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Prospects for Future Oil/Energy Situation: International Panel Discussion

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On February 4, an international panel discussion took place at Nikkei Hall on how to view the future oil/energy situation, cosponsored by JX Nippon Oil & Energy Corporation, JX Nippon Research Institute, Ltd. and the Institute of Energy Economics, Japan. Panelists at the meeting were FACTS Global Energy Group Chairman Fereidun Fesharaki, Sierra Oil & Gas Chief Executive Officer Ivan Sandrea, JOGMEC (Japan Oil, Gas and Metals National Corporation) Chief Economist Takayuki Nogami and I. Nikkei Shimbun Senior Staff Writer Yasuhiro Goto served as moderator. In the 25th international panel discussion, participants discussed the future oil situation, liquefied natural gas market trends, the prospects for Japan's oil industry and other topics in consideration of current international oil and LNG markets featuring low prices, covering a wide range of issues. In the following, I would like to summarize the points that were particularly interesting to me.

Regarding oil market and price prospects, the panelists roughly agreed that the oil market will remain weak for the immediate future as excessive supply is difficult to eliminate, that this year's crude oil prices will remain in a main range of $30-50 per barrel, that crude oil prices may further decline in the first half of this year and that supply and demand will be rebalanced in the second half. Interestingly, the panelists shared the view that crude oil prices may rise back to a $70-80/bbl range over a medium term through around 2020 from the current low levels that would not be sustainable.

As explained by most of the panelists, a factor behind the outlook is that global oil demand may continue to firmly increase unless destabilizing factors such as a global recession emerge. If oil demand is assumed to increase by an annual average of 1.2 million barrels per day, global demand may expand by a total of 6 million bpd in cumulative term by 2020 from the present level. The demand increase will gradually eliminate the present supply surplus. Given that a natural output decline at existing oil fields in operation would have to be covered, supply will have to come from higher-cost oil fields, requiring price levels to increase back to the abovementioned levels, according to some of the panelists.

Nevertheless, various uncertain short-term factors exist in regard to global oil demand growth.

In this respect, the panelists discussed the possibility that oil demand growth may decelerate due to the Chinese economic slowdown. China's economic deceleration may gravely affect not only crude oil prices but also overall energy and commodity markets and may be a serious problem that cannot neglected for the whole of the world economy. Whether China would make a soft landing on the "New Normal" may remain a matter of concern to the world.

Regarding oil supply problems, it was dominantly pointed out that low oil prices are leading to sharp investment cuts that could impose tough constraints on future supply growth. In some cases, the investment cuts could lead to a future supply shortage, boosting crude oil prices again. While investment cuts for large conventional oil development projects featuring massive initial investment may affect supply over a medium to long term, U.S. shale oil may feature a shorter investment and supply cycle. We must take note of the fact that long and short cycles coexist now. At a time when the international oil market has lost functions to manage surplus supply capacity and adjust supply and demand, it may be inevitable for crude oil prices to remain unstable at low levels. The possibility of such functions being restored cannot be denied. In the panel, there was discussion that when, how and whether the functions could be restored would be very significant for analyzing crude oil prices.

As for natural gas problems, the panelists focused on the Asian LNG market. The market is now amid a supply glut as LNG projects of which final investment decision were made under preceding high prices are reaching the production start-up stage with LNG demand being sluggish. The current situation is likely to continue until around 2020, according to some of the panelists. Under the recognition that buyers' choices and actions are decisively important during a supply glut or a buyer's market, discussion was made that major Japanese LNG buyers' strategies have a major opportunity to determine the future direction of the Asian LNG market. In addition to the traditional system to link LNG prices to crude oil prices, various options have emerged, including those to link LNG prices to U.S. Henry Hub, spot LNG prices and others. Various initiatives have been taken to increase the flexibility of LNG supply. The next several years would be important for market participants' initiatives to increase LNG's competitiveness against other energy sources and increase supply flexibility to greatly develop the whole of the market in Asia.

The panel discussion comes at a critical timing when an expected structural downward trend for oil demand in Japan and present low oil price levels are prompting the Japanese oil industry to be realigned through large-scale integration. The realignment was interpreted at the discussion as designed to promote the greater rationalization or disposal of surplus refining capacity or to launch initiatives for future growth potential. New business areas on which expectations are placed include new business opportunities under the domestic electricity and gas market deregulation, an expansion into growing Asian oil and gas markets including the Association of Southeast Asian Nations and the enhancement of upstream projects. However, these areas are not easy for launching business but rather very challenging. Oil companies must enhance their business administration in order to implement such tough challenges. In this sense, industry realignment may be very significant. I hope that the oil industry as supplier of a mainstay Japanese energy source would take on challenges and make achievements.

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