

Participation in Oxford Energy Seminar and Discussions in U.K.

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Between September 24 and 27, I had an opportunity to discuss a wide range of topics on the global energy situation with energy experts, industry officials and intellectuals in the United Kingdom. In the first half of the period, I participated in the 40th Oxford Energy Seminar sponsored by the Oxford Institute for Energy Studies, giving a presentation. In the second half, I exchanged views with various intellectuals in London. In the following, I would like to summarize impressive points at these meetings.

At the time-honored Oxford Energy Seminar, more than 50 people from oil companies in oil producing countries, international oil companies, governments and the energy industry attended lectures and discussions over nine days from September 17. I made a presentation titled “Japanese and Asian Energy Policy and Demand for Oil and Gas (LNG),” answered questions and exchanged opinions on September 25

While a wide range of questions and opinions came on my abovementioned presentation, discussions on issues about Japan’s future nuclear energy and the Asian LNG market were particularly impressive to me. As for nuclear energy, I explained that the Japanese government in its new Strategic Energy Plan decided on last July reaffirmed nuclear energy’s share of the target FY2030 energy mix at 20-22% as set in 2015 and called for pursuing safe nuclear reactors to restore public confidence and achieve the so-called 3E’s – energy security, environmental protection and economic efficiency – over a long term. I also pointed out that it would be challenging for Japan to achieve the target energy mix.

Seminar participants asked frank questions about how difficult it is to position nuclear power generation as a key energy option in Japan after the Fukushima accident and about how nuclear energy is economically efficient. They indicated interest in how Japan is about to tackle the nuclear energy challenge at a time when the market environment for nuclear energy is getting severer in the world. My notion that the degree of Japan’s restart of nuclear power plants would greatly influence the future of LNG and other energy demand might have stimulated interest among participants from the energy industry. Seminar participants also indicated their interest in the economic efficiency of nuclear plants for future construction amid power market deregulation in Japan. It was interesting for me to exchange views about nuclear power generation in a deregulated market that has become a major challenge not only in Japan but also in the rest of the world.

As for the LNG market, a main argument was that LNG oversupply could be eliminated earlier than 2023 or 2024 as expected before as last year’s rapid increase in Chinese LNG demand and steady LNG demand growth in other Asian emerging markets accelerate the market’s rebalancing. While annual LNG supply will remain abundant until 2020, the supply-demand balance

may tighten particularly in winter, according to some seminar participants. There was an argument that LNG price hikes could invite the deceleration of demand growth from the viewpoint of affordability in emerging Asian countries where demand is expected to increase. Seminar participants indicated interest in whether Asian LNG pricing mechanisms could be diversified amid structural changes in the market and the supply-demand balance or whether and how Asian LNG buyers would break away with the indexation of LNG prices to crude oil prices.

At meetings with various intellectuals after the Oxford seminar participation, discussions on crude oil price trends and forecasts, and relevant Middle East problems such as the Iranian situation were interesting. On September 24, the benchmark Brent crude oil futures price topped the psychologically important barrier of \$80 per barrel, closing at \$81.20/bbl. The price above \$80/bbl was the first since November 2014. Buying came as OPEC and non-OPEC oil producing countries at their meeting in Algeria on the previous day did not recognize any need for expanding oil production but agreed to just monitor the market for the immediate future, despite U.S. President Donald Trump's pressure on them to cut oil prices.

Behind the price hike was market speculation that Iranian oil exports would decline faster than earlier expected as the United States' stance on Iran grows tougher toward the November deadline for economic sanctions involving oil. Any faster-than-expected decrease in Iranian oil exports may work to tighten the supply-demand relationship. If Saudi Arabia increases oil production in response to such development, its surplus production capacity may decline remarkably. In such situation, tensions and geopolitical risks inside and outside Iran may grow, exerting further upward pressure on crude oil prices. On September 22, terrorist attacks came amid a military parade in the major southwestern Iranian city of Ahwaz, killing and injuring many people. The "Islamic State" and other terrorist organizations claimed responsibility for the attacks. However, their authenticity is still unknown. Iran suspects regional U.S. allies' involvement in the attacks, helping to raise regional tensions.

Meanwhile, the U.S.-China trade war is escalating further, with no sign of abating. The imposition of additional tariffs and the subsequent exchange of retaliatory actions could decelerate the two countries' economic growth, leading to a global economic slowdown. Such development would decelerate global oil demand growth and dramatically change the supply and demand environment, bringing about sharp falls in crude oil prices. In the London discussions, I heard that the international oil market could be destabilized for both up and down sides toward late 2018 or the first half of 2019.

I also had interesting discussions in London on the international gas and LNG market. As noted above, China's fast gas and LNG demand expansion has had great influence on the supply-demand balance. My discussion partners emphasized the importance of future analyses on the Chinese gas market. It was pointed out that analyses should cover not only gas/LNG demand growth under economic growth and environmental policies but also supply to satisfy growing demand. Particularly, some experts noted that we should analyze China's future domestic gas production including shale gas production over a medium to long term and collect and examine information on the expansion of pipeline gas supply from Russia.

At a time when the United States' relations with China and Russia were becoming soured, Chinese forces participated in Russia's "Vostok 2018" military drills, demonstrating their strategic

approach to each other that began to attract global attention. In such situation, we must pay attention to what role China-Russia natural gas trade would play. Given that the expansion of Russian pipeline gas supply to China will exert great influence on growth in China's LNG demand and on the LNG market supply-demand balance, we may have to keep close watch on future developments regarding China-Russia relations.

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