

A Joint Study Between Japan & India for
Developing an Asian Crude Oil &
Petroleum Products Market &
Measures To Stabilize the Asian Oil Market



A Joint Study by
Institute of Energy Economics, Japan (IEEJ) &
Petroleum Planning and Analysis Cell (PPAC)

India-Japan Energy Forum

December 2006

Presentation topics



- Background of the study
- Significance of the study
- Framework of the study
- Content of the study
- Schedule of the study
- Summary of the report

Background of the joint study



- During the First Round Table of Asian Oil Ministers in Delhi (January 2005), the ministers agreed the need to study the Asian oil market
- The Summit Meeting between Japan & India (April 2005) also addressed the need to study the Asian oil market
- An agreement reached between METI (Japan) & MPNG (India) on energy cooperation (September 2005), and a joint statement was signed by METI and MPNG Ministers to address a joint study between the two countries on the Asian oil market
 - METI: Ministry of Economy, Trade and Industry (Japan)
 - MPNG: Ministry of Petroleum and Natural Gas (India)

Significance of the joint study



- A study on Asian market, an increasingly important region for the global economy
- Asian situation, in dynamic development/changes, needs in-depth study and analysis
- Market stability is a very important common challenges for Asia

Framework of the joint study



- Action plans for energy cooperation agreed between Japan & India (including a joint study on the Asian oil market)
- It was agreed that the study to be conducted jointly by
 - IEEJ (Japan)
 - PPAC (India)
 - IEEJ: Institute of Energy Economics, Japan
 - PPAC: Petroleum Planning & Analysis Cell, under MPNG
- MOU for the joint study signed by IEEJ and PPAC
- The study/report would be an IEEJ/PPAC study/report, and not a Government report

Contents of the joint study



1. Trend and outlook for oil supply and demand of the Asian oil market (undertaken by both IEEJ and PPAC)
2. Current status and future outlook of crude oil production in Asian and other major oil producing countries (Middle East, Russia, etc.) and challenges for production expansion (undertaken by PPAC)
3. Current status and challenges of the downstream (refining) sector in the Asian oil market (undertaken by IEEJ)
4. Current status and challenges of the oil pricing mechanism in the Asian market (undertaken by IEEJ and PPAC)
5. Current status and challenges towards promoting investment and freer trade in the Asian oil market (undertaken by PPAC)
6. Current status and challenges of Asian countries' efforts and regional cooperation for stabilizing the oil market (undertaken by IEEJ)
7. Important issues to be addressed for stabilizing the Asian oil market (undertaken by both IEEJ and PPAC)

Progress of the joint study



- 1st workshop was held in Tokyo on March 13, 2006
- 2nd workshop was held in Delhi on April 5, 2006
- 1st draft was submitted on April 17, 2006
 - Japan & India may consider sharing the draft report with Ministers of countries that had participated in the First Round Table of Asian Oil Ministers. The two countries may also consider sharing the draft report with Ministers participating the IEF Ministerial.
- Final report to be submitted by the end of October 2006

Summary of the report (1)

■ Challenges for oil supply-demand outlook

- Oil demand in Asia will continue to increase, while regional oil production expected to decline
- Oil demand growth lead by growth in China and India (by country) and by motorization (growth in transportation sector)
- As a result, oil supply/demand gap will widen in Asia, and net oil imports in Asia will reach 37 million B/D in 2030
- Net oil product import is expected to increase slightly from 2.35 million B/D in 2003 to 2.54 million B/D in 2015

■ Challenges for upstream sector

- Russia & CIS will gain importance as suppliers to Asia
- But pre-eminence of the Middle East (Saudi Arabia in particular) to Asia will continue
- Challenges for upstream investment exist. They include: competing fund requirement, difficulty of discovering giant oil fields; decline in aging fields; technological challenges to develop difficult (e.g., ultra deep water) fields
- Investment policy should be relaxed to encourage investment
- Criss-Cross investment between oil importing and exporting countries can play very important role to stabilize oil market

Summary of the report (2)

■ Challenges for downstream market

■ Structural changes expected in Asian downstream market. They are: growing demand, shift towards lighter product demand mix, stringent product quality, changes in crude slate

- Needs to expand refining capacity, not only for CDU but also for upgrading units.
- Uncertainty exists for future oil product supply-demand balances in Asia
- Market liberalization expected to develop in Asia, which will affect oil industry and downstream market in Asia
- Development in China and India will play a crucial role to determine Asian downstream market

■ Challenges for oil pricing mechanism

- Importance of strengthening market function in Asia by improving the efficiency and transparency of the Asian oil market
- Measures for improving market function: supply diversification; utilization of more credible benchmark crude oil; fostering active/highly liquid oil product market; flexible procurement method; new market-based method to determine the adjustment factor: etc.
- Regional cooperation of oil consuming/importing countries within Asia, as well as dialogues with oil producing countries will be essential

Summary of the report (3)

■ Challenges for investment & free trade

- Huge investment requirement expected in Asian oil sector
- Reforms (both in upstream and downstream) will be required to attract investment
- Freer trade will play an important role to improve market efficiency and transparency
- Required countermeasures include: opening up of oil sector for foreign investment; stable fiscal/tax and legal regime; remove trade barriers such as subsidies, tariff protection, destination restrictions, etc.

■ Challenges for energy policy and regional cooperation

- Pressed by the growing energy import dependence, Asian countries are now embarking on strategy development to enhance energy supply security
- In principle, pursuit of energy security by each country can contribute to enhance regional and global energy security
- Regional cooperation in Asia is essential to supplement the policy taken by individual countries
- Asia countries need “Energy Supply Security”, and producing countries need “Energy Demand Security”
- To achieve sustainable development, it is essential for the two region to have a better understanding of the interdependency and pursue the common interests