

# Japanese Energy Supply Strategy in the context of Growing Regional Demand

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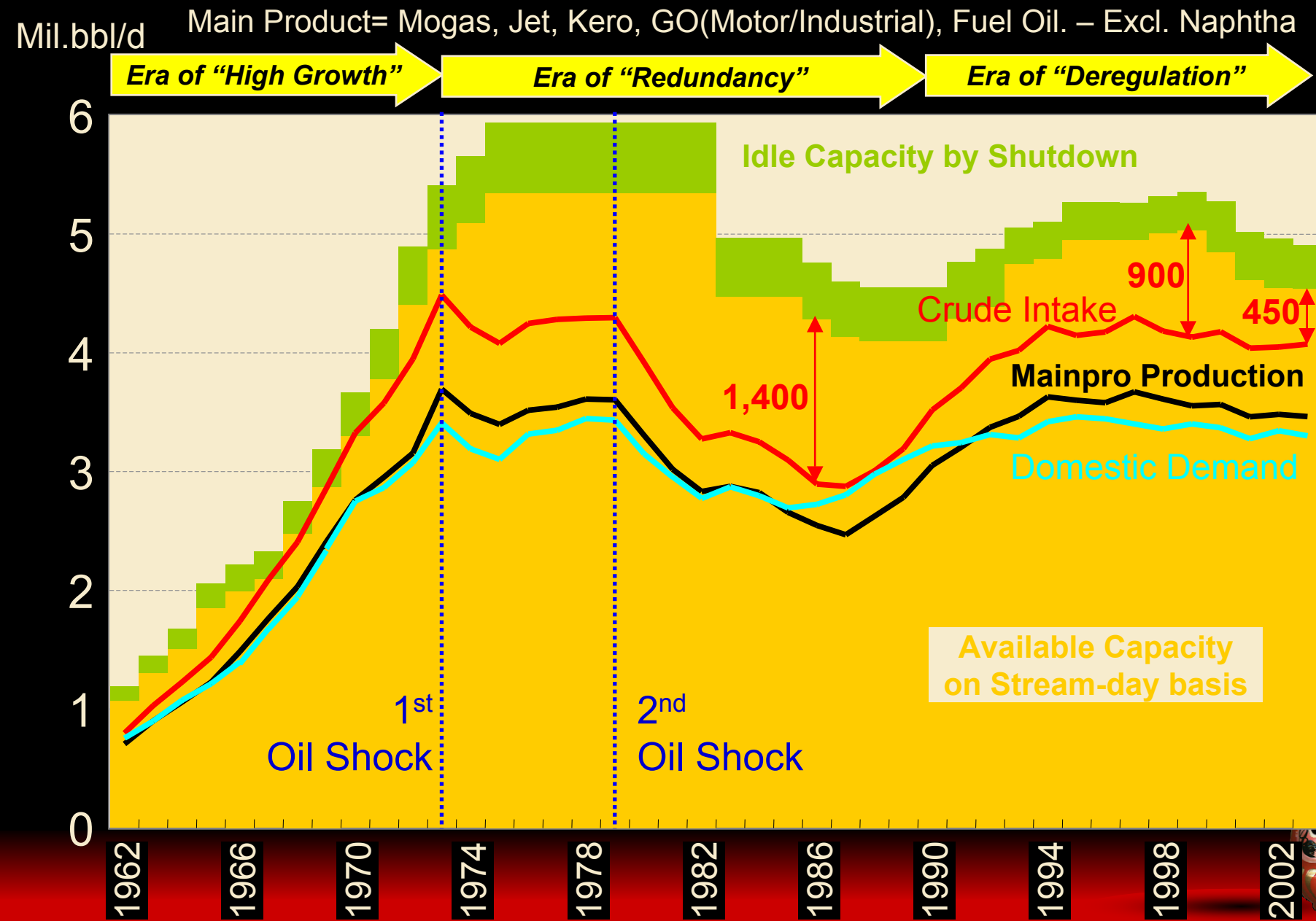
1. Transition of Japanese Oil Industry
2. Japanese Primary Energy Transition
3. Issues at Stake



# 1. Transition of Japanese Oil Industry



# Japanese Oil Supply/Demand Balance



# Demand is Whitening

Mil bbl/d  
5  
4  
3  
2  
1  
0

## Japanese Oil Demand Transition by product

Total 3.85Mb/D  
White 3.49 (91%)  
FO 0.36 (9%)

Total 3.12Mb/D  
White 2.34 (75%)  
FO 0.78 (25%)

