

Perspectives on World Economy, U.S. Energy Situation, and International Oil/Gas Market Perspectives

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On April 25, I had an opportunity to discuss key points of the international energy situation with energy experts, energy policy planners and energy industry people in a conference that the Oxford Institute for Energy Studies sponsored in Vienna, Austria. Discussions covered a wide range of topics. Here, I would like to take up the points of interest to me about prospects for the world economy, the U.S. energy situation, the international oil market and the international gas/LNG market.

As the conference took place in Europe with participants dominated by Europeans, speakers there presented rather pessimistic forecasts about the future world economic situation in view of the present European economic situation. Although the danger of “euro collapse” was once perceived as a matter of serious concern, the current European situation seems to be “restored” from getting into the “worst case scenario”.. But the participants in the conference came up with serious views, pointing out that the European economy is in a temporary lull while remaining under severe conditions and that no optimism could be justified about future developments. Meanwhile, they indicated expectations on a possible U.S. economic recovery and the Japanese economy featuring a stock market upsurge and a shift to the yen’s depreciation under the so-called “Abenomics”, economic policy of Prime Minister Shinzo Abe. But they pointed out that the future courses of the U.S. and Japanese economies are still uncertain and that a sense of risk still exists concerning their sustainable economic recovery and their contributions to the world economy. Various problems were also taken up in regard to recovery of emerging economies. Particularly, it was noted that China could see a short-term slump in economic growth as its new government could switch from the traditional growth-oriented economic policy to a new policy giving priority to a suitable balance between society and economy and to qualitative economic development. A dominant view in the conference was that such world economic situation could lead to slow energy demand growth, providing a key point for anticipating a supply-demand balance in the international energy market.

Next, the participants had heated discussions about the U.S. energy situation and policy under the progressing “shale revolution”. At issue in the discussions were (1) how far the shale revolution (expansion of unconventional oil and gas production) would go, (2) how the impact of the shale revolution on the international energy market and the international situation should be interpreted, and (3) what U.S. energy policy challenges would be under the progressing shale revolution. On the first issue, some said the present brisk expansion of production would continue

over a medium to long term with support from abundant resources as technological innovation makes progress and spreads. But some others noted that no optimism could be warranted about the economics of shale development from the viewpoint of production costs and that a crude oil price decline could affect the economics of shale oil development. In connection with the third point to be discussed below, some pointed out that a key issue would be how environmental problems would affect future shale development.

On the second issue, some indicated that the shale revolution would further expand its impact on the international energy situation as LNG exports increase after growing coal exports affect the international market under the ongoing revolution. Many participants said LNG exports, though depending on the issue of US government permission, might exert a great impact on the supply-demand balance in the Asian LNG market, if a certain export volume were secured. Regarding expanding shale oil production, some participants noted that the United States already exports nearly 3 million barrels per day in petroleum products, and has become a major petroleum product exporter competing with Russia and the Middle East. A factor behind this reality is that U.S. oil refineries have benefitted from lower gas prices and improved their competitiveness. In this sense, we may also have to pay attention to the impact the U.S. petrochemical industry, which also benefits from lower gas prices, would exert on the global market.

On the third issue, participants discussed the impact that the ongoing progress toward U.S. energy self-sufficiency would exert on U.S. foreign and energy policies and paid attention to growing U.S. interests in environmental problems and policies. Pointing out that President Barack Obama discussed the global warming issue in his inauguration speech for his second term and that he might have given some consideration to environmental problems in selecting Secretary of DOS and Secretary of DOE, some participants called for paying attention to what policy or stance the United States would take on environmental problems while greenhouse gas emissions decline substantially under the shale revolution. An interesting opinion given at the conference said that we should take note of water pollution and GHG emission through shale development, environmental problems linked to new pipeline construction including Keystone KL pipeline, and other environmental challenges and constraints that exert direct effects on U.S. energy supply and demand.

Participants in the Vienna conference also made various interesting arguments about international oil and gas/LNG markets. A key point regarding the oil market was how the present trends such as progress in unconventional oil development, Iraq's expansion of crude oil output, and slowing oil demand growth would affect the future supply-demand balance. Some participants noted that the high costs for unconventional oil production would support oil prices, while some others pointed out that the expanding shale oil output and the Iraqi crude oil production rise could be coupled with slumping oil demand to exert a very great impact on the market.

On the natural gas/LNG market, a dominant view was that the European gas market slump is serious with no demand recovery expected for the immediate or mid-term future, while various views were given on possible increases in North American and Asian demand. Some pointed out that while Asian gas demand is likely to increase steadily due to a demand expansion linked to the

nuclear power generation problem and a shift to gas caused by local/regional environmental problems (air pollution), Asian gas/LNG prices should grow more competitive for expanding Asian gas/LNG demand further. There was an argument that the Asian LNG market could see an easing supply-demand balance around 2020 as supply from such new sources as North America, Russia and Eastern Africa expands faster than demand. Furthermore, some noted that Asian LNG buyers and governments are now embarking on unprecedented efforts to reform the Asian LNG pricing mechanism under the expected supply and demand environment. Discussions also touched on other various issues including the significance of a more flexible, liquid Asian gas market including gas/LNG hubs in Asia, institutional and policy measures for developing such market/hub, and very complicated and tough negotiations on the gas pricing problem in the real world as seen from actual discussions between buyers and sellers. The Asian gas/LNG issue might have become one of the key topics in global energy discussions.

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