



TATSUO MASUDA

Visiting professor at the NUCB Graduate School

I would like to talk about the impact of low oil prices from Asian perspectives. Asia is predominantly a net importing region as a whole, but there is a multiple impact, because of the special situation there. However, looking back through history, the low oil price environment is nothing new to us. There was determination and there were very low oil prices from 1986-87. Our lighters were more or less USD 7 per barrel.

Exactly 10 years later, from 1997-98, triggered by the Asian financial crisis, oil prices plunged to single digits, USD 9 per barrel, for Brent and West Texas Intermediate (WTI). I happened to be the director in charge of the oil market and security at the IEA and I was shocked and threatened by the risk of low oil prices. They threatened very important producers in the Gulf. Then prices dipped again 10 years later, in 2007-08.

Every time oil prices dropped in the past, they naturally rebounded. I would like to be able to say that history may repeat itself, but my evaluation is not this time. This is because of the energy transition taking place due to risks to the climate. This makes a total difference from the debate about oil price cycles in the past. There is a systematic shift from fossil energy sources to renewable energy. We call it a process of decarbonising the energy system. It is gaining momentum for the first time. Normally in the past, when oil prices came down, people could argue that renewable prices would be suppressed, because of the loss of cost competitiveness. However, this may not apply.

My background is that I am a historian by education, but to make a living, I have worked on energy. Energy people like me have to work on decarbonising technology. This is a bit of an advertisement, but just two weeks ago, the World Economic Forum released a white paper called Scaling Technologies to Decarbonising Energy. I belong to this group and I wrote one-third of this paper, talking about medium-term technology which will decarbonise energy. This covers batteries, hydrogen in society, advanced nuclear power, power electronics and all these things. If those technologies are mobilised, together with a push from policy incentives, the market will see oil very differently. It is not easy to predict what the situation in the future will be.

Traditional patterns in the low oil price environment no longer apply, as I mentioned. In the case of the automotive sector, there are strong drives to introduce new types of engines, like battery electric vehicles (EV), hybrids or plug-in hybrids. I was in Shanghai 10 days ago and we discussed these things. I learned very interesting things from these Chinese specialists. In 2030, of the newly registered cars in China, 50-80% will be EVs, in some form.

People argued whether China could proceed that way so fast, but there is a strong argument. If you have visited China, you will see that there are so many bikes attached to these batteries. Tens of millions of Chinese bikes are mostly electricity driven, so they have a tradition of electrification of transport. If there is a proper technology in place, that will pick up. 50% may not be just a dream or even 80% if things go strongly in that direction. This is the extent of the transition of the energy system we are facing today.

Regarding renewable energies, there has been a notable slowdown of renewable input into the system, for two reasons. One is that hundreds of thousands of companies found that there is a business opportunity in developing the most advanced renewable technologies and providing those products to the market. This market competition will never lose momentum. Number two, many people argue that solar and wind will achieve grid parity in some reasons, but they are not there yet, because there is a system cost.

However, those system costs associated with intermittent renewable energy could be supplemented by policy incentives, like feed-in tariffs and others. Those policy incentives will never disappear in the coming years. For those two reasons, it is very difficult for fossil fuels to gain strong recovery in demand and therefore a strong jump in prices. This was the case in the past, but not for today and tomorrow.



What about Liquefied Natural Gas (LNG)? LNG is a rising star in Asia and is praised as a transitioning energy. It may not be transitioning but eternal energy for decarbonisation. LNG prices are now going down very quickly, for two reasons. One, most Asian LNG contracts are based on quoted oil prices. The formula is based on oil prices, so if oil prices go, naturally energy prices go down. The second reason is the possible entry of North American LNG, or shale LNG as people call it.

However more importantly, and this is probably the most important element, there is a slowdown of demand. Demand is not dipping, but the anticipated growth rate will definitely come down because of the slowdown of China and the stagnation of the Japanese economy. It is also partially because of the return of the nuclear fleet in Japan. Tanaka-san may mention that later on, but there is a slight sign of recovery. A reactor has already started in Kyushu and others may follow, slowly but probably steadily. Those are the sorts of negative or bearish factors in terms of energy prices. Behind the scenes, coal prices are dipping as well, much faster than anything else. Coal-fired power plants may gain economic advantage, lowering energy prices, thus hindering the recovery of oil prices.

This may create a very interesting situation in Asian consuming regions. They will be able to rebalance the trading terms of oil and LNG vis-à-vis producing countries. European people may not know there were Asian premiums in crude oil prices for many decades. Exporters from the Middle East added USD 1 or more to oil exported to Asian countries, compared with the prices they apply to North American and European customers. This is because Asian customers have no choice but to rely on the Middle East. They took advantage of this difference in the geopolitical situation in Asia.

A destination clause is still applied to LNG and this is quite rare in LNG export to Europe, but Asian customers still cannot resell the LNG cargo they import, as it is prohibited by contracts. However, this situation may give an opportunity to sit at the table and discuss where to go. Should we get into new terms and loosen or erase all these restrictive and disadvantageous terms? This may offer an opportunity and a better environment for dialogue between producers and consumers for many more years to come.

I have three more points to conclude. This may also offer some developing Asian countries the opportunity to decrease or erase the notorious fuel subsidies. Indonesia has already taken some actions, because prices are getting lower. By the way, Indonesia is a net importing country for oil. Who will suffer most regarding Asia? I do not like to pinpoint any countries, but the broad view would be the country beginning with A, Australia, for various reasons.

One, they will become the largest LNG producer and exporter, surpassing Qatar in the years to come. This is if everything goes right, but with lowering prices and less appetite on the importing side, they are having a very difficult time. This is because the cost of producing LNG is highest in that country. Australia is also a major exporter of coal to China, but Chinese coal imports have declined by more than 30%, so they are facing a double shock.

The last point is that overall, Asian countries are net exporters of those hydrocarbon energies, particularly oil and natural gas. They will benefit from this environment, but that benefit will be offset by one big factor, which is the slowing down of the Chinese economy. In terms of prices, it is okay, but in terms of total trade and business opportunities, it is quite negative. As our friend Masood said, the impact on the consuming countries is not as big as the impact on producing countries.