

APEC Oil and Gas Security Newsletter

Oil Stockpiling in Asia

by *Tetsuo Morikawa*

Under the framework of ASEAN+3, ASEAN countries, China, Korea, and Japan have been working on energy cooperation in various areas. One of the areas is oil stockpiling, and government officials, company personnel, and researchers gather every year to discuss the status and prospect of oil stockpiling development in ASEAN+3 countries under the name of “The ASEAN+3 Oil Stockpiling Road Map (OSRM)”. This year, on May 24, the 5th OSRM workshop was held in Manila, hosted by Department of Energy of the Philippines.

It is clear that Asia will drive the world oil demand, and domestic production will not keep up with the demand growth. Inevitably, import dependency will rise in many Asian countries, and oil supply security is increasingly a concern in the region. Therefore, it is no surprise that all countries at the workshop recognize the need for oil stockpiling, and are willing to further develop it although the target quantity varies among countries. Building stockpiling is a lengthy and costly business. While Japan and Korea already built up stockpile in accordance with IEA standard and China is rapidly catching up, ASEAN countries are relatively lagged behind. ASEAN region are expected to become a net oil importer in 2020s, thus are encouraged to expand its stockpiling.

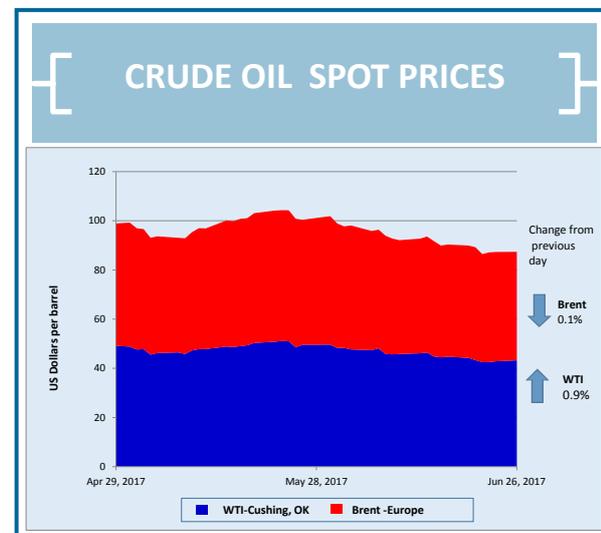
Oil stockpiling is an area for international cooperation in the ASEAN region. While most ASEAN countries are working on building stockpiling, ASEAN wide stockpiling scheme may not be realized in the near future. ASEAN countries have been working on an ASEAN wide oil sharing scheme in emergency, called ASEAN Petroleum Security Agreement (APSA) for many years. Although APSA is not a stockpiling scheme, the importance of APSA was confirmed at the OSRM workshop. At the same time, it might be realistic to start oil sharing scheme among countries that are willing to participate.

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WTI—USD 43.24 (Jun. 26)

Source : US Energy Information Administration

“Inevitably, import dependency will rise in many Asian countries, and oil supply security is increasingly a concern in the region.”



“.....at a time when billions in new investment to create more gas supply are needed, any government intervention which creates sovereign risk is alarming.”

Australian Government to Limit Gas Exports from July

by Hiroshi Kondo

The Australian government will introduce export restrictions on domestically-produced natural gas starting from July 1 to secure enough gas for the domestic market, Prime Minister Malcolm Turnbull announced on April 27.

In a statement, the government would introduce the Australia Domestic Gas Security Mechanism (ADGSM), which would have the power to impose export controls on companies. This action is to be applied only to east coast exporters.

Gas and electricity charges have been soaring, especially in the eastern region of Australia where the population is concentrated, mainly because of the shortage of gas supply. The shortage of domestic gas supplies has resulted to higher prices paid in the markets to which Australian gas is being exported. Criticism has arose when gas producers preferentially supply gas for export has been happening.

