

Prospects for Future Oil/Energy Situation

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

On February 5, an international panel discussion on the future oil/energy situation took place in the form of an online webinar, cosponsored by ENEOS Corporation, ENEOS Research Institute, Ltd., and the Institute of Energy Economics, Japan. The panelists at the online meeting were FACTS Global Energy Group Chairman Fereidun Fesharaki, U.S. Center for Strategic and International Studies Senior Vice President Sarah Ladislaw, and I. Nikkei Shimbun editorial writer Hirofumi Matsuo served as moderator. The landmark 30th annual international panel discussion on the matter was the first one to take the form of an online meeting under the COVID-19 pandemic. As well as the past meetings, the vigorous discussion covered prospects and challenges for the international oil situation, and Asian natural gas and LNG markets over the short, medium, and long term. In the following, I would like to summarize the points that were impressive to me at the panel discussion.

As noted above, interesting arguments were made about the international oil situation, oil prices, and global natural gas and LNG supply and demand outlooks as at the past meetings. Impressively, these arguments indicated high interest in structural background factors behind supply and demand outlooks, rather than those outlooks themselves. Panelists' arguments were extremely interesting on crude oil prices in 2021 under the impact of COVID-19, medium to long-term oil price trends, the sharp LNG spot price hike early this year, and short to medium-term LNG supply and demand. As a participant in the panel discussion, I was inspired by the discussion very much.

Even more impressively, however, I felt that the latest international panel discussion focused on great interest in (1) what the arrival of the U.S. Biden administration would bring to international energy markets and (2) how carbon neutral initiatives offered by major countries would change global energy markets.

As for the first point, it is natural that interest is high in the impacts of the new U.S. Biden administration on international energy markets. The just inaugurated administration has set out environmental, Iran and other policies to reverse those of the previous Trump administration. The impacts of these Biden policies are attracting global attention. As the Biden administration has indicated a less positive or proactive attitude on the development, production, and use of fossil fuels including oil and gas, how the U.S. shale revolution would be affected after transforming international energy markets over the past decade has become a matter of global interest.

In fact, there is a view that short-term impacts on oil and gas development and production would be extremely small as a ban on fracking as a matter of concern regarding the environment is to be limited to federal land. For the U.S. oil and gas industry in which business performance has deteriorated on oversupply and weak prices under the COVID-19 pandemic, however, uncertainties regarding future investment are growing as the new administration enhances the promotion of electric vehicles, restrictions on gasoline-powered vehicles, and fuel efficiency standards and holds

down financial investment in fossil fuels. In such situation, U.S. oil and gas companies are shifting priority to profitability or investment return from production volume and company sizes that have been emphasized in the past decade. In expanding oil and gas production, these companies will thus have to pay attention not only to oil and gas price trends but also to other factors.

The Biden administration set out the enhancement of domestic climate change countermeasures through a strong message just after its inauguration and is likely to advocate the enhancement in the international arena. The promotion of international clean energy investment and subsequent initiatives to discourage investment in fossil fuels may become worthy of attention. An important point for Japan and Asia will be the new U.S. administration's stance on the promotion of LNG use and market functions in Asia, which has been a key part of Japan-U.S. energy cooperation since the Obama administration period. Will the Biden administration position natural gas and LNG as a key energy source for Asia's cost-efficient promotion of decarbonization or leapfrog from fossil fuels? This question will have a great impact on the balance between environmental conservation and economic development in Asia.

It was noted in the panel discussion that these various great changes are still limited to those in messages, leaving real changes unclear or uncertain. Domestic policies must be legislated and funded by budget in Congress before their promotion. Given domestic U.S. divisions, confrontation between Democrats and Republicans, a narrow gap between the numbers of Democratic and Republican Congressional seats, and challenges regarding unity within the Democratic Party, policy reforms resulting in extreme changes and their impacts are dominantly viewed as difficult to realize. While what the president and the federal government can do are limited, state government and private sector initiatives are influential. In such situation, we must pay attention to how and whether real changes may deviate from message changes and what impacts these real changes would exert on the world. Towards an international climate change summit that President Joe Biden plans to hold on April 22, I would like to watch what policies the United States would set out, whether the Biden administration could give a greenhouse gas emission reduction target for 2030, and how ambitious the target would be.

As the second point, major countries' announcement of carbon neutral initiatives and their impacts on international energy markets, is the most important matter of interest to energy stakeholders in the world, it is also natural that the matter became a key topic at the panel discussion. Given energy market realities, however, the carbon neutral status target would be difficult even for advanced economies to realize by 2050 and could be achieved by 2070 or 2080, according to an argument presented in the discussion. Given realities in developing economies, it may be more difficult for them to realize carbon neutral status.

The argument represents a view based on energy realities including the convenience and usefulness of fossil fuels in energy markets, the great size of legacy assets in the energy sector, the long time required for stock-based changes, and carbon neutral initiatives' balance with economic growth or energy price affordability. Even if the carbon neutral challenge is viewed as difficult, however, global low-carbonization or decarbonization trends are emerging, with major governments being about to promote policies to realize carbon neutral status. Irrespective of whether or when carbon neutral status could be realized or whether or when oil demand could peak, it is important to develop different scenarios for the uncertain future and strategies for these scenarios in consideration of potential dramatic changes. The panel discussion gave me an opportunity to reaffirm the significance of strategic thinking at a time when global interest is growing in carbon neutral status.

Contact: report@tky.ieej.or.jp

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