

Prospects for the Future Asian Oil/Gas Market: AOGC 2013

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The Asia Oil and Gas Conference 2013 took place in the Malaysian capital of Kuala Lumpur on June 9-11. This was the 17th annual AOGC meeting since the first one was held in 1996. As indicated by the name, the international conference deals with various problems regarding the Asian oil and gas market. Malaysian state-run oil company Petronas sponsored the conference and announced that as many as 1,200 people from 30 countries participated in the meeting. Malaysian Prime Minister Najib Razak made a keynote address at the opening ceremony, leading us to feel that Malaysia gave priority to the conference.

AOGC 2013 participants made presentations and held discussions on Asian oil and gas problems including present oil and gas industry conditions, future economic and political scenarios, Asian energy security, the U.S. shale revolution and its impacts on Asia, and the present situation of and future prospects for upstream, midstream and downstream oil and gas markets. I would like to summarize impressive points of the discussions on Asian oil and gas problems at the conference.

First, AOGC participants based their arguments on a common recognition that the Asian oil and gas market will grow even more important as Asia expands its oil and gas demand and imports and its dependence on such imports. They were also conscious that the Asian market is important for Malaysia that is a major oil and gas producer and a major LNG exporter in Asia. Another impressive point was that various challenges inside and outside the Asian market and the problem of uncertainties over the market, as well as the recognition of Asia's importance, are major matters of concern to Malaysia and other stakeholders in the market.

At an Asian energy security session in which I participated, participants indicated their concern over Japan's future energy and environment policies in regard to energy problems in Asia that is increasing its dependence on energy imports. They also made arguments on destabilizing factors and problems in the Middle East that is deepening interdependent relations with Asia. Discussions at the session focused on Iran and Iraq. Interesting arguments were made on the Iranian presidential election and its geopolitical impact on Iran and the Persian Gulf region, challenges involving Iraq's future stabilization and development, and the relationship between the Kurdish region and the Iraqi central government and its impacts on future oil development. Participants also pointed out that how to respond to a rapid increase in energy demand in the Middle East would

become a very important challenge, prodding the region to enhance interdependent relations with Asia.

Second, participants indicated their great interests in the trends and impacts of the U.S. shale revolution as a factor that would influence interdependent relations between Asia and the Middle East. The second session of the conference focused on this point. Even at other sessions, many presentations and arguments were made on the shale revolution, indicating that the U.S. shale revolution has been positioned as the biggest factor for considering the future Asian oil and gas market. Some speakers attracted attention by pointing out that the United States could become one of the world's leading LNG exporters by around 2020 and that shale oil production could increase more substantially than expected traditionally. These arguments indicated that Malaysia and other present oil and gas exporters to the Asian market have had no choice but to grow more conscious of great influences or impacts from the U.S. shale revolution.

Third, AOGC participants indicated their great concerns over the future course of the Asian LNG market including impacts of attention-attracting U.S. LNG exports and Mozambique's LNG project that could make the African country one of the world's leading LNG exporters over a long period after 2020. The conference featured checks and cautions against exaggerating or placing excessive expectations on impacts of U.S. LNG exports while representatives from gas producing countries and supply-side players were dominant among speakers and panelists. Participants also made skeptical and other interesting arguments about whether a buyer's market could emerge in the Asian LNG market as expected by buyers and whether cheap LNG could really exist. I felt that these questions have become major challenges or matters of concern for the suppliers' side. At the same time, I recognized that we would have to sufficiently consider not only security of supply for buyers but also security of demand for sellers.

Fourth, many participants pointed out that a sustained expansion in tight and other unconventional oil output is exerting pressures on the macro supply-demand balance in the international oil market to ease. This is an oil market problem that is also of great significance to gas/LNG problems. Over a medium term, downward pressures on crude oil prices could emerge and trigger changes in the oil situation. Any crude oil price fall is expected to exert great influences on the problem of pricing in the Asian LNG market and on new LNG projects. In this sense, we may have to keep close watch on future oil market developments including impacts of the shale revolution. There are many other factors we cannot ignore in anticipating the future course of Asia, including changes in heavy and light crude oil flows, the conditions of the U.S. oil refining industry and petroleum product export and their impacts on Asia, and U.S. petrochemical industry conditions and their influences on the Asian market. Regarding the future course of the Asian oil and gas market that will grow more important for the international market, we may have to pay attention and give sufficient considerations to positions, views and strategies of not only new market players but also Asian oil and gas producing countries and other existing players who play key roles in the present market.

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