

Asian Premium and the Role of Oil Stockpiling

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Contents

1. Various Explanations for Asian Premium
2. Implications for Oil Security
3. Stockpiling as a Useful Measure
4. Conclusion



1. Various Explanations for Asian Premium

Globalization and World Oil Market

In the early 1990s, a new trend of globalization in the world economy was expected to lead the international crude oil market to be more homogeneous



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Asian Premium as an Abnormality

- Asian Premium has existed for the last decade**
- AP seems to be accepted as a normality among oil producers and some refiners**
- However, AP becomes an important policy issues among the Asian government**

Efforts to Improve Asian Premium

- Talks between Asian crude oil buyers and Middle East sellers in 2001**
- Discussion by Asian delegates in International Energy Forum in 2002, Osaka**
- Diplomatic effort by the Korean government in 2002**
- Prolific research outcomes by KEEI & EEIJ**

Various Explanations

Overdependence of Asian economies on Middle East crude oil

Importers Suppliers	Korea	Japan	China	U.S.	W. Europe
America	2.6	2.8	0.3	50.0	2.7
FSU & E. Europe	1.1	0.0	3.1	0.1	19.6
W. Europe	0.6	0.1	3.7	6.7	28.8
Middle East	77.1	86.3	53.6	25.1	28.1
Africa	7.4	1.0	24.3	16.6	20.5
Asia Pacific	11.3	11.0	14.9	2.0	0.1%

(2) Marketing Strategy of Middle East Producers

- Restriction on final destination of crude oil prevented Middle East crude oil from having market**
- preference for term contract sale and purchase to spot market**
- preferential sales in West Hemisphere to compete with other suppliers**

(3) Asian Premium as Security Premium

- Middle East producers supplies oil to those countries providing political security to their countries**
- Asian countries having insufficient contribution to oil supply security pay a premium on stable oil supplies from Middle East**

2. Implications for Oil Security

Expansion of oil security concept

Oil security had focused mainly on stable oil supply and nowadays, stable and fair price becomes as important as stable supply Efforts to correct unfair Asian Premium is part of the expanded oil security concept

Common Ground for cooperation

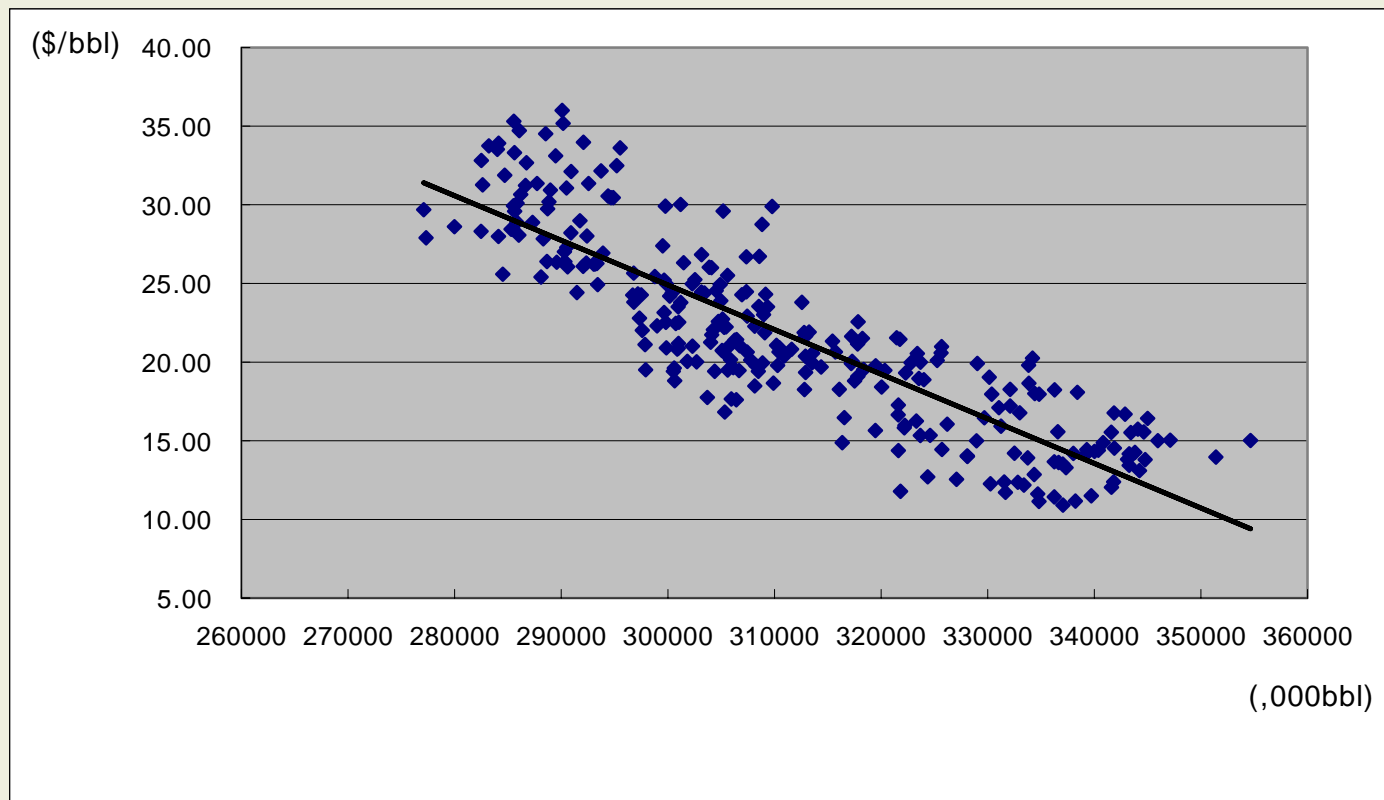
- **Northeast Asian economies have a similar position in the world oil market**
- **These economies are insufficient cooperation in oil security among oil companies, research institutions as well as governments**
- **Asian Premium is a starting point for them to begin substantial energy cooperation**

