



# **Our challenges for the new era of high crude oil price**

**2005 Northeast Asia Petroleum Forum**

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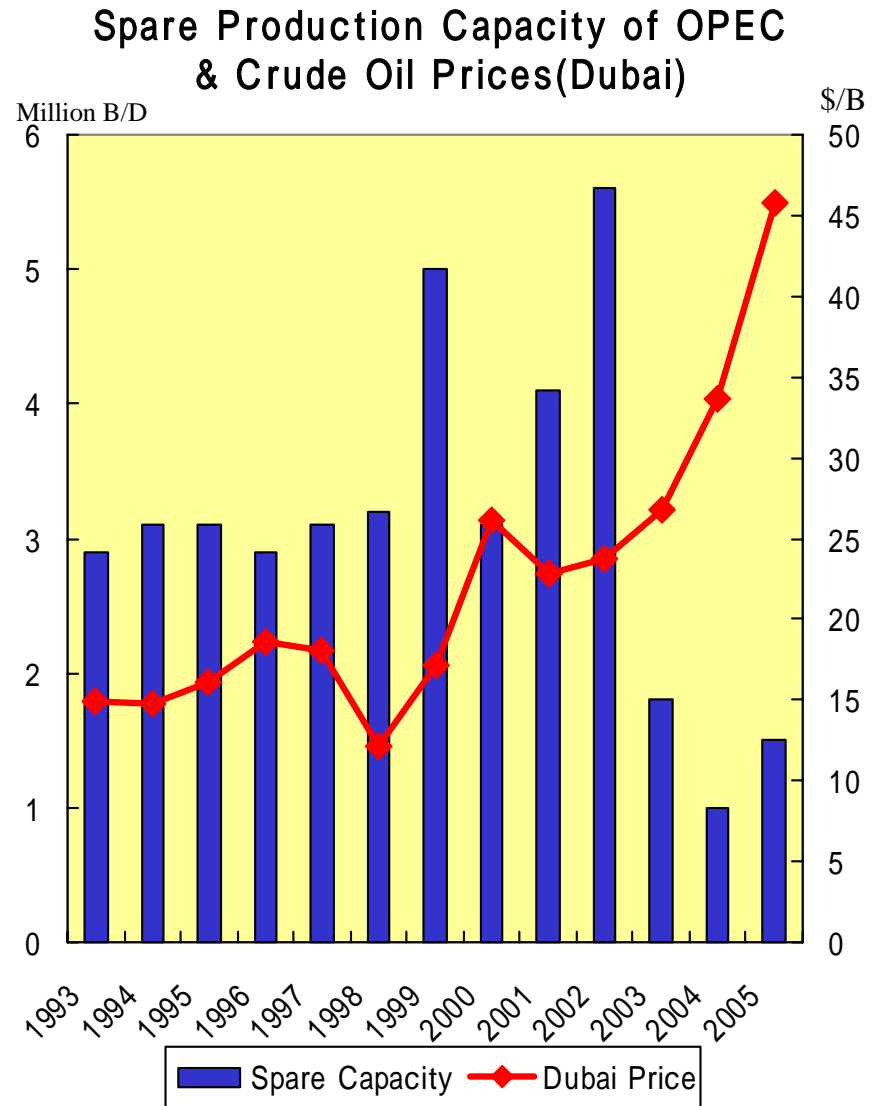
General Manager

Crude Oil & Products Acquisition Dept.

