

Malaysia Exposed to Changes and Its Energy Challenges

Ken Koyama, PhD

Chief Economist, Managing Director

The Institute of Energy Economics, Japan

On September 3 and 4, I had an opportunity to discuss global and Malaysian energy situations and policy challenges with Malaysian government officials, university and other researchers, and energy industry people in Malaysia. The discussions were a precious opportunity for me to understand energy challenges and problems in Malaysia that is rich with energy resources and a major exporter of oil and gas, including liquefied natural gas, and matters of interest to Malaysia among domestic and external problems involving the Southeast Asian country.

Regarding the discussions in Malaysia, I would like to first point out that Malaysia as a major energy exporter is greatly interested in dramatic changes taking place in the present international energy market. As for rapid crude oil price changes including the West Texas Intermediate price's fall below \$40 per barrel in the last week of August before the Brent price's rally above \$50/bbl in the first week of September, my Malaysian discussion partners indicated their great interest in oil price development in the future, supply and demand factors, geopolitical factors, financial factors and the strategy taken by Organization of the Petroleum Exporting Countries.

At a time when the present conditions indicate that oil prices are expected to remain weak or fall further in the immediate future, the future course of oil prices is a matter that Malaysian energy experts cannot ignore. While electronics represent the largest export category for Malaysia, the weight of oil and LNG exports is not necessarily small. As economic conditions in Malaysia have grown uncertain in the wake of Prime Minister Najib Razak's alleged illegal receipt of financial contributions, the oil price weakness may be a great burden on Malaysia.

As for LNG which is a very important export item for Malaysia, the situation has grown unfavorable for the country due to the loosening supply-demand balance indicated by falling spot LNG prices and a decline in long-term contract LNG prices linked to crude oil prices. I really felt that Malaysia is highly and seriously interested in how the Asian LNG supply-demand balance should be assessed and what the LNG pricing method should be in the future.

I also felt that Malaysian authorities and experts seemed to have concerns over their insufficient knowledge and analyses about the shale revolution, which is exerting great influences on the crude oil price plunge and LNG supply/demand problems, and is strongly interested in how it should respond to the revolution and enhance such response. How to predict the direction and impact of the shale revolution might have become an urgent issue for Malaysia.

To me, it was very interesting that the Malaysian counterparts this time frequently discussed energy security and energy-related geopolitical problems. Unexpectedly, Malaysia that is a net energy exporter rather than a net energy importer like Japan has great interest in energy security problems as well as energy-related geopolitical issues in the Middle East, Russia and Ukraine. I really felt that the Malaysian counterparts believe they should enhance analyses and research on these fields.

Various elements are linked closely to each other and complicatedly intertwined in the international energy situation. In such state, it is undoubtedly significant for net energy exporters to accurately know how energy security and energy-related geopolitical issues are assessed by the world and by net energy importers as their trading partners. In addition, I felt that Malaysia has begun to see gradual changes in its own energy supply and demand environment as indicating its energy import expansion and some change in its net energy exporter position. For example, Malaysia, even though it is a major Asian LNG exporter, has recently built an LNG import terminal and started LNG imports. As its LNG imports are expected to expand, Malaysia, though remaining a net LNG exporter, may gradually grow as an importer. An energy supply-demand balance change for a country can lead to a change in its policy approach. For example, China has rapidly enhanced energy security measures since it became a net oil importer in 1993.

Another interesting matter found in my discussions with Malaysian energy experts was challenges facing the Malaysian power generation sector. The sector had heavily depended on oil and expanded gas power generation rapidly under a “four-fuel policy” to diversify electricity sources. Over recent years, however, coal has replaced gas as the largest electricity source. A major future challenge is what electricity mix Malaysia should choose to meet growing electricity demand while considering environmental load, energy security, economic efficiency and other factors. Malaysia may be looking for how far it could expand renewable energy power generation with costs and grid modification measures taken into account, while considering the introduction of nuclear power generation as a long-term goal.

Given these points, I felt that Malaysia is deeply interested in energy policy discussions in Japan, including the best energy mix choice, policies for realizing the best mix and the government's communications with the people on the matter. The Malaysian counterparts are ambitious to learn

lessons from Japanese experiences including its failures. Malaysia, though shaken by domestic political problems now, is put into a key position regarding politics, economics and energy in Asia and among the members of the Association of Southeast Asian Nations and has great growth potential. I felt that Japan should strategically consider how to deepen or enhance cooperation with Malaysia.

Contact: report@tky.ieej.or.jp

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