Special Bulletin

A Japanese Perspective on the International Energy Landscape (157) January 24, 2014

4th IEA-IEF-OPEC Symposium

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On January 22, the fourth IEA-IEF-OPEC symposium on energy outlooks took place in the Saudi capital of Riyadh. As at the three previous symposiums, representatives and experts from the three international organizations as well as those from international oil company, government officials from major countries and experts frankly exchanged views on short-, medium- and long-term energy supply and demand outlooks released by the International Energy Agency and the Organization of the Petroleum Exporting Countries. The latest symposium featured the largest-ever scale, with participants numbering some 100. The symposium was inaugurated as a forum between the IEA (oil consuming countries) and OPEC (oil producing countries) as mediated by the International Energy Forum. Oil consuming and producing countries base their discussions on their respective energy outlooks. Reflecting their different positions, the two sides naturally differ over the present and future energy situations. But it is significant for the two sides to deepen mutual understanding through their talks on the premise of their differences.

Specifically, it is important that IEA and OPEC experts have exchanged and coordinated their technical aspects on the definitions of energy categories and regions, energy data units and historical data regarding energy supply and demand analyses, based on discussions at the three previous symposiums. Even after such efforts, energy outlooks differ inevitably. It is healthy that there are various views about the uncertain future. These experts have found values in the differences and tried to work out baselines as significant standards for comparison to identify factors behind the differences. These efforts so far produced some achievements.

Interesting for me at the latest symposium were the common views in IEA and OPEC outlooks, rather than the differences between them. The first common view concerned a potential oil supply expansion over a short to medium term and its impacts. Global oil demand is expected to post some growth, driven by a demand rise in emerging countries. Interestingly, the IEA and OPEC share the view that the oil supply-demand balance is likely to ease over a medium term, given growing U.S. shale oil production, expanding Canadian oil sand production, potential growth in Latin America including Brazil and Mexico, an increase in natural gas liquid supply accompanying global natural gas production growth, and potential oil output increases in Iraq and Iran among OPEC members.

Second, the IEA and OPEC in their long-term market outlooks commonly emphasize that there are great uncertainties about the unconventional oil and gas resource development potential in the world over a long term. While the growing U.S. shale gas and oil production has exerted great impacts on the international energy market, various predictions have been given about unconventional gas and oil production in and outside the United States beyond 2020. The views on

this issue is diversified among experts. Both the IEA and OPEC have acknowledged that the great uncertainties should be taken into account for long-term outlooks. Particularly, OPEC has developed a scenario in which unconventional oil and gas development will expand far faster than expected and analyzed the impacts of the scenario. Our IEEJ's Asia/World Energy Outlook 2013 includes a similar analysis. In this sense, the IEEJ and OPEC share the similar interests.

Third, the IEA and OPEC commonly recognize that the gravity center of the international energy market is shifting to Asia, that there are various uncertainties about future energy conditions in China, India and the Association of Southeast Asian Nations as main Asian players, and that the international energy situation will be greatly affected by developments regarding these Asian players. In Asian emerging countries, great changes could occur in political conditions, economic growth, and energy and environmental policies. Present data and information have yet to be collected sufficiently as a base for predicting the future. A deeper analysis on the Asian energy situation will remain a grave challenge not only for the IEA and OPEC but also for other energy market stakeholders in the world.

The latest symposium featured a special session for intensive discussions on petrochemical industry outlook. The petrochemical industry, which has close relations with the downstream oil sector, has seen attention-attracting developments including the U.S. petrochemical industry's rapid expansion under the shale revolution, the expansion of the internationally competitive Middle East petrochemical industry and the feasibility of an expanding coal-based petrochemical industry in China. Interesting discussions took place at the symposium on how these developments would impact the global petrochemical industry.

How will plans for expanding ethylene production using natural gas (ethane) be realized in the United States? What will the markets for U.S. petrochemical exports be under the expansion? Will the Middle East expand its petrochemical industry further despite challenges regarding the expansion of local gas production? How should the feasibility be evaluated for coal-based petrochemical production plans in China? Symposium participants discussed these questions to which answers are uncertain. It was pointed out that the naphtha-based petrochemical industry in Europe and Asia could face serious challenges with regard to their international competitiveness. In fact, plans to reduce ethylene production capacity have been made and implemented in Europe and Japan. Various changes are expected in the global petrochemical industry structure and product flows.

But the situation is not so simple. As the ethane-based petrochemical production capacity, expected to increase in the United States, fails to turn out to produce heavier products such as butadiene and benzene, exports of these products from Japanese and other Asian markets to the United States are likely to increase, symposium participants said. They also noted (1) that liquefied petroleum gas and naphtha supply will increase due to the U.S. shale oil production expansion and the global NGL production rise, (2) that naphtha demand will decline due to ethylene production capacity reductions in Europe and Japan, (3) that as U.S. gasoline demand drops, demand will decrease for naphtha blended with gasoline, and (4) that U.S. LPG demand will decrease as LPG is replaced with ethane as a petrochemical material. These developments could be combined to change the naphtha and LPG supply-demand balance with downward pressures exerted on prices, they said. As various changes are expected in feedstocks and the market for the petrochemical industry in the world, how to procure cheaper feedstocks and how to develop product and market strategies for higher added values have become challenges. An interesting view given at the symposium was that it

is important to integrate oil refining and petrochemical operations further to enhance competitiveness and synergy effects under such business environment.

Oil producing and consuming countries are expected to continue their talks on matters of grave concern to both sides while selecting timely and important topics for their discussions. The continuation of these talks, as well as the promotion of mutual understanding and accurate knowledge about the future international energy market through dialogue, will contribute to stabilizing the market. I would like to see steady progress in the talks.

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