

At the ERIA/IEEJ Online Workshop

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On September 10, the Economic Research Institute for ASEAN and East Asia (ERIA) and the Institute of Energy Economics, Japan, cosponsored an online workshop titled “Energy Situation in ASEAN Post COVID-19.” As indicated by the title, the workshop dealt with the COVID-19 pandemic’s impacts on energy markets and policies, and future prospects and challenges in Asia including the Association of Southeast Asian Nations. After opening remarks at the workshop, I and four others from ERIA, the ASEAN Center for Energy and the Thai and Indonesian governments participated in a panel discussion, followed by a question-and-answer session. The following summarizes my major findings at the workshop that provided a precious opportunity to discuss the COVID-19 pandemic from the viewpoint of ASEAN and Asia.

Workshop participants basically shared an awareness that the pandemic has brought about serious social impacts and economic deceleration in ASEAN and Asia, exerting a tremendous influence on ASEAN and Asian energy markets. As the global economy has plunged into the worst situation since the Great Depression, ASEAN economic growth has substantially decelerated and fell into negative territory. Remarkable energy price falls have some positive effects allowing energy consumers and consuming countries to save spending. However, they have resulted from economic deterioration and could destabilize future energy markets. In this sense, ASEAN and Asian countries are not necessarily pleased to see low energy prices.

The rampant COVID-19 pandemic and the subsequent economic deterioration have made it difficult and complicated for ASEAN and Asian countries to resolve their social and economic development challenges. They have no choice but to give top priority to the prevention of COVID-19 infections and economic recovery and adapt the allocation of limited policy resources and funds to a new situation after the pandemic. Regarding energy and environment policies, how to promote or revise plans and policies launched before the pandemic has become a key challenge.

ASEAN and Asian countries have promoted energy transition policies to provide citizens and industries with energy required for economic development at affordable prices, promote environmental conservation and enhance climate change countermeasures. As the pandemic has brought about remarkably weak energy prices that have hard hit the energy industry, concern is growing about the stagnation of investment required for energy transition.

Prices of all energy goods have declined substantially due to the pandemic. Particularly, oil prices suffered a symbolic crash. Workshop participants impressively noted that concern about future oil supply shortages to be caused by oil sector investment declines and about oil market destabilization through the deterioration of oil-producing economies would be greater than economic

benefits from oil price falls. It was also pointed out that the oil price crash has enhanced petroleum products' relative price competitiveness in a manner to affect competition between fuels in the market. Some workshop participants seemed concerned that price falls for all fossil fuels including oil would delay transition to non-fossil fuels such as renewable energy.

In ASEAN and other Asian developing and emerging countries, energy prices are required to be affordable. Given the dominant presence of low-income earners as well as the need for economic development, affordable energy prices are indispensable for energy policy. Even under the requirement, these countries had pursued cleaner energy mixes in consideration of air pollution and climate change countermeasures. As the pandemic has caused economic deterioration including income falls, however, economic recovery has become a top priority, leading affordable energy prices to grow more important.

Nevertheless, ASEAN and Asian countries have not lost interest in energy transition including a shift to cleaner energy mixes. In the new situation brought about by the pandemic, how to maintain and enhance the momentum for the transition and reform has become a new challenge.

It was interesting to see growing interests in and hopes on natural gas and LNG. Since before the pandemic, the cleanest fossil fuel has been expected to play a great role due to its potential to make up for the intermittency of renewable energy. As coal accounts for a large share of the Asian energy mix in contrast to a small share for natural gas and LNG, gas has been expected to expand its share. Given that LNG prices have remarkably declined due to oversupply caused by the pandemic, workshop participants indicated that LNG would take advantage of its current price competitiveness to expand further.

Spot LNG prices' plunge to around \$2 per million British thermal units has resulted from oversupply under the pandemic. However, whether such low LNG prices would be sustained over a medium to long term is another issue. At such price levels, it is difficult for LNG suppliers to make decisions to invest in expanding LNG supply. In this sense, we must watch LNG price trends while paying attention to whether LNG supply and demand would reach an equilibrium. In Asia, the LNG market is required to develop under a supply-demand equilibrium.

Asia including ASEAN will undoubtedly become the center of future global energy market growth, driving future global energy demand expansion. Because of its energy demand growth, however, Asia would face complex issues, including energy security challenges represented by growing dependence on energy imports, environmental load brought about by coal's large share of the energy mix, and the significance of affordable energy prices to support economic growth, which could trade off with each other sometimes. The ongoing COVID-19 pandemic has complicated these issues, leading energy policy responses and the energy industry's business strategies to become more difficult. At a time when global economic conditions, international relations and the geopolitical environment for Asia are becoming even more uncertain, I would like to closely watch the future course of energy in Asia.

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