

Discussion with OPEC on Asian Energy Outlook

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On July 18, the “2nd Technical Meeting on Asian Energy and Oil Outlook” took place at the headquarters of the Organization of the Petroleum Exporting Countries in Vienna. Participating in the meeting following the first one last year (see “A Japanese Perspective on the International Energy Landscape (225)” for details) were experts from the OPEC Secretariat and OPEC member countries and those from representative Asian think tanks such as the Economic Research Institute for ASEAN and East Asia and the Asia Pacific Energy Research Center and four Asian countries -- Japan, China, India and South Korea. Presentations were made on energy market trends, future energy supply and demand and policy challenges in the world, Asia and the four countries, followed by vigorous discussions. In the following, I would like to summarize some points I viewed as important in regard to the meeting this year.

First, discussions regarding the international oil market and crude oil price outlook focused on if the market will steadily go in the direction of rebalancing toward 2017 due to slumping non-OPEC oil production including falling U.S. shale oil output as oil demand in the world including Asia increases steadily. Arguments at the meeting were not necessarily divided over the question. However, no one can ignore uncertainties about factors that could have short-term effects on the market, including downside risks for the world economy, possible financial market destabilization, shale oil production after crude oil prices’ return to around \$50 per barrel and supply interruptions in major oil producing countries. My impression was that we will remain in an unstable situation where no one can conclude whether the international oil market will smoothly head for the direction of rebalancing, with crude oil prices getting on a stable uptrend path.

Second, very interesting discussions came on various impacts of low oil prices under the abovementioned situation. These discussions naturally focused first on the crude oil price plunges’ impacts on energy supply, including a decline in shale and other high-cost crude oil production, a substantial cut in upstream oil and gas sector investment and the cut’s potential great effects on the supply-demand balance on the international oil market and the liquefied natural gas market. However, a great matter of concern taken up at the meeting was whether the present low crude oil prices are exerting truly positive impacts on the world economy or how the low oil prices are contributing to stimulating energy demand.

The conventional wisdom is that the crude oil price plunges have positive impacts on oil consuming or net oil importing countries accounting for a central part of the world economy. The positive impacts include a decline in oil import payments (national wealth outflow) and a drop in

consumers' payments for energy (a tax cut effect), making positive contributions to the whole of the world economy. However, participants in the meeting pointed out that they felt little positive impact when seeing economic conditions in various countries while negative impacts were remarkable, including stock price falls accompanying crude oil price drops, growing deflationary pressure, and deteriorating earnings and decreasing investment at energy companies. A conclusion after discussions on the oil price plunges' impacts was that economic impacts of the crude oil price plunges would be too complicated to be generalized or simplified or that the impacts should be carefully analyzed. The conclusion indicated the participants' feeling that the oil price plunges and general energy price falls have not stimulated energy demand as much as expected earlier.

Third, I felt growing interests in Asian emerging countries, including China, India and Southeast Asian countries, as the driver of global energy demand growth. Asian energy demand holds the key to the future world oil and gas demand that is vitally significant for OPEC. In this respect, the participants in the meeting actively made questions and exchanged opinions on future economic growth, automobile diffusion, vehicle fuel efficiency improvement, spreading alternative fuel vehicles and fuel subsidy policies in those Asian emerging countries. They also expressed high interests in the Paris Agreement for greenhouse gas emission cuts and major Asian countries' environmental initiatives including climate change measures, which would exert impacts on oil and gas demand over a long time.

Based on the basic recognition that energy security will grow even more significant for Asia that is expected to increase dependence on energy imports including those from the Middle East, Asian participants in the conference made presentations and received many questions on the present state and outlook of strategic oil reserve programs implemented or considered in China, India and some Southeast Asian countries, respective oil demand outlook, initiatives to diversify energy import sources to reduce dependence on the Middle East, and Asian companies' overseas energy resources development. These presentations and questions indicated that both oil producing and consuming countries are greatly interested in these matters.

Furthermore, interesting discussions came on the downstream oil sector. Asia, including China and India, and the Middle East have so far played a central role in expanding global oil refining capacity. In the future as well, oil refining capacity expansion and oil demand growth in these regions will have great impacts on oil refining margins in Asia and the world. Presentations came on initiatives to improve petroleum product specification (product quality) and on demand growth differences among oil products. In China, for example, demand is expected to firmly increase for gasoline and liquefied petroleum gas while slowing or slumping for diesel oil. These changes can influence the configuration of secondary oil refining equipment and the selection of crude oil for refining and cannot be ignored by oil producing countries. Dynamic changes in the Asian downstream oil sector will have great impacts on oil producing countries' export expansion race and on overall oil flows and may have to be extensively analyzed in the future.

Among OPEC members are major gas and liquefied natural gas exporters including Qatar, the United Arab Emirates, Algeria and Nigeria. In this sense, they are greatly interested in the Asian gas/LNG market outlook. How gas/LNG demand would grow amid the loosening supply-demand

balance and gas/LNG price declines is a great matter of concern to both gas producing and consuming countries. Long-term gas outlook presented at the meeting pointed out that while gas demand is expected to increase over a long time, competition with other energy sources (coal, nuclear and renewable energy) is preventing gas from entering a “golden age” smoothly. Discussions on this matter were brisk and impressive for me. The future picture of Asian energy will have to be analyzed comprehensively and deeply from various angles.

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