Earlier in April, the Australian Competition and Consumer Commission (ACCC) began a three year-inquiry to monitor the wholesale gas market in Eastern Australia and increase transparency on supply arrangements. The Minister for Resources will use the information gathered by the ACCC in order to impose controls on exports if ever gas shortage in the domestic market is forecasted to continue in the future.

The government’s intervention is generally welcomed, on the other hand, the Australian Petroleum Production and Exploration Association (APPEA) expresses concerns that at a time when billions in new investment to create more gas supply are needed, any government intervention which creates sovereign risk is alarming.

Economists are split on whether gas export restrictions will lessen concerns about an east coast supply crisis or not. Regardless whether the restrictions work exactly as intended, the government has signaled that it will be a temporary measure. So, in order to attract future investment, Australia needs a coherent policy rather than a temporary one.

IEA's Gas Resiliency Assessment for Japan

by Yoshikazu Kobayashi

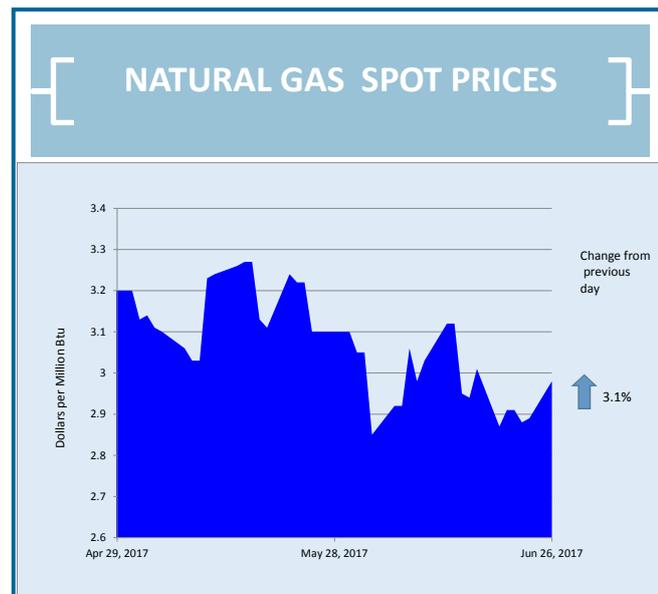
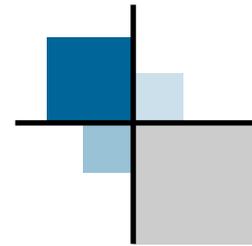
The International Energy Agency (IEA) published its first gas resiliency report featuring Japan in November 2016. The report was based on the findings from the workshop held in Tokyo in July 2016 by IEA and Japan's Ministry of Economy, Trade, and Industry (METI), and provided a number of useful insights on natural gas security in Asia Pacific region.

The report highlighted the significance of market flexibility for natural gas security. It is needless to say, that a liquid and flexible market greatly contributes to supply resiliency as experienced in the international oil market. The report also cited the result of simulation of the workshop and it indicated that almost two-third of Japanese city gas companies' response to emergency would be either spot procurement, cargo swapping, or rescheduling of the cargo loading, all of which required a liquid and flexible market. Because of the physical difficulty of storing LNG for a long time and insufficient underground storage capacity in Japan, arrangements at the procurement stage are regarded as the primary response measures for Japanese utilities. Trading practices of the world LNG market has become more flexible in recent years; but it was mainly because of the current soft market condition. In order to "institutionalise" the flexible LNG market, besides the industrial efforts, the governments' monitoring of the LNG market continues to be important.

The report also suggests other measures to enhance gas resiliency such as development of pipeline network and reloading capacity, creation of National Emergency Strategy Organisation (NESO), enhancement of the current system of emergency response network, consideration of effective demand management including fuel switching in power sector, all of which are relevant and valid approaches not only applicable to Japan but also to all other countries that may depend more on natural gas in their energy mix.

