On July 8, the 2016 Energy Security Workshop took place in Washington, cosponsored by the National Bureau of Asian Research (NBR) and the Woodrow Wilson International Center for Scholars. As indicated by its title “Oil and Gas for Asia Revisited: Asia’s Energy Security amid Global Market Change,” the workshop focused on Asian energy security in the new situation characterized by current low oil prices and oversupply. About 70 government officials, industry people and experts mainly from the United States and also from Asia participated in the workshop comprising four sessions. In the following, I would like to summarize particularly impressive points for me in the discussions:

In the first session dealing with oil market issues, various opinions were presented on current low crude oil prices’ impacts on Asian economies. Asia as a whole is a net oil importer, including Japan, China and India as major countries that are net oil importers. Naturally, therefore, opinions indicated that the crude oil price plunge has had positive macroeconomic impacts on the whole of Asia and on many Asian oil importing countries. Meanwhile, one opinion said the benefits of the crude oil price plunge should not be simplified due to the diversity of oil supply and demand, and economic conditions in Asian countries. Another opinion pointed out that there have been considerable negative impacts including deflationary pressure from the crude oil price plunge, deteriorating earnings at energy companies, stock price drops and shrinking investment.

Given that many Asian countries see decelerating or slumping economic growth at present, economic impacts of the crude oil price plunge should be analyzed more carefully. On the other hand, Asian oil demand has remained firm, continuing to increase at a certain pace. In China, oil consumption including gasoline has steadily expanded while coal demand has plunged, with gas consumption failing to smoothly grow. An oil stockpile expansion taking advantage of low oil prices has contributed to oil demand growth. As most of the global oil demand growth is expected to come in Asia, how demand for oil in the transportation sector including automobiles would grow in Asia will influence the global oil supply-demand balance and crude oil prices. Eventually, it may become one of the key factors influencing Asian energy security. This is because Asian oil demand growth will lead to an increase in Asian dependence on imports, particularly those from the Middle East. Furthermore, Asia’s growing dependence on Middle East oil leads to the problem of oil transportation safety.
As for an outlook on the whole of the international oil market, workshop participants pointed out that the market is going in the direction of rebalancing as low oil prices have led to a slump or decline in production by oil producing countries other than the members of the Organization of the Petroleum Exporting Countries and that a decline in upstream oil development investment may tighten the supply-demand balance over a medium term. Given the presence and influences of U.S. shale oil for which supply elasticity to prices is relatively high, some observers expect to see lower prices continuing longer than predicted. However, no optimism can be warranted about the future course of crude oil prices for Asian oil importing countries. One participant in the workshop noted that as the present international oil market has become a competitive market in the absence of supply and demand coordinators, price volatility is large with prices fluctuating wildly. This means that supply interruptions in major oil producing countries could sharply boost crude oil prices in the future.

In a session on geopolitical risks, geopolitical challenges in the Middle East, Russia and Northeast Asia became subject to discussions. A major topic for the discussions was how U.S. engagement in the Middle East will change in the future. Irrespective of the United States’ so-called energy independence, an argument said that any decline in U.S. engagement in the Middle East for various reasons would have important implications for Asian energy security. In this sense, Asia or major Asian countries should enhance their engagement in the Middle East or initiatives for stabilizing the region. Given that Asia heavily depends on the Middle East and is set to increase the dependence on the region, it will become more important to secure safety in oil transportation lanes in the Persian Gulf, Indian Ocean, Malacca Straits, South China Sea and East China Sea. How to tackle the issue will become a major challenge for relevant countries including the United States, Japan, China, India, the members of the Association of Southeast Asian Nations and Australia.

As for gas and LNG, Asian countries have promoted gas introduction and use for air pollution and other environmental countermeasures or stable energy supply. In this sense, gas has not necessarily been positioned as accounting for most or a central part of primary energy supply but has been treated as an alternative to oil or coal as a central energy source in ways differing from country to country. In this sense, the expansion of gas use was expected to contribute to energy security and environmental conservation, with the emergence of a golden age of gas viewed as desirable in many cases. However, the golden age of gas has come only in the United States where gas has become competitive under the shale revolution. In Asia, LNG prices linked to crude oil prices have dropped due to the crude oil price plunge, with oversupply leading spot LNG prices to decline more substantially. Given a sharp drop in prices of coal competing with gas, however, gas/LNG price falls have not necessarily stimulated gas demand, according to a participant in the workshop. Asia includes countries where nuclear energy as well as coal is competing with gas. In addition, renewable energy could become a key competitor for gas in the future.

To enter a golden age in Asia, gas must enhance its overall competitiveness through the development of supply flexibility and the market as well as enhancement of price competitiveness. In this respect, moves to form gas/LNG trading hubs in Asia will attract global attention. Since
forming a sufficiently developed market is expected to contribute to improving gas/LNG supply
safety as well, relevant initiatives may be required to be enhanced in the future to promote sound
development of gas/LNG market in Asia.

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