

Reviewing Japanese and International Energy Situations in 2019

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

Six days are left before the end of 2019. The year saw many important events and great changes in the Japanese and foreign energy situations and the overall international situation. Regarding them, I would like to summarize the particularly impressive points for me.

First, relations between and geopolitical situations in major countries that exert great influence on international issues affected the international energy situation in 2019 more greatly than ever. In the most important, impressive development in the year, the United States and China, the world's first and second largest economies, escalated their trade war, shaking international relations, the world economy and the international energy market. A fierce competition for global supremacy loomed behind the trade war that escalated through a tit-for-tat exchange of tariff hikes, indicating that their trade dispute would be difficult for them to resolve or compromise on. As the world economy decelerated on the trade war escalation, the world economic growth rate in 2019 was estimated to fall to 3.0%, the lowest since the global financial crisis. In December, the United States and China announced their Phase 1 trade deal, leading global economic slowdown risks to recede. However, their relations will continue to structurally influence the entire world next year.

Second, the Middle East grew even more fluid and uncertain, leading energy market players to become conscious of rising geopolitical risks. As tensions over the Iranian situation rose more than ever, attacks on oil tankers near the Strait of Hormuz and Iran's shutdown of a U.S. reconnaissance drone attracted global attention. In September, terrorist attacks on Abqaiq and other major oil facilities in Saudi Arabia brought about a temporary oil supply decline of 5.7 million barrels per day, leading to growing interest in Middle East issues. A crude oil price hike on the supply disruption ended within a short period of time thanks to Saudi Arabia's prompt oil supply restoration and a loose oil supply-demand balance. However, the major oil supply disruption in Saudi Arabia was taken as a key event for considering future energy security. Protest rallies also grew in the Middle East in 2019, indicating a second Arab Spring.

Third, Asia's growth and stability attracted great interest in 2019 as the gravity center of the international energy market shifted to Asia. Although growth of India and Southeast Asia will undoubtedly become more important over a long time, China's growth is exceptionally important at present. The international situation and energy market were shaken by growing concern that China's energy demand could slacken due to the abovementioned U.S.-China trade war. What energy source would become subject to growing demand on China's economic growth and its energy and environmental policies was recognized anew as one of the biggest influencers for the supply-demand balance and prices in the international energy market. As interest in China grew, protest rallies in

Hong Kong and the next presidential election in Taiwan attracted global attention in regard to their respective relations with China. Also important in the year were growing tensions over North Korea and the deterioration of Japan's relationship with South Korea. Northeast Asia's geopolitical conditions and stability loomed as key issues in the year.

Fourth, the abundance of energy supply in the international market was strongly recognized anew in 2019. The Organization of the Petroleum Exporting Countries and some non-OPEC oil-producing countries resumed joint oil production cuts in the beginning of the year and had no choice but to decide to enhance the production cuts from January 2020 to cope with too abundant oil supply. In the liquefied natural gas market as well, supply projects were launched one after another to further loosen the supply-demand balance. As spot LNG prices weakened, their widening gap with long-term LNG contract prices indexed to oil prices became a key matter of concern to market participants. Playing a central role in energy supply expansion has been the United States where oil and gas production has continued substantial growth under the shale revolution. In September, the United States became a net oil exporter on a monthly trade basis for the first time in 70 years, leading energy market stakeholders to recognize the powerfulness of the shale revolution anew.

Fifth, interest in climate change increased substantially in 2019 as young Swedish environmental activist Greta Thunberg's remarks and actions attracted global attention. Europe went in the direction of enhancing climate change initiatives, as indicted by European Parliament election results and policy proposals by new European Commission leaders. European actions to enhance net zero emission and other initiatives attracted global attention. In such circumstances, movements grew for business corporations to promote ESG (environmental, social and governance) investment, sustainable development goals and other climate change initiatives. At a policy level, financial and trade policies were growingly linked to climate change. Amid the trend of enhanced climate change countermeasures, hopes grew further on innovative technologies or innovations such as hydrogen energy, carbon recycling and CCUS (carbon dioxide capture, utilization and storage).

Sixth, abnormal weather events occurred frequently in the world in 2019, causing severe natural disasters involving massive damage and victims and attracting interest in climate change. At the same time as interest grew in how to address climate change and environmental problems, anti-disaster infrastructure development was increasingly recognized as important. From the viewpoint of energy security, interest increased in how to respond to disruptions to supply from traditional international energy markets and how to enhance the resilience of energy supply systems or chains. Given that multiplexing, diversification and greater flexibility are the key to enhancing the resilience, how to promote relevant investment internationally and domestically was attracting interest.

Finally, Japan saw a gradual shift to non-fossil energy sources in its energy market while facing various challenges, problems and new moves. Behind the shift have been renewable energy expansion under the feed-in tariff system, very slow progress in the restart of nuclear power plants, energy efficiency improvements and a long-term fall in oil demand. However, various challenges regarding the shift to non-fossil energy are looming, including uncertainties over future nuclear power generation, as well as surcharges and electricity costs that are rising in line with renewable

energy expansion under the FIT system. How to tackle these challenges in the course of energy market liberalization and system reform is growing even more important for the government and relevant industries.

The situation indicates anew that fossil fuels remain very important for Japan's energy security and that the stable procurement and clean use of fossil fuels are an urgent challenge for Japan. Meanwhile, the international or geopolitical situation is growing complex and changing more rapidly. International strategies to flexibly, speedily and adequately respond to such changes in the world have grown even more important.

Given such important situations in Japan and the rest of the world, I would like to closely watch how the year 2020 will be.

Contact: report@tky.iej.or.jp

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