One potential issue on current policy initiatives in Japan with gas resiliency is market reform. While the report claims that continuation of such reform should also contribute to gas resiliency of Japan, competition among utilities may work unfavorably to building an industry-wide emergency response coalition or infrastructure developments, as utilities may be prudent in large-scale investments under the uncertain demand in liberalised market. How to reconcile such elements will be another important task for the Japanese government.

"...continuation of such reform should also contribute to gas resiliency of Japan, competition among utilities may work unfavorably to building an industry-wide emergency response coalition or infrastructure developments..."



Henry Hub—USD 2.98 (Jun 26)

Source : US Energy Information Administration



Mr Adam Sieminski

Adam Sieminski holds the James R. Schlesinger Chair for Energy and Geopolitics at the Center for Strategic and International Studies (CSIS) in Washington, DC. Prior to joining CSIS, he served as administrator of the U.S. Energy Information Administration (EIA) from June 2012 to January 2017. EIA is the statistical and analytical section of the U.S. Department of Energy. From March through May 2012, while awaiting US Senate confirmation for the EIA post, he was senior director for energy and environment on the staff of the National Security Council at the White House. He was previously Deutsche Bank's chief energy economist, working with the bank's global research and trading units, where he drew on extensive industry, government, and academic sources to forecast energy market trends and wrote on a variety of topics involving energy economics, climate change, geopolitics, and commodity prices. Earlier, Mr. Sieminski was the senior energy analyst for NatWest Securities, covering the major U.S. international integrated oil companies. He is a senior fellow and former president of the U.S. Association for Energy Economics and served as president of the National Association of Petroleum Investment Analysts. In 2006, Secretary of Energy Samuel Bodman appointed him to the National Petroleum Council (NPC). (next page)

Interview with Mr Adam Sieminski

In this issue of Newsletter, APERC OGS Secretariat was honoured to interview Mr Adam Sieminski, an expert invited for the APERC Annual Conference to talk about *Revisiting the Role of Fossil Fuels in the APEC Region from US' Viewpoint*. He was also invited as speaker in the IEEJ/APERC Joint Symposium presenting an interesting topic in the session about *“Impact on Energy/Environment Policy under the New US Administration”*.

APERC—You have extensive experience in forecasting energy market trends. Can you explain briefly the current and future role the APEC region in oil and gas supply security?

Mr Sieminski—Energy security is a part of overall risk management for the countries in the APEC region. The five key concepts of risk management are

- (1) identifying the hazards
- (2) minimizing exposure (avoid and reduce)
- (3) diversifying exposure (by type of fuel, use, and geography)
- (4) shifting exposure (insurance, contracts, joint ventures)
- (5) continuously reassessing

Fossil fuel use in the APERC region is expected to grow by 40% to 2040, but production is expected to be up by only about 25%. This means that net energy imports, including oil and gas, will be up significantly (over 50%) by 2040. Finding ways to improve intra-regional trade and investment will be very important.

APERC—During your service at DOE, have you implemented policy addressing oil or gas supply security issues/threats in the US? If yes, do you mind mentioning in what particular issue/threat or what were the cause?

Mr Sieminski—The Energy Information Administration, which I headed from June 2012 to January 2017, is one of the 14 major federal statistical agencies. EIA does not take positions regarding security issues or other aspects of policy matters. That said, EIA prides itself on providing factual data and analysis upon which policy makers can rely in their decisions. During my tenure at EIA, the agency greatly improved the timeliness of its oil and natural gas production data, provide much more extensive and timely data on railroad movement of energy, and became the first statistical agency in the world to collect any data (in our case on electricity generation) on an hourly basis. EIA also provided estimates of the (next page)

Interview with...

market impacts associated with proposals for export of LNG and crude oil- finding the consumer price effects were very small.

APERC—CSIS is a known think tank for international security. In any of its studies, can you tell us briefly what are the most common energy supply security issues: is it global oil and gas markets volatility, natural calamities, or geopolitical instability?