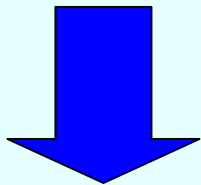
Japan Energy Corporation

# Backgrounds of the Steep Rise in Crude Oil Prices

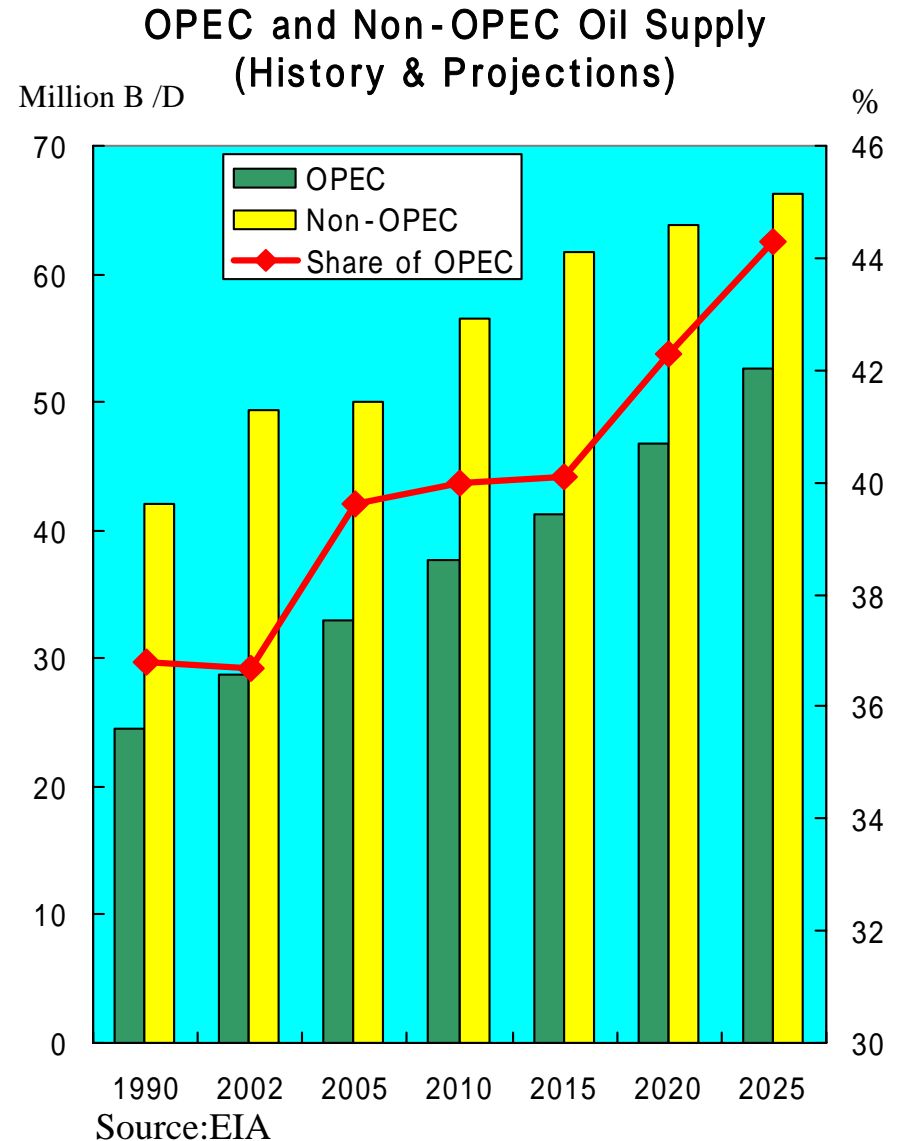
- Robust demand growth
- Lack of spare production capacity
- Tightness of global refining capacity
- Geopolitical risks
- Flow of new speculative funds into the commodity market



- Market dominance by OPEC
- Arc of instability in Eurasia
- Crude oil becomes a financial instrument
- Need for investment in quality upgrading



