

Discussion on Various Topics in Washington

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From June 27 through July 1, I had an opportunity to discuss various topics with government and energy industry officials and experts in Washington. I attended some part of the World Gas Conference 2018 there June 26-29, joining panel discussions and holding talks with other participants. In the following, I would like to summarize particularly impressive points of discussion I had in Washington on a wide range of topics:

U.S. President Donald Trump has been shaking the world since his inauguration. Recently, the shaking has gained further momentum. In this respect, the discussion in Washington focused on the impact of the United States' withdrawal from the Iran nuclear deal and escalating trade disputes.

President Trump's announcement in May to withdraw from the Iran nuclear deal has forced the Middle East situation and the international oil situation to face new uncertainties. Crude oil price hikes in May and an expected decline in Iranian crude oil exports under future economic sanctions have prompted the Organization of the Petroleum Exporting Countries and non-OPEC oil producing countries to ease their production cut to effectively increase production. The focus of attention in the market has shifted to how far Iranian crude oil exports would decline due to U.S. economic sanctions. Under such circumstances, the U.S. government has reportedly asked Japanese and other governments not to take delivery of Iranian crude oil. The tougher-than-expected U.S. stance has shaken the market.

Crude oil prices have resumed an uptrend. On June 29, the West Texas Intermediate crude price hit this year's closing high of \$74.15 per barrel. The Brent crude price also rose to \$79.44/bbl, close to the psychologically important level of \$80/bbl. While no definite estimate was given in the Washington discussion, a potential substantial decline toward the end of the year was pointed out. A dominant view seen in the discussion was that how China and India would respond to the problem of Iran's crude oil exports would hold the key. Some participants in the discussion noted that if Iran's crude exports dropped more substantially than expected, it would seriously affect the Iranian economy and Iran's domestic debate on the nuclear deal. Depending on future developments, geopolitical risks in the whole of the Middle East could grow further. We will have to closely watch future developments.

The United States' trade disputes and tensions are growing not only with attention-attracting China but also with U.S. allies including the European Union and Japan. China and the EU have announced their retaliatory measures against U.S. tariffs without giving in an inch, inviting the United States to announce additional countermeasures. Free trade that has supported

global economic development is now on the brink of crisis in a sense.

In the Washington discussion, no definite prospects were given for how the trade disputes would develop. My discussion partners were concerned that the disputes could exert serious adverse effects on the world economy, indicating their interest in how the energy market would be affected. Given that China has accelerated economic growth to drive demand expansion in the international energy market in the past year and trigger a turning point in the market, China's growth deceleration on the trade disputes can be expected to have great adverse effects on the energy market. In this sense, we cannot keep our eyes off future developments regarding the disputes.

Ahead of the midterm congressional elections this autumn, President Trump can be viewed as implementing his promises he made during his presidential election campaigns. In that course, surprises have come one after another, making it difficult to predict future developments. We must think the unthinkable. Some of my discussion partners in Washington noted that an important fact was that Trump replaced major cabinet members and senior White House officials since his inauguration. How such personnel changes would influence the Trump administration's policy decisions and actions and how these decisions and actions would influence the international situation would be key points.

Regarding climate change, Trump announced to withdraw the United States from the Paris climate accord in line with a campaign promise. Nevertheless, carbon dioxide emissions in the United States have been declining in a natural manner thanks to growing gas use under the shale revolution and renewable energy expansion supported by its cost drops. While the federal government is exiting from the Paris accord, some state governments and enterprises are enhancing their initiatives to reduce greenhouse gas emissions.

In the Washington discussion, we also discussed how the United States should tackle climate change from a long-term viewpoint in consideration of its withdrawal from the Paris accord. Interestingly, some of my discussion partners indicated interests in an approach of minimizing the combination of climate change mitigation, adaptation and damage costs to tackle climate change from a ultra-long-term viewpoint, as presented in IEEEJ Outlook 2018. I would like to pay attention to how U.S. climate change policies would develop in the future.

The World Gas Conference 2018 was one of the world's largest energy conferences, attracting more than 11,000 participants and featuring a list of superb presenters. My impression through the conference and my personal talks was that supply-side companies have restored their bullishness about the gas market as market sentiment has turned around in the past year. This is because business conditions have grown brighter as crude oil prices have risen back above \$70/bbl from a protracted weakness. It is also because gas market rebalancing is felt as natural gas and LNG demand has robustly increased in China and other Asian countries.

While natural gas and LNG demand is expanding firmly, factors having influence over the speed of such expansion are still uncertain. The gas demand expansion in emerging and developing countries now supporting the gas market could depend on whether gas prices would remain affordable. Another key point is that natural gas and LNG face competition from coal, nuclear

energy and renewable energy. How energy and environmental policies would be and how they would influence energy choices would exert influence on future gas demand. At the conference of gas industry people, I felt that speakers expressed rather bright expectations for their future. In fact, however, various uncertainties exist. Longer-term market prospects are more uncertain. Such prospects will grow even more important for energy policies and business strategies.

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