Mr Sieminski—In my view, the most common energy supply security issues are the ones that you didn't expect. Most authors who look at energy policy think of security as a function of six key factors: Availability, Accessibility, Affordability, Acceptability, Adaptability. Actionability.

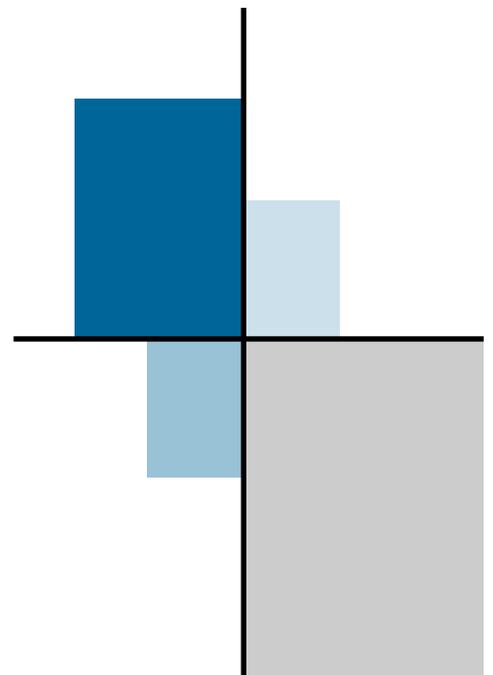
Available means it exists. *Accessible* means it can be obtained. *Affordable* means it is not financially out of reach of most people. *Acceptable* means that it is environmentally sound. *Adaptable* means that it can serve multiple purposes. *Actionable* means that it is practical—that it can be done to scale. Anything that gets in the way of the "Six As" is a security issue. Volatility creates economic problems. Natural calamities can interrupt supply. Geopolitical instability can limit investment and result in unplanned outages. Terrorism seems to be a new threat to infrastructure. All of these problems must be thought of in the context of my answer to the first question above.

APERC—The COP 21 Paris Agreement brings all nations together in exerting efforts to create sustainable future, how do you think the Accord impacts future oil and gas supply?

Mr Sieminski—The Paris climate accord is an agreement within the United Nations Framework Convention on Climate Change (UNFCCC) dealing with greenhouse gas emissions mitigation, adaptation, and finance. Most countries around the world made non-binding pledges to change behavior via "nationally determined contributions" intended to reduce global warming. The pledges span a wide variety of actions, including reduction in use of fossil fuels, support for non-fossil energy, efficiency improvements, changes in agricultural and forestry practices, and others. In my view, traditional fuels like oil and natural gas are likely to continue to grow as economies expand and many countries continue to experience population growth. Inexpensive fossil fuels have been and will continue to be a source of economic progress. But finding ways to reduce and avoid (if possible within the context of my answer to question 3) the use of fossil fuels- and diversify to renewable and non-fossil alternatives will be important. Many economists believe the most useful policy tool for achieving these results would be a carbon tax or fee.

Mr Adam Sieminski

Mr. Sieminski has previously acted as a non-resident senior adviser to the Energy and National Security Program at CSIS. He also served as an advisory board member of the Global Energy and Environment Initiative at Johns Hopkins University's School of Advanced International Studies, was chairman of the Supply-Demand Committee of the Independent Petroleum Association of America, and a member of the Strategic Energy Task Force of the Council on Foreign Relations. He belongs to the CFA Society Washington, DC, and holds the chartered financial analyst (CFA) designation. Mr. Sieminski received both an undergraduate degree in civil engineering and a master's degree in public administration from Cornell University.