Forecast

Fuel Oil

Industrial Gas Oil

AGO

Kero/Jet

Naphtha

Mogas

1980F

1985F

1990F

1995F

2000F

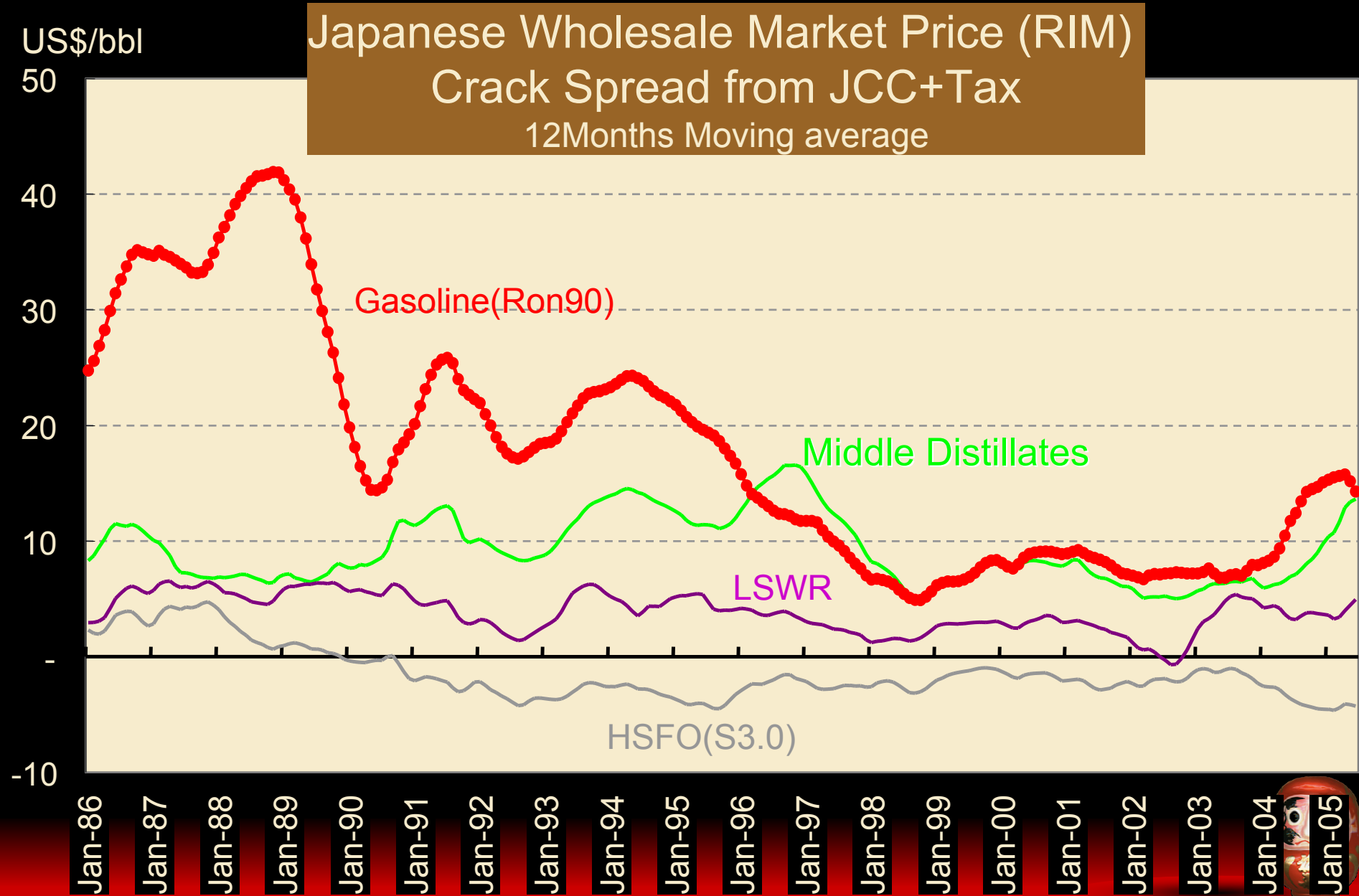
2004F

2005F

2009F



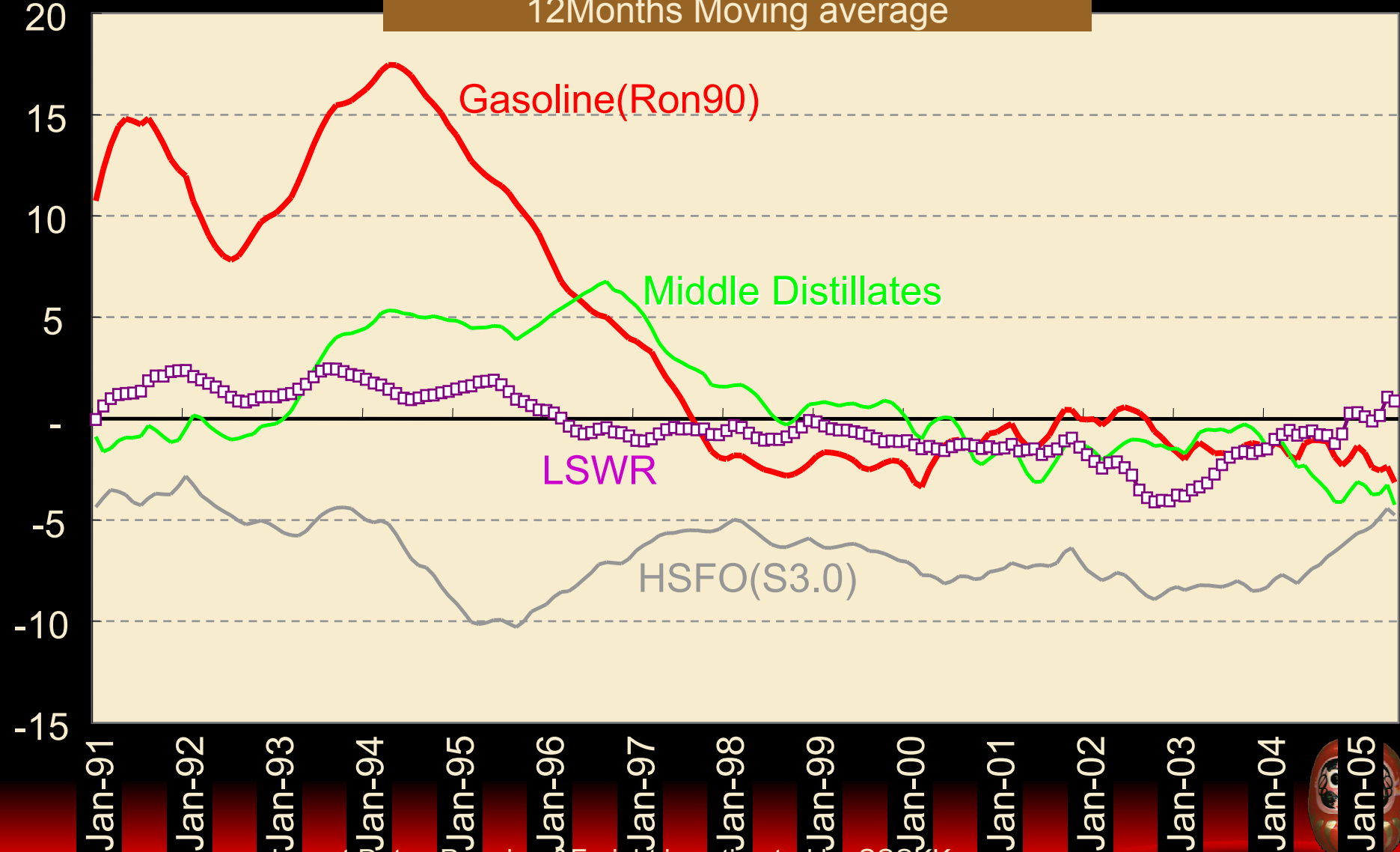
# Product Price (1) Domestic Market



# Product Price (2) Import

RIM – Import US\$/bbl

**RIM Compared with Import Parity**  
12Months Moving average



Import Data : Premium&Freight is estimated by SSSKK

# Outline of Japanese Oil Industry Transition

## 1. Refinery Capacity

-> Adjusted to product demand

## 2. Product Market

-> Margin reduced to international level

-> Industry structure has changed  
from ***Distorted Local Market Oriented***  
to ***Ubiquitous Market Oriented***

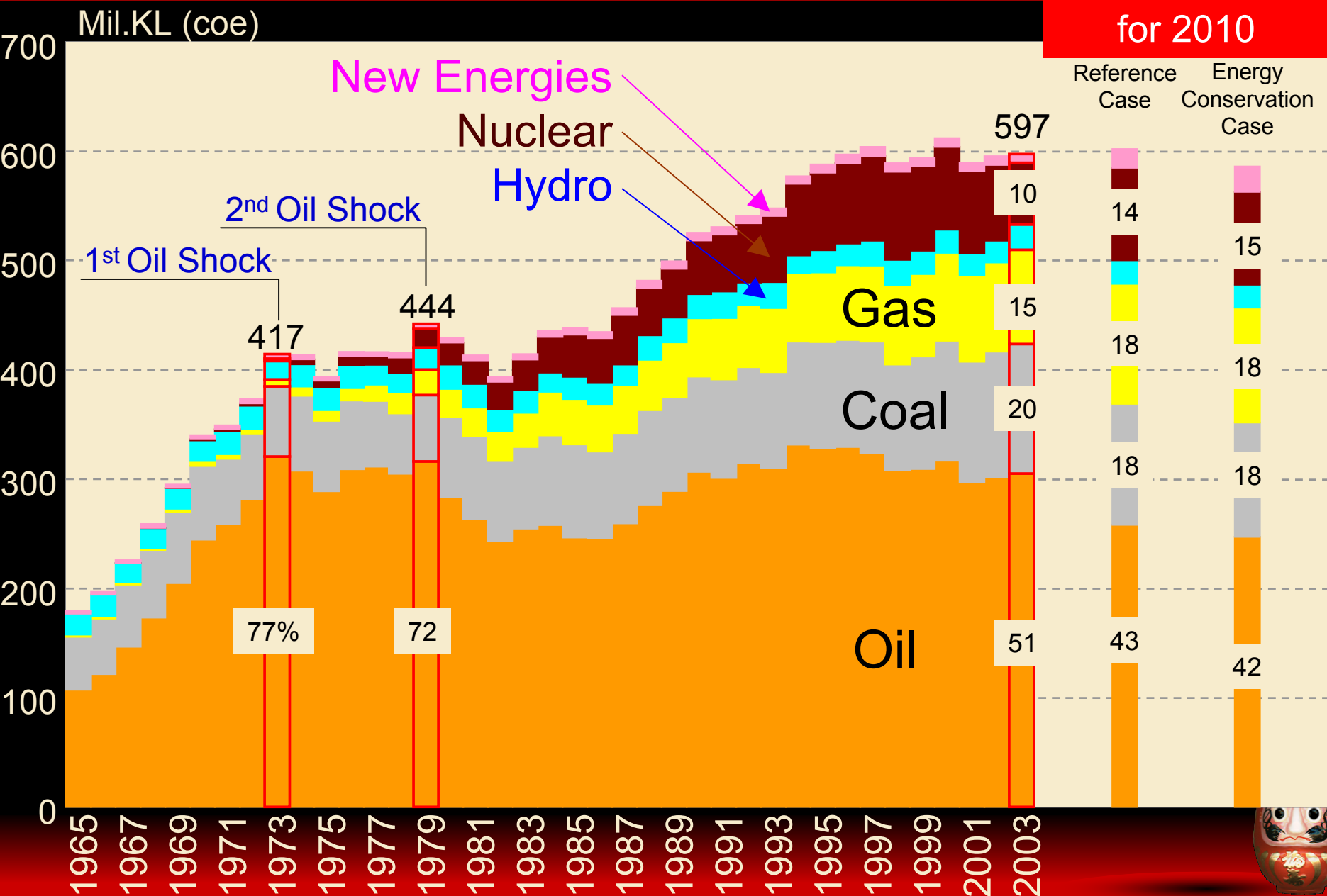


## 2. Japanese Primary Energy Transition



# Primary Energy in Japan

METI's Outlook  
for 2010



### 3. Issues at Stake



# What are Issues at Stake?

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- 1) Social responsibility = Environment
- 2) Price stability
- 3) Supply security
- 4) Investment
- 5) Return



