Special Bulletin

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At the International Petroleum Week 2016

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From February 9 through 11, an international oil and gas industry conference called "International Petroleum (IP) Week 2016" took place in London, sponsored by the London-based Energy Institute. Rosneft CEO Igor Sechin, BP CEO Bob Dudley and Total CEO Patrick Pouyanne delivered keynote addresses at the conference, in which about 500 oil and gas industry people and experts mainly in the United Kingdom and Europe participated on a registration basis and vigorously discussed present problems and future challenges for the industry over the three days. On the occasion of the conference, international oil majors and state-run oil companies in oil producing countries sponsored parties and various meetings, providing opportunities for oil and gas industry people to network with each other.

Under the theme "Navigating through Uncertainty," participants discussed mainly how to address various uncertainties surrounding the oil and gas industry. Among various existing uncertainties, conference participants focused particularly on how slack crude oil and gas/LNG prices and excessive supply would remain/change in the future, as well as the impacts on the oil and gas industry of the Paris Agreement reached at the 21st Conference of Parties to the United Nations Framework Convention on Climate Change and future climate change measures. In the following, I would like to summarize three points that were interesting to me at the conference.

First, crude oil price plunges and excessive supply represented the most urgent topic at the conference. Most experts and oil industry executives predicted that crude oil prices would remain weak or test even lower ground in the immediate future. At the same time, they noted that the oil market was going in the direction of rebalancing under low prices' effects on supply and demand and would reach a supply-demand equilibrium point as early as late this year before rallying. The participants dominantly pointed out that oil development investment declined by more than $400 billion from 2014 and that crude oil prices would rise back to $60-80 per barrel around 2020 as the investment cut works to constrain future supply expansion.

Interestingly, however, participants frequently indicated not only such mainstream view but also fears about how far crude oil prices would weaken and about if crude oil prices would fail to easily recover after remaining weak within this year. Conference participants were worrying about how far crude oil prices would weaken as Iran's imminent comeback to the international oil market, China's economic deceleration, historically high oil inventories, the long-lasting race to maintain and expand market shares and other fundamental supply and demand problems are coupled with the financial factor of risk-off sentiment emerging from global economic fears and stock market declines. From a longer-time viewpoint, some participants noted that a global economic slump, tougher environmental regulations and energy subsidy cuts in developing countries would exert downward pressure on global oil demand growth and that possible production expansion in Iran, Iraq and Libya and U.S. shale oil's enhanced resistance to low oil prices might indicate great potential for supply expansion. One pointed out that crude oil prices' firmness above $100/bbl between 2011 and the first half of 2014 had been abnormal and that the levels of $40-50/bbl would not necessarily be viewed as historically low. How long crude oil prices would remain weak is a grave problem for the international oil industry.

Second, conference participants were strongly interested in what roles gas among fossil fuels would play under the Paris Agreement and tougher future climate change measures. Gas is the cleanest among fossil fuels and is expected to play roles in easing climate change or air pollution. Nevertheless, gas demand has remained slack in Europe. In Asia as well, the gas market has entered a slump as symbolized by slowing Chinese demand, betraying traditional expectations.

In such situation, oil and gas industry people are interested in if gas demand would grow in a manner to replace coal demand as climate change measures are toughened or if gas demand growth would be dragged down as demand grows for non-fossil fuels such as renewable energy and nuclear. This problem is growing more serious for companies that have increased the weight for gas in their strategic business portfolios. Some participants in the conference noted that it would be basically important for gas to enhance its competitiveness against other competing energy sources and its supply flexibility in line with market needs in order to play its expected roles. However, future gas demand is plagued with uncertainties, depending on specific toughened environmental regulations, carbon pricing, renewable energy policy trends and many other factors.

Third, discussions on LNG market supply and demand problems were also interesting. A dominant, basic view at the conference is that LNG is in a global glut that would worsen further this year. Dampening the market is a prospect that Australian and U.S. supply would gradually start full-blown expansion as Asian demand decelerates. Regarding what region would absorb a future supply increase, many participants at the conference noted that Europe with surplus LNG receiving capacity and flexible markets might do so.

If the increase in supply were to be brought into the European market, however, downward pressure on prices would increase. Russia and other major existing suppliers for the European gas market may not tolerate additional supply in the European market that is not necessarily expanding greatly. They are growingly expected to accept a price-cutting race to maintain European market shares. A conference participant gave an interesting view that the battlefield might have been in Europe rather than Asia. In this situation, strong downward pressure will be exerted on gas prices or LNG spot prices reflecting supply and demand changes through the second half of this year. We may have to closely watch how LNG price falls would influence supply and demand as well as strategies of market participants (sellers and buyers) over a medium term.

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