Middle East Update ●

The Islamic State's Threats in South East Asia

by Shuji Hosaka

The Islamic State (IS), a radical Jihadist organisation, is supposed to be on the verge of collapsing as it has lost almost a quarter of its territory in Iraq and Syria. Mosul, its capital in Iraq, is now surrounded by the Iraqi Governmental forces backed by US-led coalition. The Syrian regime's military forces have been approaching IS headquarters in Raqqa, Syria, with the help of Russian air campaigns. Despite its weakening in the Middle East, IS is still brisk in urging its affiliates and supporters elsewhere in the world to launch attacks in their homelands.

Responding the call from IS, a lot of so-called "lone wolf" and "home-grown" types of terrorists have launched attacks against their favoured targets in the West, including European major cities like Paris and London. On the other hand, militant groups in South East Asia pledging allegiance to a self-claimed Caliph have also attacked many targets in regional countries and clashed against governmental forces especially in Indonesia and the Philippines. Three policemen were killed in suicide bombing in Jakarta in May and IS claimed responsibilities in the attack. In the Philippines, Jihadist groups have attacked not only in the Muslim dominant Mindanao but also in Manila. Recent clashes in Marawi between the Philippines armed forces and Jihadist groups killed dozens of civilians and resulted in declaration of curfew and Martial Law in Mindanao by President Duterte. The Philippines Jihadist organisations include Maute Group, former Moro Islamic Liberation Front, and Abu Sayyaf Group led by Isnilon Hapilon, who was appointed as Commander (Amir) of all Islamic States in the Philippines (IS Philippines) by IS leadership in April 2016 after pledging allegiance to IS leader, al-Baghdadi. "IS Philippines" has not been promoted to the status of IS province (wilaya) yet but recently changed its name to "IS East Asia" which is supposed to cover wider geographical area.

In spite of the threats on peace and stability in some regions, the supply of oil and natural gas from the Middle East to South East Asia is not threatened so far and won't be adversely affected in the near future. However, closer observation is still necessary for analysing oil or gas security in South East Asia, as there are many destabilising factors which continue to affect Middle Eastern political arena like the diplomatic crisis between Qatar and other Gulf states.

Flash Report ●

3rd APEC Oil and Gas Security Network Forum in Russia

by Yuko Tanaka

The Asia Pacific Energy Research Centre (APEREC) hosted the 3rd APEC Oil and Gas Security Forum on 29-30 June 2017 in Irkutsk City, Russia in cooperation with the Ministry of Energy of the Russian Federation and Melentiev Energy Systems Institute Siberian Branch of the Russian Academy of Sciences. Participants were the delegates from 14 APEC member economies and five experts from the International Energy Agency (IEA), ASEAN Centre for Energy (ACE), ASEAN Council on Petroleum (ASCOPE), Heads of ASEAN Power Utilities/Authorities (HAPUA), and Economic Research Institute for ASEAN and East Asia (ERIA) (picture on the next page).

After the opening session, the results of the Oil and Gas Security Exercise (OGSE) held in Australia in March 2017 and four Oil and Gas Security Studies on: 1) Energy Security Indexation; 2) Impact of Low Oil Price on Energy Security; 3) Natural Gas Security in APEC; and 4) Superiority of LPG: A Disaster-Resistant Energy Source were reported and discussed. Each APEC economy representatives delivered a presentation on its oil and gas supply and demand situation, security policy, bilateral/regional agreements and security policy gaps.

Details of the discussions during the 3rd OGSN Forum will be reported in the next issue of the OGS Newsletter.

Photo and Photo story



3rd APEC OGSN Forum

The participants and experts in the 3rd OGSN Forum held in Irkutsk, Russia from 29-30 June 2017. Full discussion will be reported in the next issue of the Newsletter.

(Photo courtesy of APERC OGS Secretariat)

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Asia Pacific Energy Research Centre

The Asia Pacific Energy Research Centre (APERC) was established in July 1996 in Tokyo following the directive of APEC Economic Leaders in the Osaka Action Agenda. The primary objective of APERC is to conduct researches to foster understanding among APEC members of regional energy outlook, market developments and policy.

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