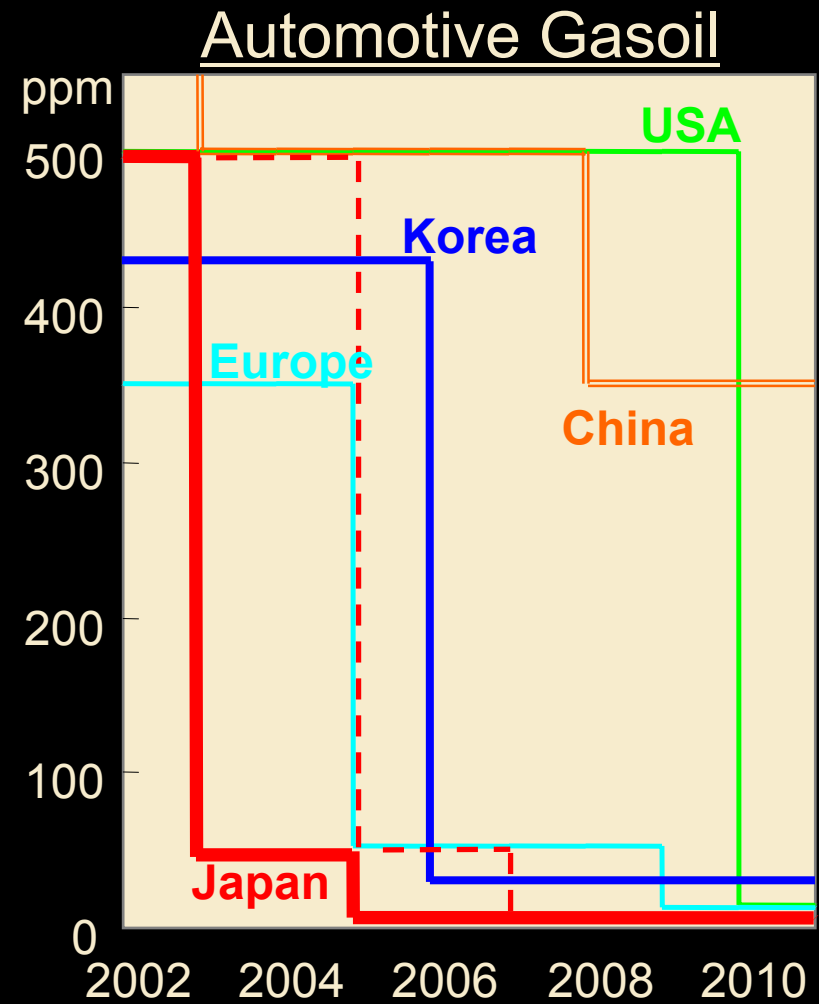
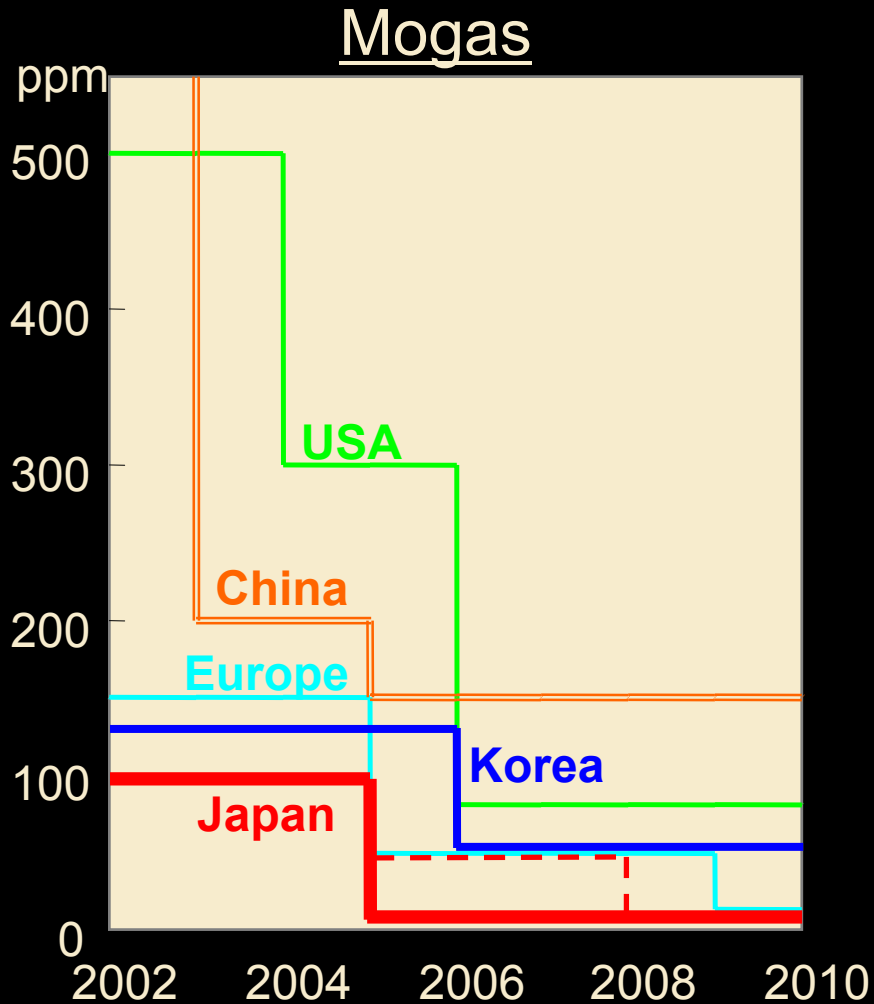
# 1) Social Responsibility = Environment

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- a. Low sulfur product
- b. CO2 reduction
- c. Land remedy



