

Special Bulletin

A Japanese Perspective on the International Energy Landscape (243)

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SIEW Think Tank Roundtable Discussions

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On October 26-30, the Singapore International Energy Week (SIEW) 2015 took place in Singapore. The SIEW is a very large-scale international energy conference that the government of Singapore puts special effort into sponsoring. During the SIEW period, multiple meetings and events attract high-level government officials, energy industry leaders and experts from throughout the world. The SIEW has been taking hold as one of the major events among energy stakeholders. During this year's SIEW, I had an opportunity to participate as a speaker in one think tank Roundtable and as a moderator in another. Based on the discussions there, I here would like to summarize the points I see as important.

The first of the two Roundtables dealt with the theme of "Oil Pricing and Outlook," as handled by the Institute of Energy Economics, Japan. I and three other panelists discussed the theme from various viewpoints at the Roundtable. Interestingly, the four panelists agreed that: a) oil prices are very likely to remain at current low levels for the immediate future (at least until the first half of next year); b) they could drop further depending on circumstances; and c) the medium to long-term future path of crude oil prices could be lowered.

The current low oil prices have begun to influence oil supply and demand in the world. The oil market is going in the direction of "rebalancing" through a demand rebound and a slowdown in production by those other than OPEC countries. But the current supply surplus still totals as much as 1.5 million barrels per day. U.S. shale oil production has unexpectedly enhanced its resistance to price drops and turned out flexible. Saudi Arabia's oil production policy that holds the key to the future oil price trend has signaled no change, indicating that the oil kingdom still retains priority on its market share. These above mentioned factors have prompted most energy analysts to predict that the oil market will remain weak for the immediate future.

While the Chinese economic situation has seemingly restored stability at this moment after its economic growth deceleration caused oil prices to plunge again in August, downside risks for the Chinese economy are still feared to emerge again. In addition, Iranian crude oil's comeback to the international market accompanying the termination of Western economic sanctions on Iran could become a factor to induce turbulence in the international oil supply-demand balance in the future, as indicated by discussions at the Roundtable. Some panelists noted that oil prices could plunge further depending on the circumstances, which may become a factor to prompt OPEC or Saudi Arabia to change its oil production policy.

Regarding the medium to long-term crude oil price path, many participants in the Roundtable noted that the mainstream view that crude oil prices would rise back above \$100 per barrel in and after 2030 now faces with great uncertainty. In this respect, participants indicated their great interest in explanations about the Lower Price Scenario in the IEEJ's Asia/World Energy Outlook 2015. Some participants forecast that oil prices would rise back above \$70/bbl in 2020 from the current low levels as higher-cost oil production of several million barrels per day is required due to the net effects of future demand growth, increased output in Iran and other Middle Eastern countries and the natural depletion of oil fields now in operation. At the same time, others pointed to a possible higher increase in U.S. shale oil supply and smaller future global oil demand growth, which may also result in weaker supply-demand balances. Anyway, participants broadly agreed that oil prices would follow a lower path than earlier predicted.

The second Roundtable where I participated covered renewable energy, which is attracting attention and expectations in Asia, under the theme of "Integrating Renewables into the Grid: Is It the Right Time to Act Now in Asia?"

Asia has been placing growing expectations on renewable energy as domestic clean energy contributing to energy security and environment protection. Factors behind the growing expectations also include renewable energy for new business or industry promotion and renewables' greater social acceptability than that of nuclear and coal power generation. As is well known, high or ambitious targets and policy measures for the diffusion of renewable energy have been considered or introduced in many Asian countries including Japan.

As indicated by German, Spanish and other early renewable energy diffusion cases, however, there emerged various challenges with regard to renewable energy introduction. The challenges include: a) electricity price hikes caused by the massive introduction of higher-cost renewable energy into the electricity system; b) relevant increases in consumer costs; c) grid capacity expansion and relevant cost hikes for the massive introduction of intermittent solar photovoltaics and wind energy; and d) problems regarding operation and maintenance of gas and coal power plants. Participants in the Roundtable discussed how to proceed with energy transformation to realize the economically sustainable expansion of intermittent renewable energy in the Asian market where energy demand is expected to greatly increase.

The Roundtable discussion indicated that it is important for various stakeholders (including national governments, energy companies, industry users, local governments and citizens) involved in renewable energy promotion to engage in stepping up understanding and cooperation. This is really a challenge in Asia. A significant opinion given at the Roundtable was that market analyses based on accurate, detailed data are required for working out appropriate energy planning which is indispensable for promoting renewable energy. Many panelists also noted that: a) governments and policies play fundamentally important roles in making and implementing renewable energy planning; and b) policy efforts are indispensable for designing electricity market systems as the market system and design has an important implication on renewable energy development. Another point made at the Roundtable was that European experiences indicate the

enhancement of grid network integration under consideration in Asia would be important for allowing the entire grid network to absorb intermittent renewable energy supplies. Thus it is important to have a medium to long-term strategic perspective in tackling the enhancement of wide-area grid network integration. The Roundtable discussion also pointed out that: a) it is necessary to promote the development and diffusion of advanced technologies including renewable energy supply systems and smart grids on the demand side; b) investment must be secured with the related finance issues to be resolved. In Asia, which will become the center of the global energy market, sustainable development of renewable energy is increasingly important by addressing the challenges/weakness of renewable energy.

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