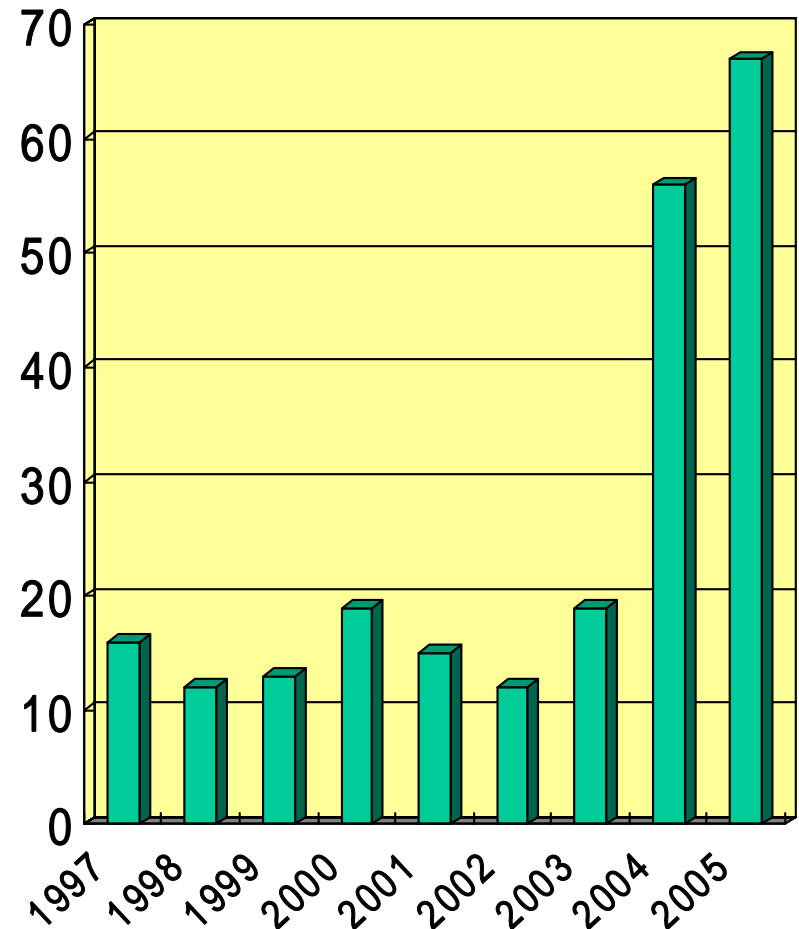
**Crude oil prices expected to stay strong and volatile**



# Implications of High Crude Oil Prices

- Wide light-heavy crude oil differential
- Increase of products trade volume in the Asian region
- Changes of demand structure
- High dependence on the Middle East
- Oil producing countries' interests in downstream

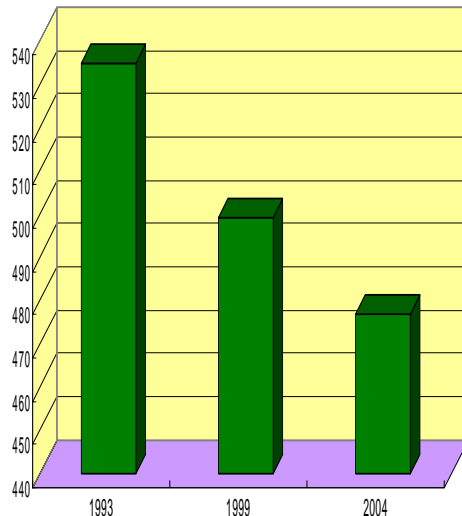
API differential among our selected 16 crude oil (¢ / API)



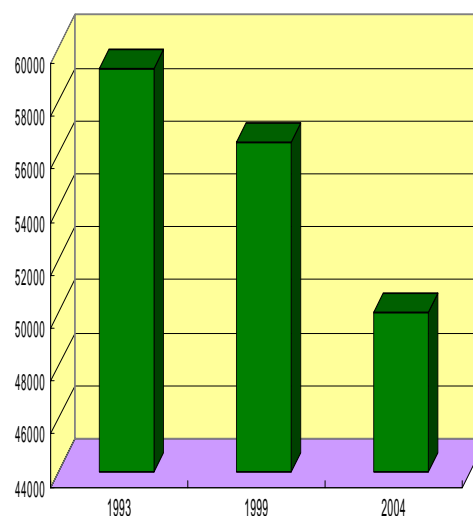
# Restructuring of the Japanese Oil Industry

- Oil policies promote “efficient supply” based on market mechanism
- Increase of products imports and sluggish domestic market
- Rationalization of refining capacity in response to demand decrease
- Utilization of reformat gasoline for petrochemical business
- Utilization of residue fuel for IPP

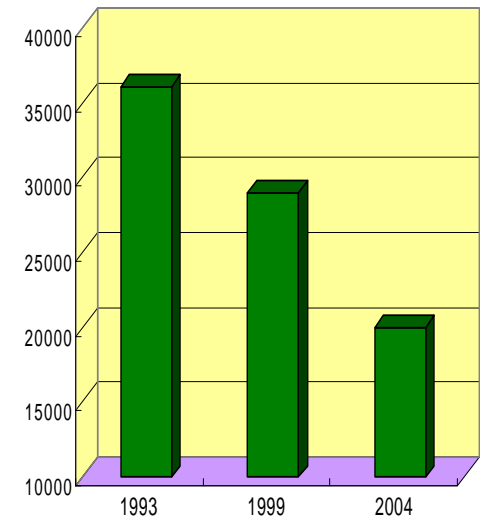
Crude Oil Distillation Capacity(10,000B/D)