# 1) Environment a. Low Sulfur Product

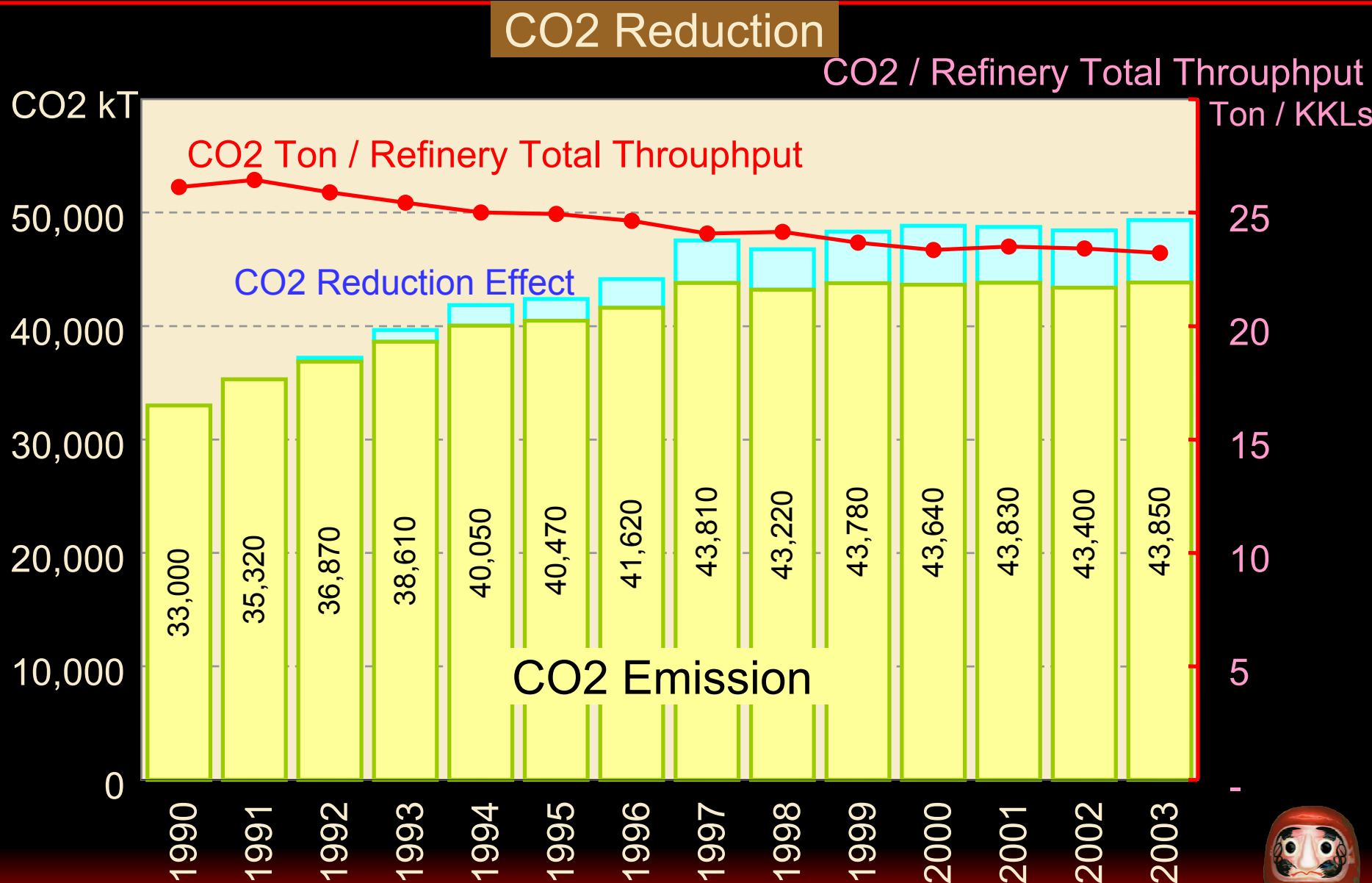


———— Voluntary Rule by Industry  
----- Regulation by Government



# 1) Environment

## b. CO2 Reduction



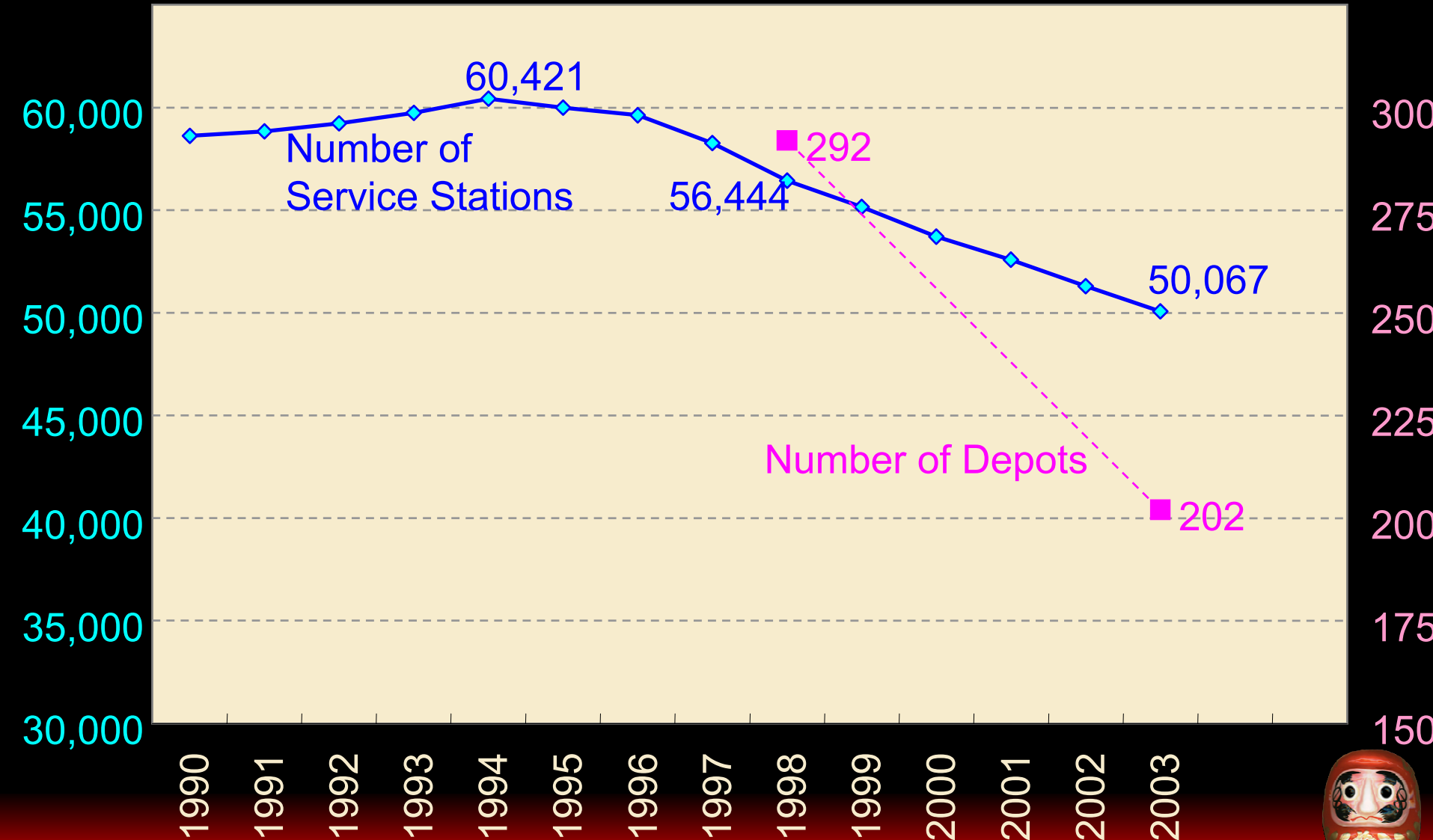
Source: PAJ



# 1) Environment c. Land Remedy

Number of Service Stations

Number of Depots



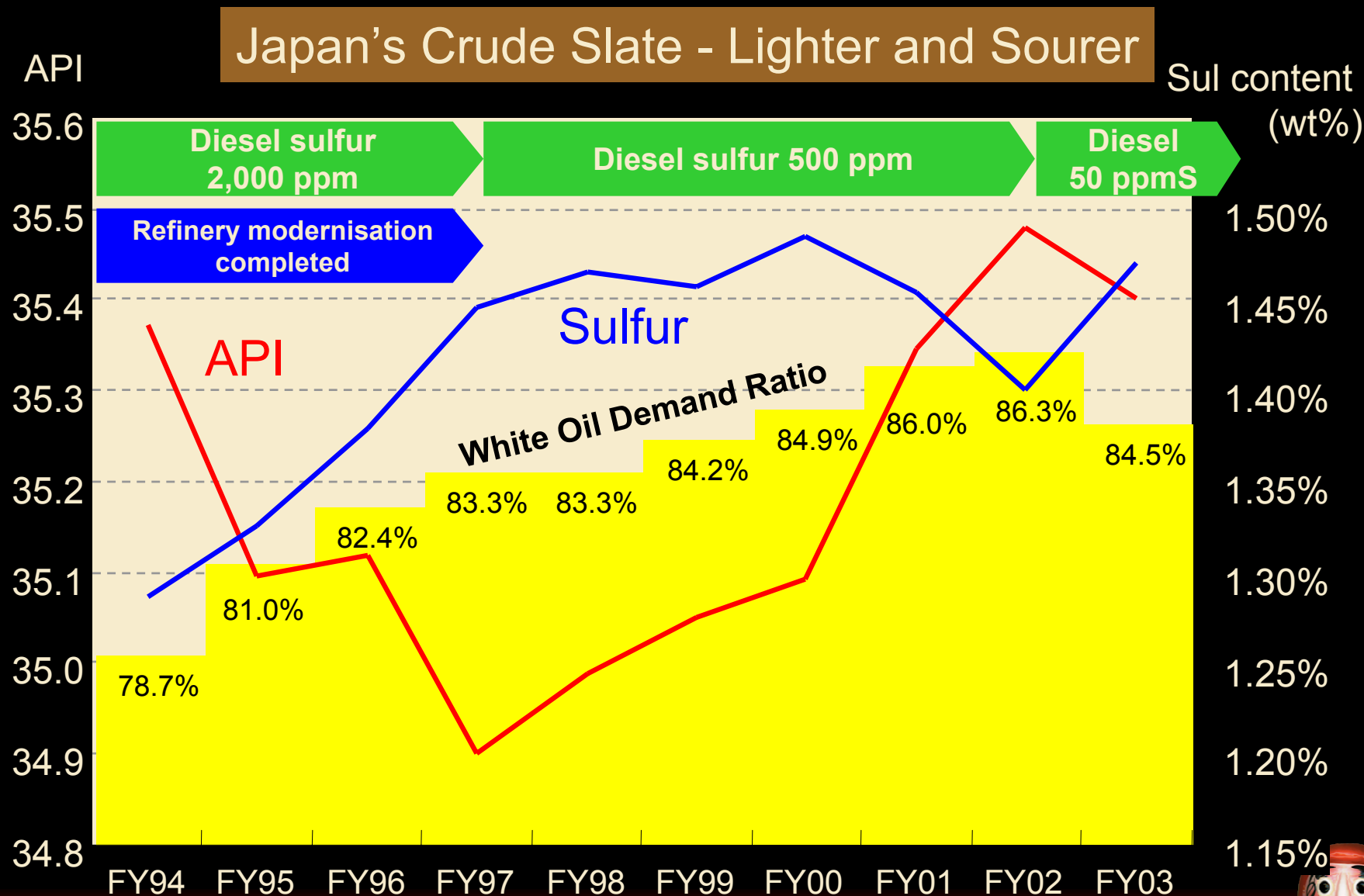
## 2) Price Stability

Utilization of refining capacity in conjunction with widening gap between product demand and refining capacity in the Pan-Pacific

