Special Bulletin

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At the 9th China-Japan Joint Symposium on Oil & Gas

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On November 3, the 9th China-Japan Joint Symposium on Oil & Gas took place in Beijing. The CNPC Economics and Technology Research Institute (ETRI) and the Institute of Energy Economics, Japan, have cosponsored the annual symposium alternately in Beijing and Tokyo. At the latest one, five reports were made for discussions. In the following, I would like to outline the five reports and their key points.

In the first session, IEEJ Board Member Yukari Yamashita introduced a global energy supply and demand outlook through 2040 based on the Asia/World Energy Outlook 2015 released on October 21. A key point she made was that the gravity center of the international energy market will growingly shift to Asia over a long term as Asia drives global energy demand growth through its sustained economic growth. Another key point was that fossil energy will still be dominant, accounting for about 70% of global energy supply in 2040, although technological progress is likely to exert downward pressures on fossil energy demand growth. As a big topic of the latest outlook based on the recent crude oil price plunge, she then introduced an analysis on what would happen to the global energy market and economy if crude oil prices remain at around $70 per barrel (against $100/bbl assumed in the Reference Scenario). The analysis indicated that net oil and gas importers will enjoy great economic benefits in the Lower-price Scenario, while net oil and gas exporters will suffer great losses, with the Middle East's oil export revenues being some $460 billion lower in 2030 than in the Reference Scenario. Regarding global warming, she provided an analysis that it is important to minimize the combination of global warming mitigation and adaptation costs and losses, in addition to an analysis or assessment of intended nationally determined contributions, or INDCs, and carbon dioxide emission reduction (mitigation). Given the recent oil and gas price plunge, I felt that the Chinese side was interested particularly in the Lower-price Scenario.

Next, Chen Rui from the CNPC ETRI made a report on the characteristics and direction of the international oil market under the New Normal. The report noted that the present international oil market represents the New Normal including the substantial relaxation of the supply-demand balance and the price plunge and will gradually go in the direction of rebalancing, which is expected to take relatively longer time. This was based on the recognition that while oil demand growth in the world including emerging countries is slowing down, there is a great potential for supply expansion, with major oil producing countries continuing a market share expanding race. For CNPC as a major crude oil producer, the analysis that crude oil prices will remain weak for the immediate future may mean that CNPC will have to assume a severe business environment and adopt a strategy meeting such environment.

In the second session, three reports were made. First, Wang Haibo from the CNPC ETRI reported an outlook on the substitution of natural gas for coal in China. While coal is dominantly important in the primary energy or electricity market in China, it is urgent for China to reduce its dependence on coal to improve its energy supply and demand structure to cope with PM2.5 air pollution and climate change problems. Therefore, China gives priority to promoting energy conservation, renewable energy and nuclear. In this respect, great hopes are placed on the substitution of natural gas for coal. But the report noted that domestically produced coal has strong price competitiveness and that the problem is whether natural gas could penetrate into the market and replace coal sufficiently under market forces alone. Even at a time when liquefied natural gas prices are falling, China's domestic gas prices are rising to make it difficult for gas to compete with coal, according to the report. It was noted that competition between gas and coal is seen not only in the power generation sector but also in the industrial sector where some 540,000 coal-burning industrial boilers' shift to gas is important. An opinion given at the symposium said that gas supply costs should be lowered with various policy support measures taken to overcome problems and expand gas use.

Then, I reported that the Asian LNG market sees relaxation of the supply-demand balance as is the case with the international oil market and will remain in the same conditions until around 2020. I noted that Asian LNG buyers are going in the direction of pursuing more competitive prices and LNG procurement with greater supply flexibility, that the LNG market will develop with market functions enhanced and that it is important to eliminate constraints (including the destination clause) on the improvement of market functions. I also reported that: a) important factors behind Japan's LNG market development and expansion include measures against air and other pollution and energy security policy following the oil crises; and that b) business operators have implemented various initiatives to expand gas use under government policy and support.

Lastly, Jin Yun from the CNPC ETRI made a report on China's oil refining industry and the issues related to crude oil import deregulation. China has 220 oil refineries with their capacity totaling 700 million tons. They include refineries of major Chinese oil companies CNPC, SINOPEC and CNOOC, Chinese firms' joint ventures with foreign companies and a large number of small-medium sized relatively inefficient local refineries. The problem is that an oversupply has arisen as refinery capacity expansion outpaced oil demand growth. China's nationwide average refinery utilization rate fell from 84% in 2010 to 76% in 2014. But the rate for local refineries slightly increased from 36% to 37% for the same period, indicating that major oil companies' refineries accounted for a major share of the decline. As the Chinese oil refining sector's key challenge is to upgrade refineries to raise the utilization rate and enhance efficiency and competitiveness, the government is deregulating crude oil import right (that had been limited to those by large state companies) in exchange for shutting down outdated and inefficient refineries, according to the report. We thus recognized that policies meeting the New Normal of the domestic oil market have become important in China.

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