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# **Global Crude Oil Price Down: An Implication for Energy Security for EAS Region [Session 2]**

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# OUTLINE OF PRESENTATION

- I. HISTORICAL DATA ON CRUDE OIL PRICE AND GAS
- II. WHY OIL PRICE DROP?
- III. HOW LONG THIS LOW PRICE LAST?
- IV. IMPLICATIONS: ECONOMICS AND ENERGY SECURITY
- V. CONCLUSIONS

# I. Historical data on crude oil price

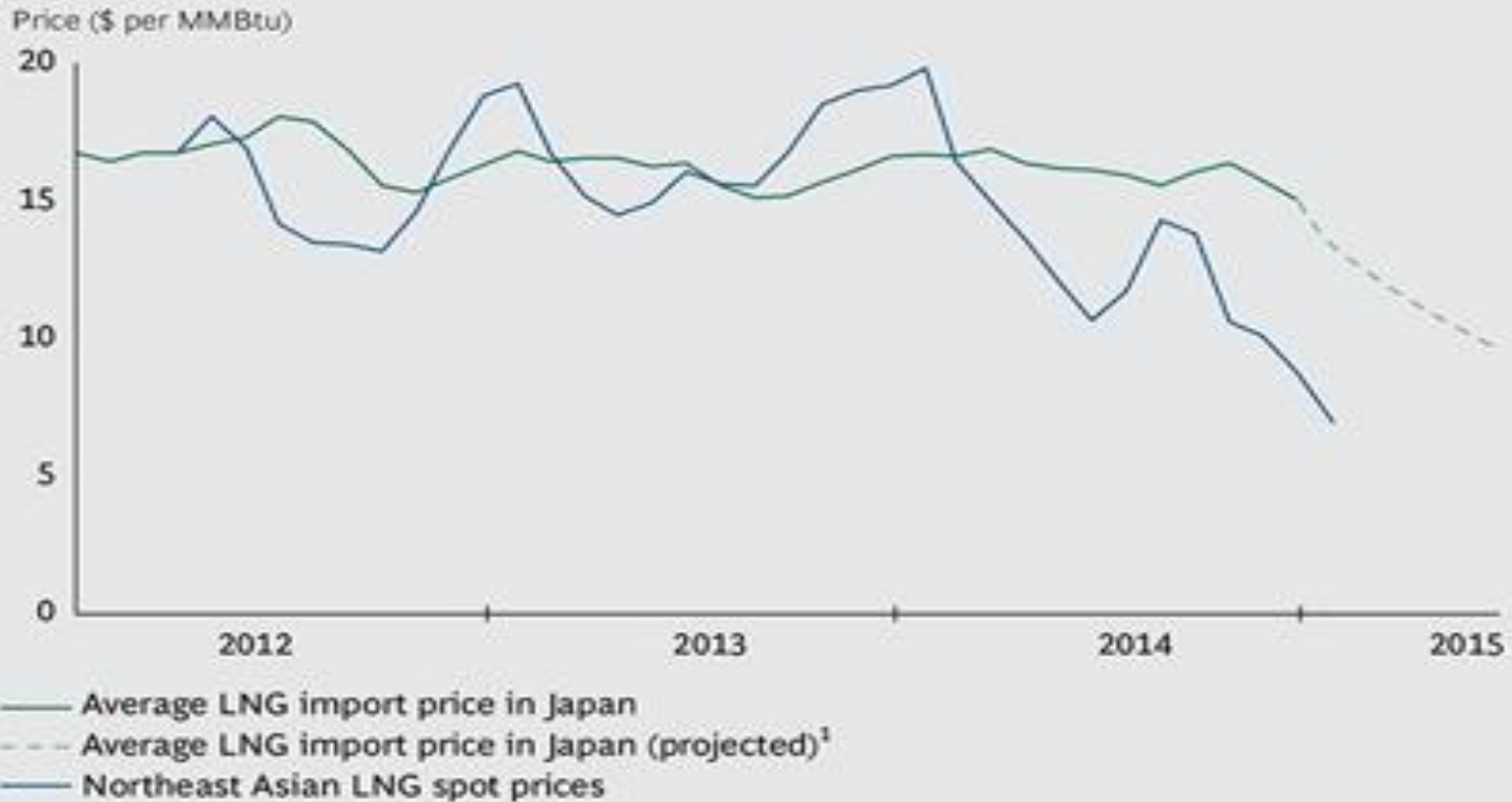
Europe Brent Spot Price FOB (Dollars per Barrel)



Source: EIA, 2015

# Gas Price Is Expected Low

EXHIBIT 2 | Asian Natural-Gas Price References Reflect the Drop in Oil Prices



Sources: Argus; Japan Customs; BCG analysis.

Note: MMBtu = million British thermal units; LNG = liquefied natural gas. The reference used for northeast Asian spot prices is spot prices of northeast Asian LNG delivered ex ship.

<sup>1</sup>If crude-oil prices remain at their current level.

Source: Boston Consulting Group, 2015

## II. Why oil price drop/slump?

- OPEC does not agree to cut back production to raise price (last Nov meeting);
- Boom in unconventional oil production (The US alone has added 4 million extra barrels of crude oil per day to the global market since 2008);
- Weak demand in China, Germany and rest of the world;
- Energy efficiency and energy subsidies removal play part of the weaker demand.

### III. How long this low price last?

- Saudi Arabia, the 2<sup>nd</sup> largest oil prodder does not want to lost market share and it is expected low oil price is a short-term;
- To some extend, it is a price war—The “break even price” for oil field in the US and Canada could survive only above \$60/bbl— sooner or later, some US oil producer will be unprofitable and go out of businesses.
- Then, it hope the price will stabilize

- Oil price will eventually rise again—but how high? It will depend on economies, geopolitics, oil productions that shape global demand and supply;
- If countries could take the best advantage to prepare oil stock now, and phase out some of energy subsidies, together with energy efficiency policies, the future oil price could be well stabilized, not too high, and not too low. Win-win solution for both producing and consuming countries.

## IV. Implications: Economics and energy security

- Oil importing countries enjoyed the low crude oil price, and reduced trade deficit and could take up some measure correct the energy policies. For example, the removal of energy subsidies;
- Oil exporting countries like Russia, Iran, Venezuela, and other some OPEC may face economic hard time, unless they have sufficient reserve like Saudi to cope with deficit; otherwise it is could cause deep inflation, depreciation...etc.



- China could possibly achieve the oil and gas stock piling ambitious, by filling the Strategic Stock during low oil and gas price; thus contribute to regional and global oil price stability through improved energy security and shock reduction
- Japan one amongst the largest crude oil stock piling in EAS, could take the opportunity of low crude oil price to clean up the old oil stock and refill new one (quality maintenance); this will save a lots;

- The transparency of oil production and oil price need to be more transparent to avoid speculation which leads to price shock;
- Since OPEC's share of oil production is just about 40%, and it is no longer a major dominant; OPEC may think of diversifications of economic activities rather than just oil income;
- All countries will need to step up on EEC as it plays major role in stabilizing the global oil demand;