- a. Standardization of product specs
  - > Make arbitrage work
- b. Cooperation between producing and consuming countries to cope with heaving slate of crude oil



## 2) Price Stability - Japanese Crude Slate

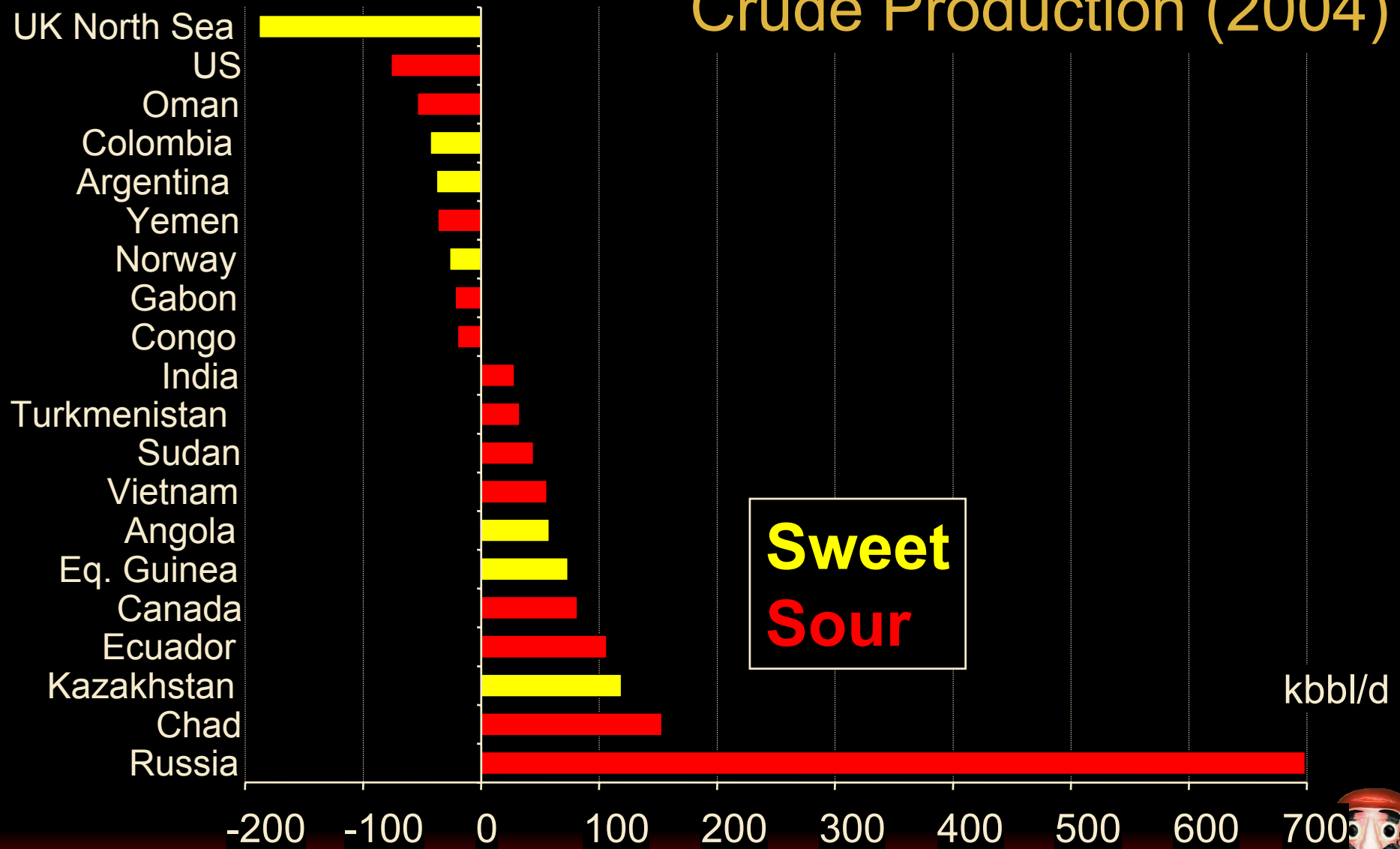


Remark: White Products Ratio is on CY basis. Source: PAJ, IEA



## 2) Price Stability

- Significant Change in Crude Production (2004)



