

Prospects for Future Oil/Energy Situation: 27th International Panel Discussion

Ken Koyama, PhD
Chief Economist, Managing Director
The Institute of Energy Economics, Japan

On February 8, an international panel discussion took place at Nikkei Hall on the future oil/energy situation, cosponsored by JXTG Nippon Oil & Energy Corporation, JX Nippon Research Institute, Ltd. and the Institute of Energy Economics, Japan. The panelists at the meeting were FACTS Global Energy Group Chairman Fereidun Fesharaki, Adam Siminski, Chair for Energy and Geopolitics at the U.S. Center for Strategic and International Studies, and Nikkei Shimbun columnist Yuzo Waki. I served as moderator. In the 27th international panel discussion on the matter, participants discussed a short-term and medium to long-term international oil market outlook and natural gas outlook in particular, the Asian LNG market outlook, under a new situation including crude oil prices' temporary rise above \$70 per barrel in early 2018 and the potential rapid diffusion of advanced automobiles such as electric vehicles. In the following, I would like to summarize the points that were particularly impressive to me at the panel discussion.

First, Fesharaki and Siminski pointed out that oil supply and demand rebalancing could make progress with the supply-demand balance tightening in the international oil market in 2018. The panel discussion indicated that the benchmark Brent futures price's rise beyond \$70/bbl early this year should be attributed to changes in supply and demand fundamentals. Behind such view on the supply and demand environment, there is a prediction that global oil demand will remain very robust this year. According to the latest World Economic Outlook by the International Monetary Fund, global economic growth would be as high as 3.9% with global oil demand remaining steady. In this sense, stock price developments and their impact on the world economy are now attracting even greater attention as the Dow Jones average on the New York Stock Exchange suffered a steep fall above 1,000 points on February 8 after a global stock market downturn triggered by the average's plunge on February 2 seemingly subsided.

On the supply side to cover robust demand expansion, the greatest hope is placed on U.S. shale oil production expansion. Certainly, shale oil production is expected to accelerate expansion toward the second half of this year in response to recent oil price hikes. A view given at the panel discussion was that shale oil production expansion alone would be insufficient to cover the demand growth, indicating a tightening supply-demand balance. Given a production drop in Venezuela plagued with social and economic unrest, the discussion suggested that supply problems could arise, prompting OPEC to revise the current coordinated production cut.

As for growing geopolitical risks in the Middle East that have played a role in recent crude oil price hikes, Waki and Fesharaki pointed to numerous problems such as the arrest and detention of royal family and cabinet members and domestic political problems in Saudi Arabia, large-scale anti-government demonstrations in Iran, spillover effects of U.S. President Donald Trump's

recognition of Jerusalem as Israel's capital and future uncertainties about the Iran nuclear agreement. If the supply-demand balance tightens, the market may grow more sensitive to these geopolitical risks. While too low crude oil prices are intolerable for oil producing countries, higher prices are desirable for them economically over a short term. An interesting view given at the panel discussion was that as an excessive crude oil price hike could promote a shift away from oil as symbolized by the diffusion of electric vehicles discussed below, oil price and demand management from the viewpoint of sustainability would be important.

Second, various arguments were made on how the diffusion of EVs and other advanced vehicles growing rapidly since last year would affect oil demand over a medium to long term. Fesharaki and Siminski argued that the diffusion of EVs and other advanced vehicles would be inevitable but rather limited in terms of its impacts on total oil demand and that "peak oil demand" for the whole of the world, if any, would be still far away as internal combustion engine vehicles continue to be used with oil demand firming in maritime and air transportation and petrochemical sectors. From that viewpoint, they implied that investment in oil upstream and downstream sectors would remain important as the world continues to require massive volume of oil.

The presence and potential of U.S. shale oil are important for considering the long-term future of global oil supply. At the panel discussion, the U.S. Energy Information Administration's latest long-term outlook was introduced, including a central scenario that U.S. crude oil production would increase from 10 million barrels per day at present to 13 million bpd and remain at that level over a long term. In a scenario in which reserves are estimated at a higher level, production will expand more substantially over a long term. It was pointed out that U.S. oil production, particularly shale oil output, would exert great influence on the supply-demand balance and prices in the international oil market over a long term.

At the panel discussion, it was pointed out that the oil refining sector of the world would remain brisk. The bottom line of the briskness seen in the world and in Asia is firm oil demand. As new oil refinery construction has been limited recently, profit margins for refiners are improving. The International Maritime Organization's regulations on the sulfur content in ship fuels, planned to be introduced in 2020, are also expected to increase demand for high-quality, low-sulfur petroleum products, contributing to improving profit margins at upgraded high-conversion type refineries. The importance of oil refining and downstream operations are being reappreciated as part of the oil business portfolio.

Third, panelists argued that natural gas and LNG would play a great role in the global or Asian energy mix with gas demand expanding. Siminski noted that U.S. gas production and use were expanding and would expand further. In Asia, natural gas demand is expected to increase to address air pollution and carbon dioxide emissions. In this respect, China's recent rapid gas demand expansion has been attracting global attention. Natural gas, though being one of the fossil fuels, will remain a key energy option for Asian emerging countries that see energy demand expansion and still depend heavily on coal. At the same time, however, natural gas and LNG for power generation face severe competition from coal, renewable energy and nuclear power, as noted in the panel discussion. Natural gas will have to improve its price competitiveness and overall attractiveness in order to be selected continuously.

It was noted that LNG oversupply would remain until 2022 to 2024 despite growing demand in

the world including Asia as U.S. and Australian LNG projects enter the production stage one after another. Depending on LNG demand expansion in Asia including China, however, the supply-demand balance could change faster than expected. Unless final investment decisions are smoothly made with future demand expansion taken into consideration, the LNG market may make a transition from oversupply to undersupply. An interesting argument at the panel discussion was that attention should be paid to U.S. LNG expected to increase in relative attractiveness with its price competitiveness being improved substantially in the Asian market depending on further crude oil price hikes and to Qatar increasing its presence as a low-cost LNG supplier. “Prospects for the future oil and energy situation” will remain important for the world and Japan.

Contact: report@tky.ieej.or.jp

The back issues are available at the following URL

http://eneken.ieej.or.jp/en/special_bulletin.html