3. Stockpiling as a Useful Measure

Understanding of Oil Stock

- Stock as balancer between supply and demand**
- commercial vs. strategic stocks; commercial stock as a reflection of market force strategic stock as a reflection of government decision**

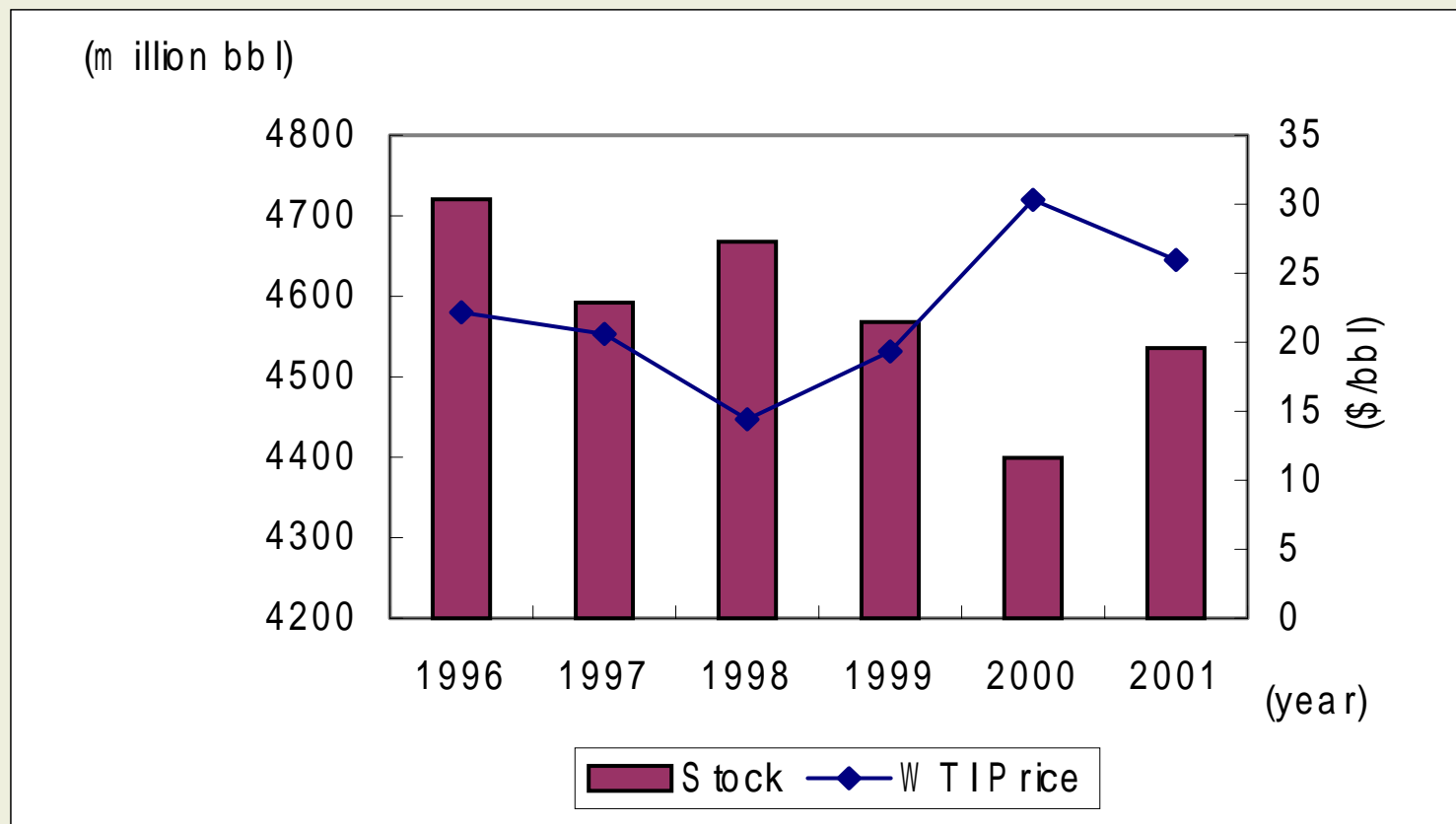
Close Relation between Price and Stock



Changing Perspective of Oil Stock

- heavy stock as financial burden for oil business
- Just-in-time stock as an optimal management of oil stock
- Decrease in world oil stock
- More influence of commercial stock on oil price than before

Annual Changes in World Oil Stock and WTI Price



Impact of Decrease in Oil Stock

- Increasing role of discretionary stock in deciding oil price**
- Increasing influence of excess oil production capacity on world oil price**
- Complementary role of strategic oil stock in stabilizing price in U.S.**

World Oil Stock (million barrels)

Commercial Stock					Strategi c	Total
OECD	Others	Seaborn e	Inde- pendent	Subtota l		
2,561 43.2%	1,108 18.7%	851 14.4%	62 1.0%	4,583 77.3%	1,348 22.7%	5,930 100%

Oil Stocks in East Asia

- **Low levels of commercial oil stock in East Asia, comparing other consuming regions**

	U.S.	East Asia
Consumption in the world	26%	17%
Oil Stock in the world	22%	7.3%

- Less interest of oil producing countries in stockpiling in East Asia**

Middle East producers stockpiles huge amount of oil in competitive oil consuming regions such as Europe and U.S.

In Asia, where Middle East producers have no competitor, the producers has no reason to keep oil stockpile

- Insufficient facility for oil stockpiling

East Asian economies do not have sufficient storage for commercial oil stockpiling

Commercial Stockpiling Facility (million bbl)

Singapore	Caribbean	Korea
20.5	68.8	5.7

The Low Oil Stock and Asian Premium

- **The low oil stockpile in East Asia help Middle East suppliers' discretion on price**
- **Insufficient facility in the region discourages other producers to keep oil stocks in East Asia**
- **Underdevelopment of stock infrastructure oppresses emergency of active oil market, which helps to alleviate Asian Premium**

A New Approach to Oil Stock

- A new perspective of oil stock as a public good
- To help producers build oil stocks in Northeast Asia, each economies support building of more facilities are required
- Joint stockpile between producers and consumers are a practical way to increase oil stock

4. Conclusion

- Close relation between oil price and stock**
- Low oil stock in the region contributes Middle Eastern producers to have more influence on price**
- Oil stock is recently conceived as a public good**