### 3) Supply Security

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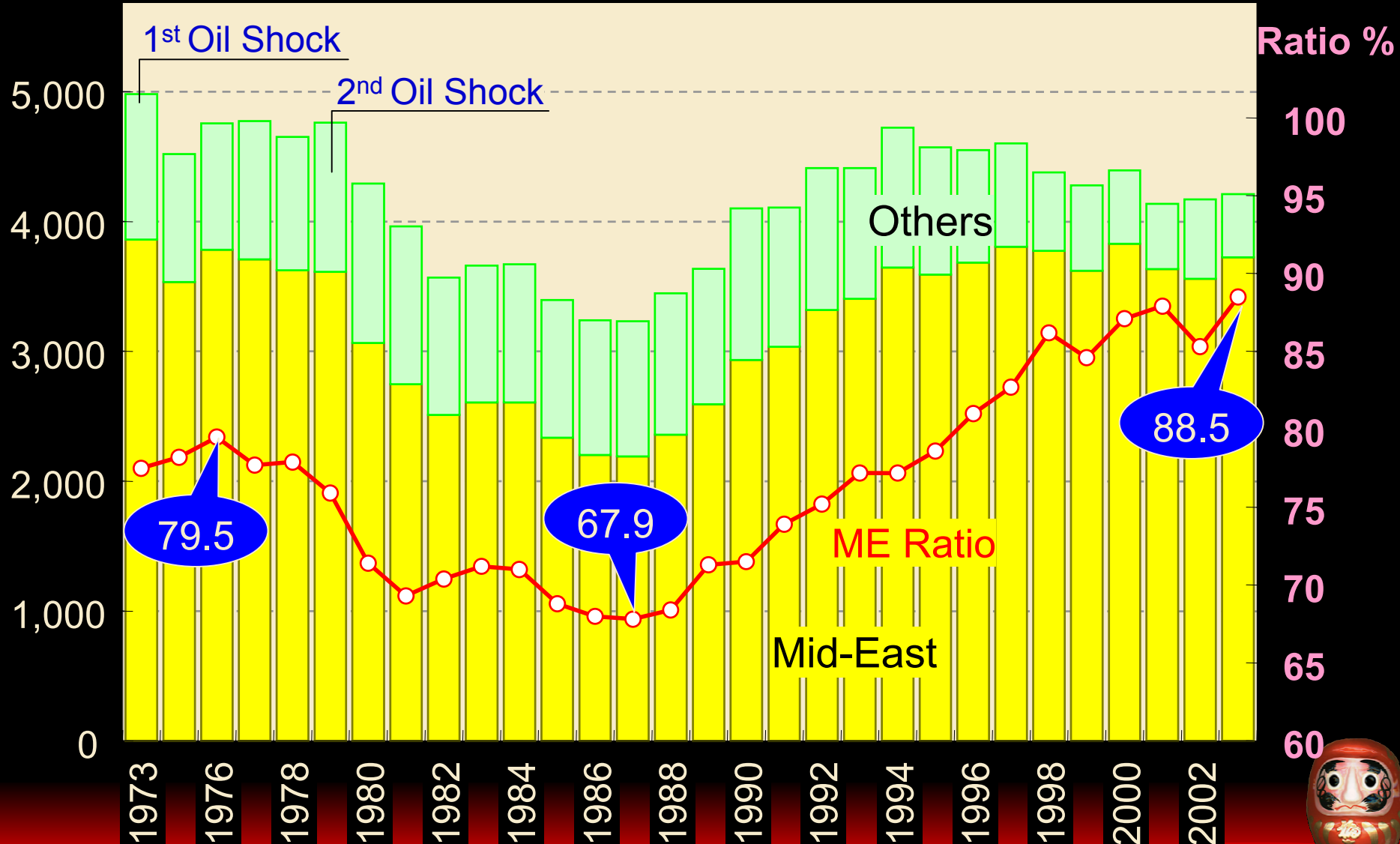
Enhancement of strategic reserve  
in light of growing dependency on  
Middle-East



# 3) Supply Security

## - Japanese Crude Dependency on Mid-East

Vol Mil. bbl

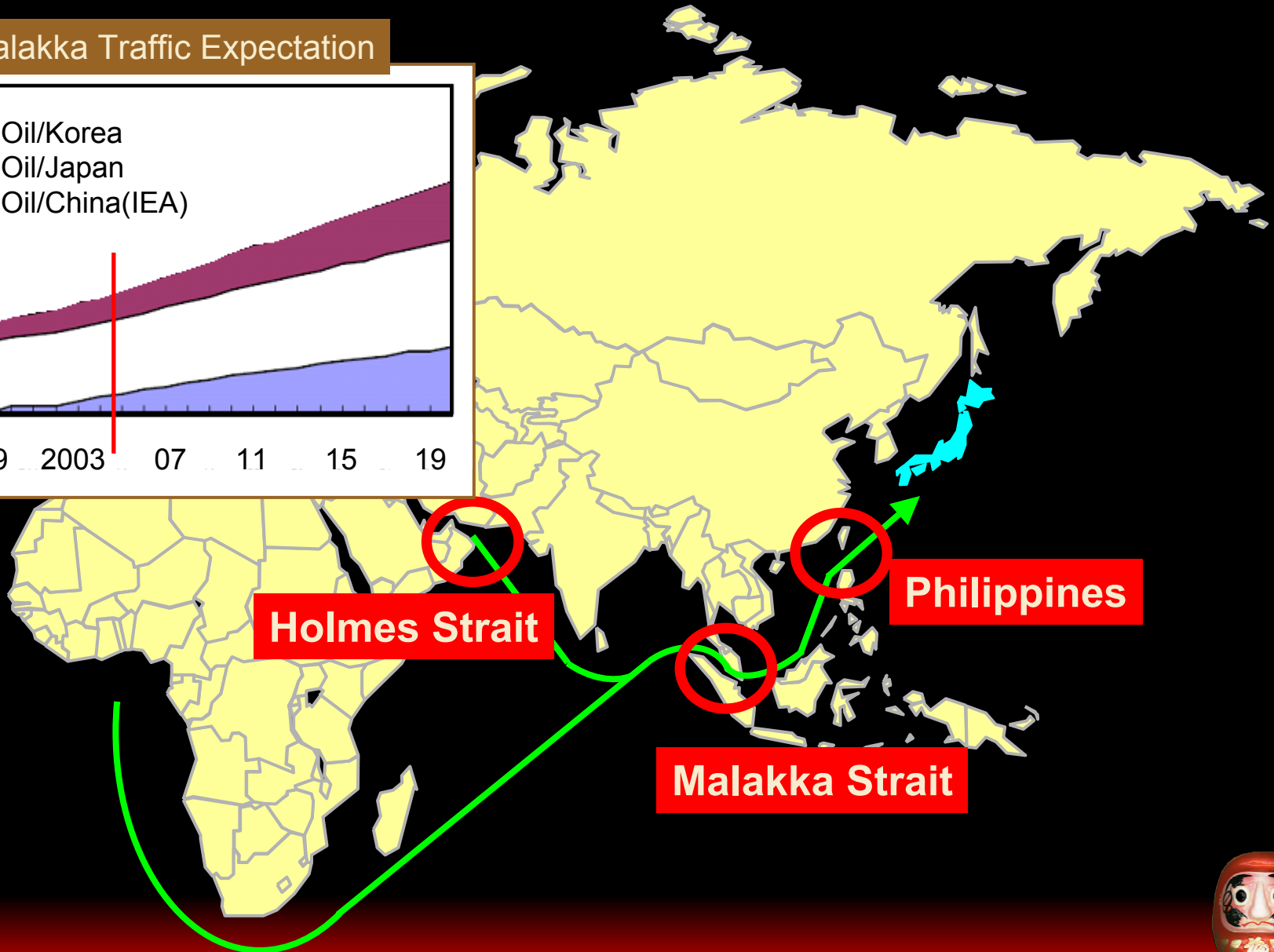
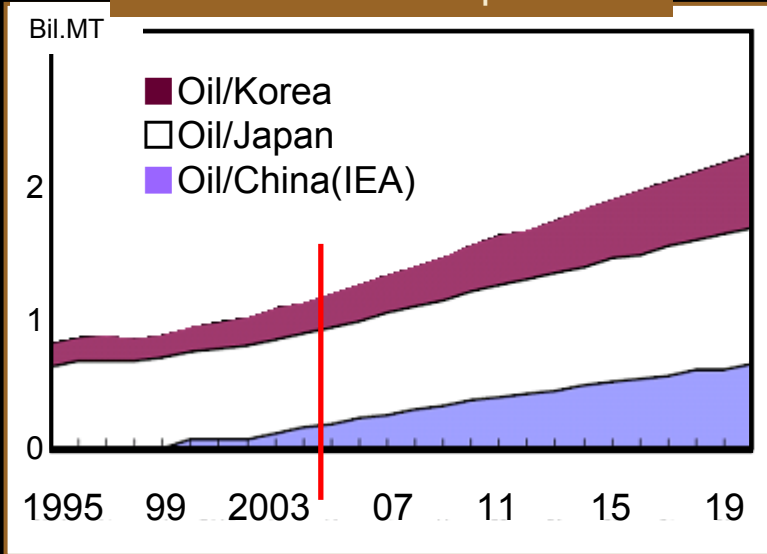


