

## **Asian Oil Security**

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In Singapore on January 16-17, I had an opportunity to join intensive discussions on the problem of Asian oil security. As Asia has been increasing its importance substantially for the international oil market, the problem of oil security has become a matter of grave concern to policymakers, industry people and experts in and outside Asia in line with the region's growing dependence on oil imports. The significance of the problem has been greatly recognized as Asia's increasing dependence on oil imports has been coupled with rising geopolitical risks and future uncertainties in the Middle East, on which Asia depends heavily for oil supply.

While taking into account Asian countries' respective dependence on oil and the Middle East, participants in the discussions proactively exchanged views on the impacts of a major disruption in oil supply from the Middle East on the Asian energy and economic situation, Asian countries' capability to respond to the disruption, the differences in their emergency preparedness, actions to be taken against the distribution, and what should be done in preparation for emergency situations. I here would like to analyze impressive points of the discussions.

First, participants pointed anew to the importance of information for crisis management amid an emergency. If any major oil supply disruption occurs, it may inevitably have serious impacts on the Asian oil market and countries. As indicated by experiences with the past oil crises, the key point is to collect, communicate and share accurate information appropriately and timely to prevent further deterioration of the situation and the emergence or expansion of market panics. As shown by the Great East Japan Earthquake and the subsequent nuclear crisis at the Fukushima Daiichi nuclear power plant, how to provide accurate, appropriate, timely information to society and markets is one of the keys to crisis management. Who should and how to collect and provide information is also important. It is significant for information providers to develop appropriate relations with the press/media which plays a critical role to public communication. Considering the current situation and reality, have concern if transparent, timely and reliable information would be sufficiently provided when serious oil security problems emerge in the Asian market. The government and industry sectors in Asian countries and international organizations should enhance relevant initiatives including the development of communications capability.

Second, the discussions in Singapore indicated that Asia still has problems with preparations and training required to enhance crisis management capabilities including the abovementioned communication capability. As the enhancement of crisis management capabilities cannot be achieved

in a short term, Asian countries will need to start and continue to conduct appropriate training and exercises in normal circumstance as preparation. Asian countries may also have to exercise specific emergency measures (including releasing oil reserves, controlling demand and managing prices and markets) under various scenarios, while developing crisis management arrangements and infrastructure build-up including oil reserve systems which play critical role as a basic element of resilience of the energy system. The importance of crisis management and relevant preparations might have been recognized in some countries including Japan that has experienced oil crises and the Great East Japan Earthquake. Nevertheless, daily training and exercises are indispensable. Asia includes countries that have never experienced oil crises as major oil importers and could face problems stemming from lack of experience in dealing with emergencies. For the abovementioned reasons, efforts to enhance crisis management capabilities will be a major future challenge for Asia.

Third, international cooperation is expected to play an increasingly important role to address the abovementioned two points. Efforts by individual countries and enterprises are important as a matter of course. If they conduct their actions based solely on their respective interests in an emergency in a zero-sum game manner, however, market turmoil and mutual distrust may deteriorate the situation further. To avoid such development, international frameworks and actions for responding to emergencies may have to be enhanced with participation expanded in these frameworks. Since its founding in 1974, the International Energy Agency has played a key role in dealing with supply disruptions in the oil market. While great expectations are still placed on the IEA, the IEA member countries' weight in or share of the international oil market is declining. Now it is important for IEA to build and enhance cooperation with growing Asian players such as China, India and the Association of Southeast Asian Nations. In Asia or the Asia-Pacific region, regional cooperation has been discussed under such regional frameworks as the ASEAN+3, the East Asia Summit and the Asia-Pacific Economic Cooperation. But most of these discussions have yet to make sufficient progress in terms of conducting concrete measures for responding to crisis collectively. As early as possible, specific arrangements should be created to enhance emergency response capabilities. International organizations, which can be "neutral" to the specific interests of individual countries, industries or enterprises, are expected to contribute to stabilize market, not only by supply-demand adjustment measures but also by providing reliable information to markets.

Fourth, the discussions in Singapore reflected structural changes and characteristics of Asia's oil trade and industry. Discussions on Asian oil security tend to highlight Asian countries' heavy dependence on crude oil imports from the Middle East. While this is an important point, we must pay attention to petroleum products trade that plays a key role in Asia. Singapore, India and South Korea depend heavily on the Middle East for crude oil supply while exporting petroleum products, meaning that petroleum products importers from these countries indirectly depend on the Middle East. In this respect, discussions are important on how a major disruption in crude oil supply from the Middle East would affect supply security covering both crude oil and petroleum products. Each Asian country will have to deepen discussions on the matter. Regarding the oil industry structure, many countries in Asia have state-run oil companies that have played a central role in supply oil to domestic market. Therefore, we may have to consider advantages and disadvantages that could stem from such industrial structure in an emergency. The matter involves the relationship between

governments playing commanding roles in dealing with emergencies, and enterprises and industries as actual market players. We may also have to consider measures required for a transition from state-run oil company systems to more liberalized market with diversified market players.

Regarding these points, Asian countries' conditions are very diverse and are difficult to be generalized. But these countries, whose presence in the international oil market is growing, will be required to make individual and cooperative efforts to overcome oil security problems and weaknesses, while taking these unique country-by-country constraints or conditions into account.

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