. The constraints may accelerate the world's rising dependence on the Middle East. Initiatives to stabilize the Middle East and promote dialogue between oil producing and consuming countries will grow even more important.

The energy transition path to strike a balance between decarbonization and energy security enhancement may be bumpy, requiring the world to overcome various challenges. As the division of the world deepens along with geopolitical tensions and confrontation, the issue of excessive dependence on limited supply sources for energy and critical materials may attract attention. As renewable energy, electric vehicles and batteries are promoted, demand for rare minerals for them may increase dramatically. A tighter supply-demand balance and price hikes may come for some critical minerals around 2030 or earlier. For some critical minerals, supply sources regarding resources or production capacity are unevenly distributed around the world. In the international environment where the division of the world is deepening, we may have to fully consider more comprehensive or wider-defined energy security or extensive economic security in promoting decarbonization for future energy transition, instead of being preoccupied with the traditional concept of energy security.

The G7 Hiroshima summit will provide Japan with an opportunity to lead arguments and initiatives for global stability and interests regarding complicated energy issues in the difficult international environment. Japan will be required to mobilize its full power to overcome tough challenges.

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