Source: METI



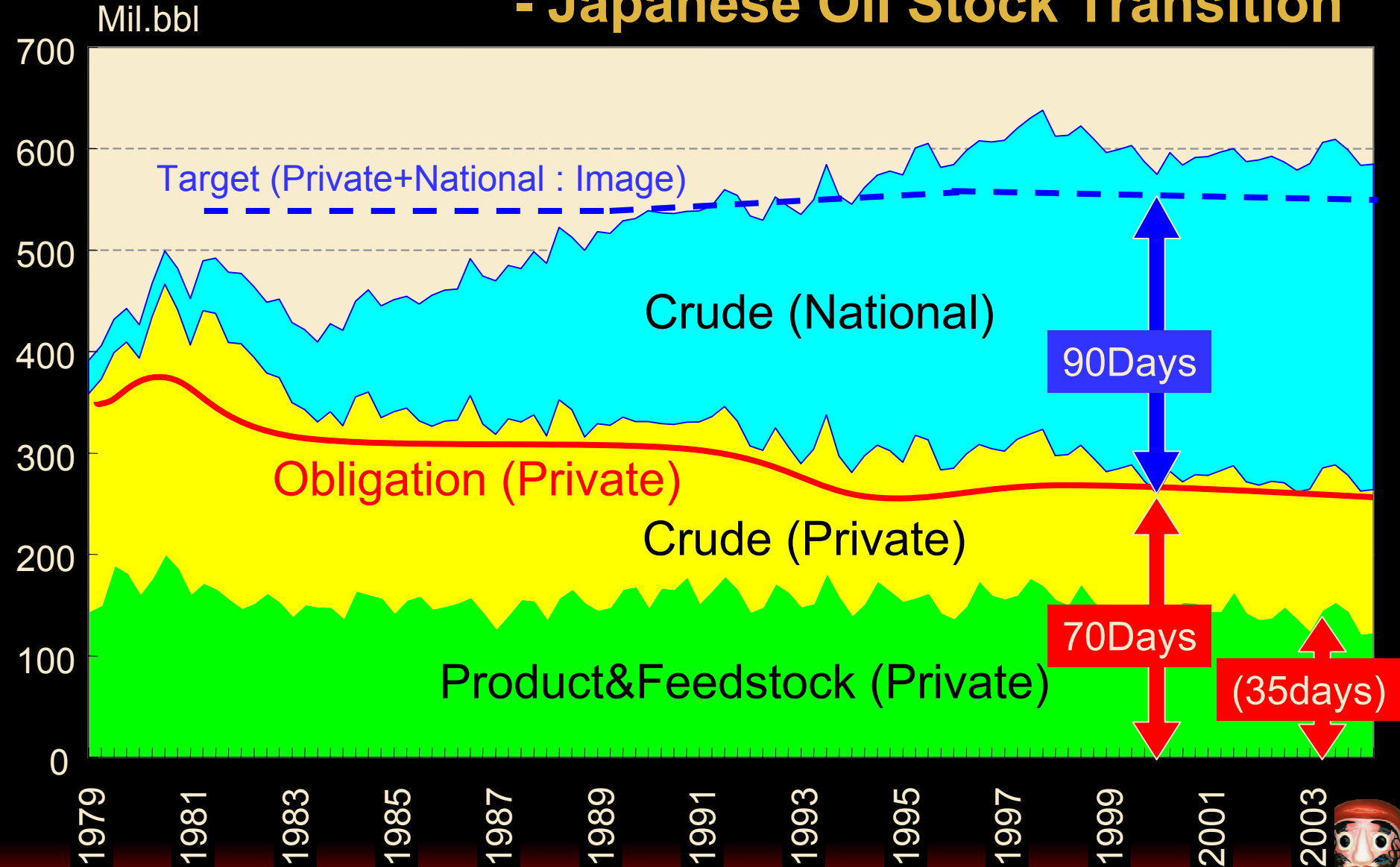
# 3) Supply Security - Security of Sea Lane

Malakka Traffic Expectation



# 3) Supply Security

## - Japanese Oil Stock Transition



## 4) Investment

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No more “Boom-and-Bust”

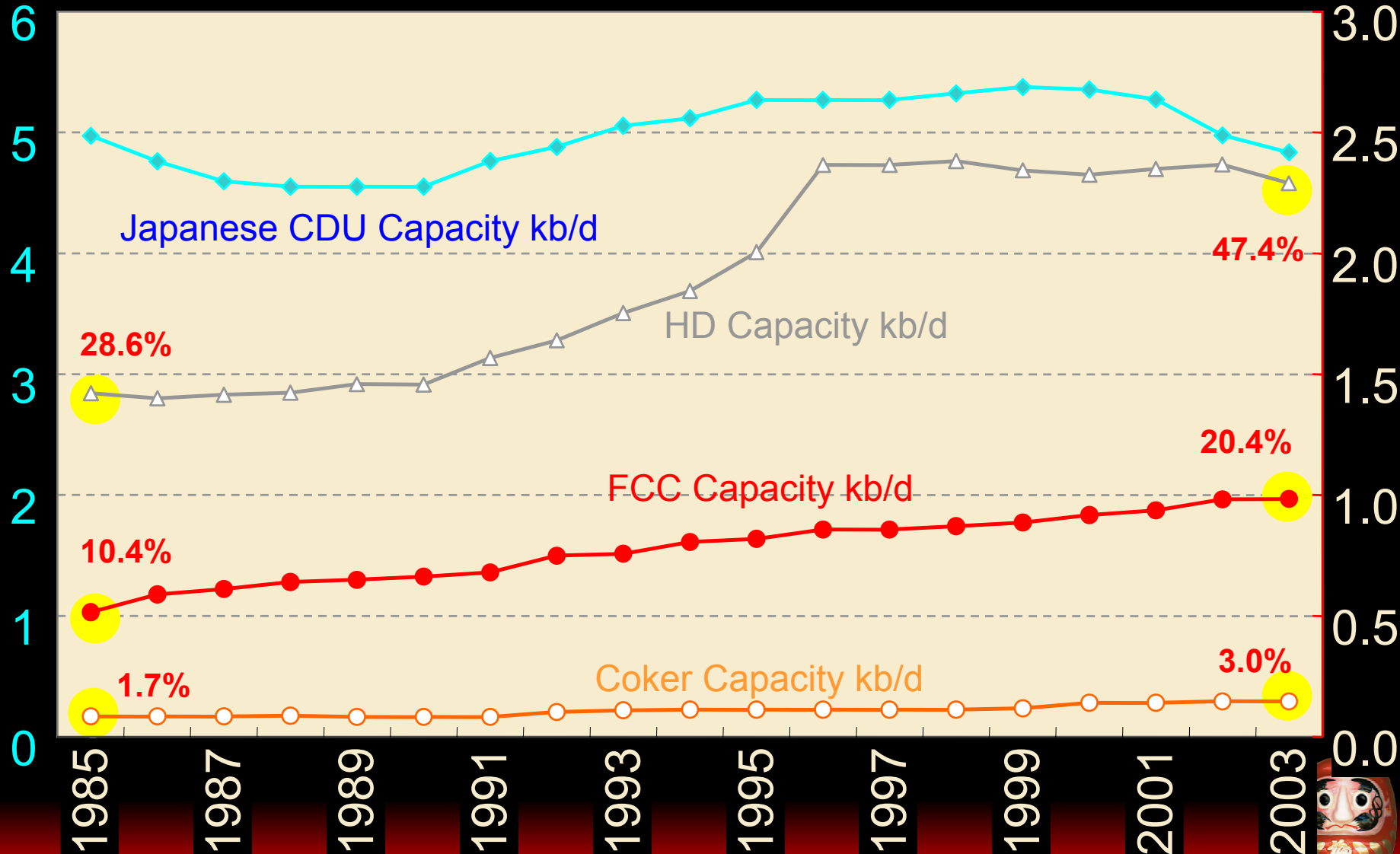
-> Investment for value creation  
not for volumetric expansion.



