

Implications from Talks in U.S. and Europe for Future Global Energy Landscape

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On November 15, a seminar titled “A Japanese View on World Energy Future: The “3E” Challenges under the Emerging Energy Landscape” took place in London, cosponsored by the JETRO (Japan External Trade Organization) London Office, the Japan Society and the JOGMEC (Japan Oil, Gas and Metals National Corporation) London Office. In line with the title, I made a presentation on key points of the IEEJ Asia/World Energy Outlook 2016 and Japanese energy policy challenges (for an overview of the outlook, please refer to “A Japanese Perspective on the International Energy Landscape (294)”).

Following my presentation were comments by Prof. Paul Stevens, distinguished fellow at Chatham House (and at the IEEJ as well), and Mr. Peter Hughes who leads Peter Hughes Energy Advisory Ltd., and an audience question-and-answer session. Some 80 people participated in the seminar (on a registration basis), leading to a vigorous question-and-answer session. Before and after the seminar, I also had opportunities to exchange views with energy experts in London and Washington DC. From these talks, I learned some very interesting implications for key points for developing a future world energy outlook, as summarized below:

I explained four key points of the IEEJ outlook -- (1) ASEAN (Association of Southeast Asian Nations) market challenges amid the energy market gravity center’s shift to Asia, (2) analyzing an energy supply disruption scenario from the viewpoint of “prepare for adversity in prosperity,” (3) significance of climate change measure implementation and enhancement from pragmatic viewpoints, and (4) nuclear energy’s contributions to the so-called Three E’s (energy security, environmental protection and economic efficiency) in the world, particularly in Asia. All these key points attracted high interests. Particularly, the second to fourth points include some controversial issues as there are various opinions or stances on these points. However, controversial discussions based on sound analyses represent a mission for a think tank. In this sense, this outlook was significant, some participants in the seminar noted.

As a matter of course, controversial discussions alone are insufficient. More important are logical and objective analyses from appropriate viewpoints that define issues. The abovementioned IEEJ outlook has still some preliminary analysis and will have to be deepened in line with changes or developments in the future world energy situation.

The first of interesting implications from the latest series of discussions is how we should look at future oil demand growth potential. The IEEJ outlook, as well as other representative

outlooks including those by the International Energy Agency, predicts that global oil demand will continue to expand over a long term, though with growth slowing. In the talks, however, it was pointed out that oil demand may peak out earlier than expected.

A consensus prediction is that global oil demand will still continue to expand mainly in developing countries as indicated by growing automobile ownership in developing countries and a low per capita oil consumption level (or room for further expansion). Given the abolishment of oil subsidies or oil tax hikes in developing countries, the spread of non-oil-fueled vehicles and fuel efficiency improvement amid rapid diffusion of advanced technologies, changes in young people's attitudes towards vehicles and driving, and other factors, however, some people are expecting that oil demand may peak out at an early date as oil demand expansion comes to an end.

It is not easy to accurately forecast a future trend of oil demand. Given that oil is the world's largest energy source with oil prices exerting various influences on the world economy and markets for other energy sources, however, the peaking-out of oil demand is a very significant problem. As the peaking-out is likely to seriously affect the international oil industry as well as oil producing countries' economies and development, future oil demand must be studied and analyzed further.

In this sense, it was pointed out that there are great uncertainties about future coal and natural gas demand. As for coal, some people expect that demand will expand on the strength of the current price competitiveness, while others forecast that demand will slow and decline due to the enhancement of environmental protection measures. The contradictory predictions have made it difficult to predict future coal demand. Natural gas is expected to expand on the strength of abundant resources and cleanness. In reality, however, natural gas demand growth has slowed on competition from coal, renewable energy and nuclear energy, making it difficult to predict future natural gas demand. Due to these trends, some people start to argue that overall fossil fuel demand may peak out at an early future than expected.

On the other hand, a key challenge for a long-term energy outlook is how to position the future of renewable energy at a time when renewable energy power generation costs have surprisingly declined in some cases in the world. As a matter of course, however, we must consider total renewable energy power generation costs including those for responding to the intermittency of renewable energy supply. This is also an important analytical viewpoint. As for nuclear energy that could make great contributions to the "3 Es", a challenge is how to incorporate nuclear energy's position in the competitive power market and uncertainties about safety concerns and social acceptability into a long-term outlook.

Regarding future uncertainties, the latest development of Donald Trump's victory in the U.S. presidential election has become one of the most important issues for analyzing energy and environment problems, as reiterated in the series of talks. U.S. President-elect Trump's negative stance on the Paris Agreement and its influences, his greenhouse gas emission reduction policy, domestic oil and gas development and exports under his "America First" doctrine, his coal, renewable energy and nuclear policies, and his policies on the Middle East, Asia and Russia will

exert great impacts on the global energy market. The incoming U.S. administration's policies are very uncertain and unpredictable at this moment, making it more difficult to forecast the future global energy market.

How will we have to analyze the various uncertainties given above and incorporate them into an outlook? The question may represent a key unavoidable challenge facing the IEEJ and other organizations trying to predict the future world energy market.

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