

Discussion at the “2014 North Pacific Energy Dialogue in the Shale-Gas Era”

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On August 13-15, the “2014 North Pacific Energy Dialogue in the Shale-Gas Era” took place in Honolulu, Hawaii. The conference was cosponsored by the Honolulu-based East-West Center and the Korea Energy Economics Institute of South Korea. As indicated by the conference title, some 30 energy experts from the six North Pacific countries -- Japan, the United States, China, Russia, South Korea and Canada -- frankly exchanged views on energy problems and challenges of these countries and the entire North Pacific region under the ongoing shale revolution. Major topics included not only the impacts of the shale revolution but also the Fukushima nuclear accident's implications for the energy situation and policies. The following are impressive points of the discussions for me:

First, participants reaffirmed that various uncertainties and challenges exist in regard to energy supply and demand conditions and future energy markets in all these countries. For example, discussions involving Japan focused on nuclear energy and energy mix problems after the Fukushima accident. Conference participants were greatly interested in the pending restart of nuclear power plants and the future position of nuclear energy in Japan. Intense discussions also took place on the accident's impact on Japan's fossil fuel demand (including liquefied natural gas).

Regarding prospects for future fossil fuel demand, discussions focused on coal as well as natural gas. Expectations are predicted to grow on coal as a competitive base load electricity source in Japan where nuclear power plants are left offline and in South Korea where the position of nuclear energy has been lowered. Meanwhile, China, where coal has a dominant position as a major electricity source, has begun to enhance efforts to reduce its dependence on coal in response to the serious air pollution problem.

As a matter of course, we must give considerations to the impact of global warming prevention measures and of the air pollution problem on coal demand. In addition to moves in coal-using Asian countries including Japan, China and South Korea, discussions at the Honolulu conference covered the U.S. Environment Protection Agency's toughened restrictions on coal, U.S. government-backed financial institutions' curbs on financing for overseas coal projects and other factors that could affect coal demand in a wider range of regions. Some participants in the conference pointed to the importance of clean coal technologies for effective use of abundant coal resources. Many noted that a close watch should be kept on the coal problems in the future.

Nevertheless, the main focus of discussion at the conference was natural gas. In both Asia

and the United States, gas demand is expected to powerfully expand over a long term. Japan's gas demand was forecast to fall from the present level due to the expected restart of nuclear power plants over a medium term but turn upward again over a long term. Conference participants noted that South Korea's gas demand had grown faster than projected in the government's long-term plan. Some pointed out that China would substantially expand gas demand in the future as the gas use expansion is promoted as one of measures to address air pollution.

An interest finding at the conference was that natural gas/LNG supply was dominantly expected to increase even faster than demand in the region. Many participants projected U.S. licensed LNG exports to top 80 million tons, despite some uncertain factors. Interestingly, many U.S. participants in the conference were bullish about LNG exports. Any sharp increase in U.S. LNG supply, which features a pricing formula different from the Asian formula and greater flexibility, could change the Asia-Pacific LNG market dramatically and structurally. One participant in the conference noted that ongoing changes in the European market including the pricing formula could come to Asia.

It is not just the United States that has the potential to expand natural gas supply. Canada is considering more than 10 LNG projects. Despite high initial investment costs, cost inflation and other problems, several advantageous projects among them are expected to be realized to provide new LNG sources for Asia, as noted in the conference. Russian moves are also important in this regard. While Russia's confrontation with Western countries is growing more serious over the Ukraine situation, Russia is now required to look eastward to the Asian market. Symbolizing Russia's "Look East" strategy was its contract signed with China in May on massive natural gas supply. Many participants in the conference noted that Russia could drive the strategy further.

One participant in the conference said gas suppliers were waging a "gas war" over the expanding Asian market. I interpret this view in two ways. In one way, the "gas war" means a pure competition between various gas supplying countries for Asian market shares. In the other way, the war can be viewed as being waged between the United States and Russia over the Asian market while they confront each other over the Ukraine situation. In the past, the two countries had never confronted each other over the gas market. But the shale revolution and the current Ukraine situation can be interpreted as having led them to compete in the gas market. Such broad perspective may grow more important for anticipating the future Asian gas/LNG market.

Another interesting point about the conference is that participants gave various views on Western countries' toughened Russian sanctions that have encouraged Russia to accelerate its strategic approach to China. For Russia, China may now be viewed as an alliance partner regarding not only energy but also financing, technology and labor (in some cases). We would have to analyze what implications Russia's growing dependence on China would have for future international relations and energy geopolitics.

The six countries surrounding the North Pacific include key energy producers and consumers that have mutually complementary relations. But their future relations are unforeseeable, given various political, economic and energy challenges as well as uncertainties. The six-country

dialogue platform must be expanded to address the uncertainties.

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