# 4) Investment on Secondary Unit in Japan

Japanese CDU Capacity Mil.b/d

Upgrading Units Capacity Mil.b/d



Source: PAJ



## 5) Return

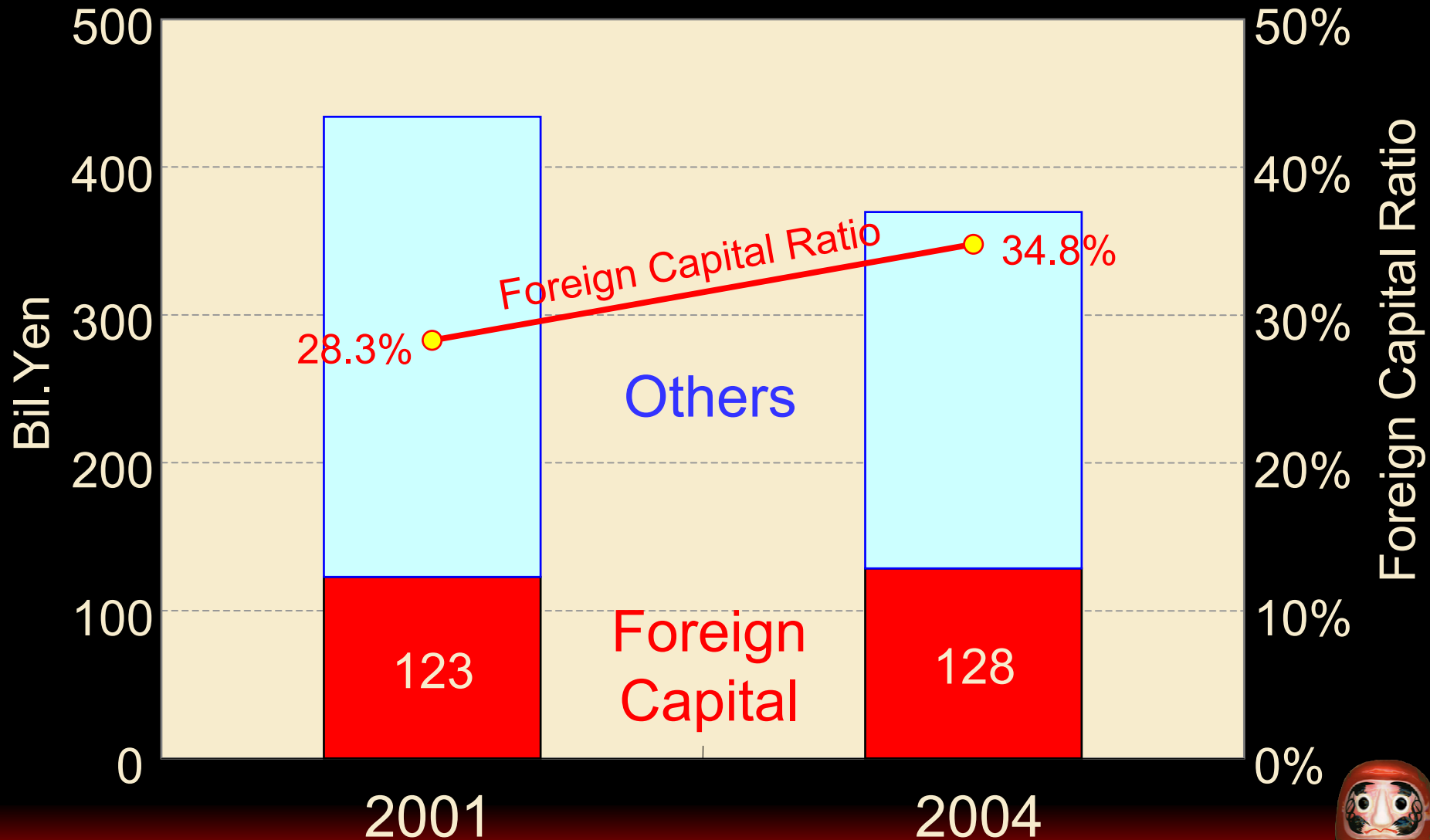
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Fair return on investment for the sake of socially acceptable and sustainable growth.



# 5) Return

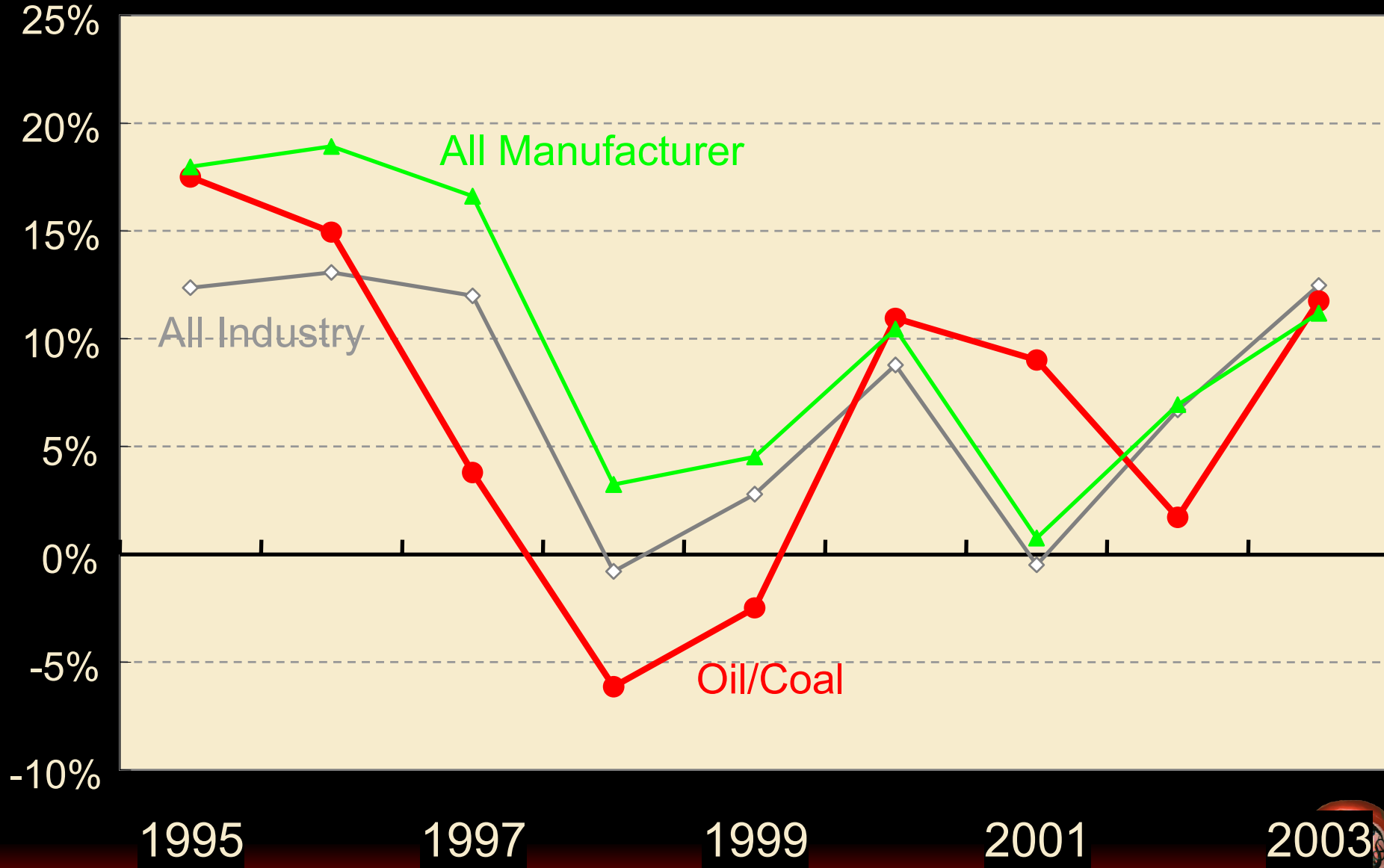
- foreign capital in Japanese Main Oil Companies



Source: financial statement reports



## 5) Return - ROE by Industry



Source: 財務省法人企業統計



# Conclusion

Accelerated growing importance of cooperation among North-East countries