Number of Service Stations

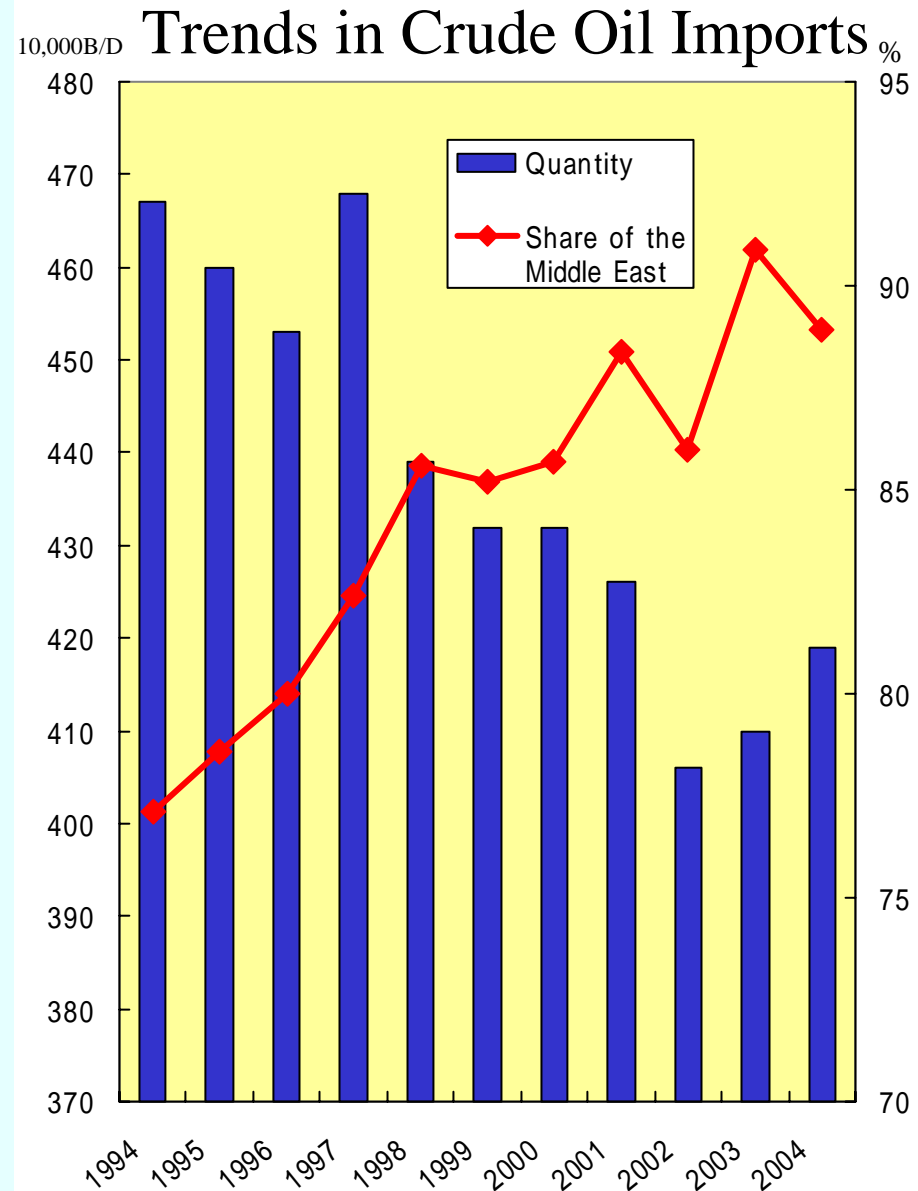


Employees of Oil Industry



# Changes in Crude Oil Acquisition Section

- Procurement of lighter crude oil
- Reduction of number of loading ports to cut costs
- Low inventory policy to streamline financial conditions
- Use of oil derivatives for hedge operations



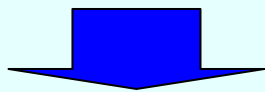
# Implications of Wide Light-Heavy Differential

- Need for investment in secondary units to cope with demand structure changes and products export

How long will current light-heavy differential continue?

How long will China continue to import products?

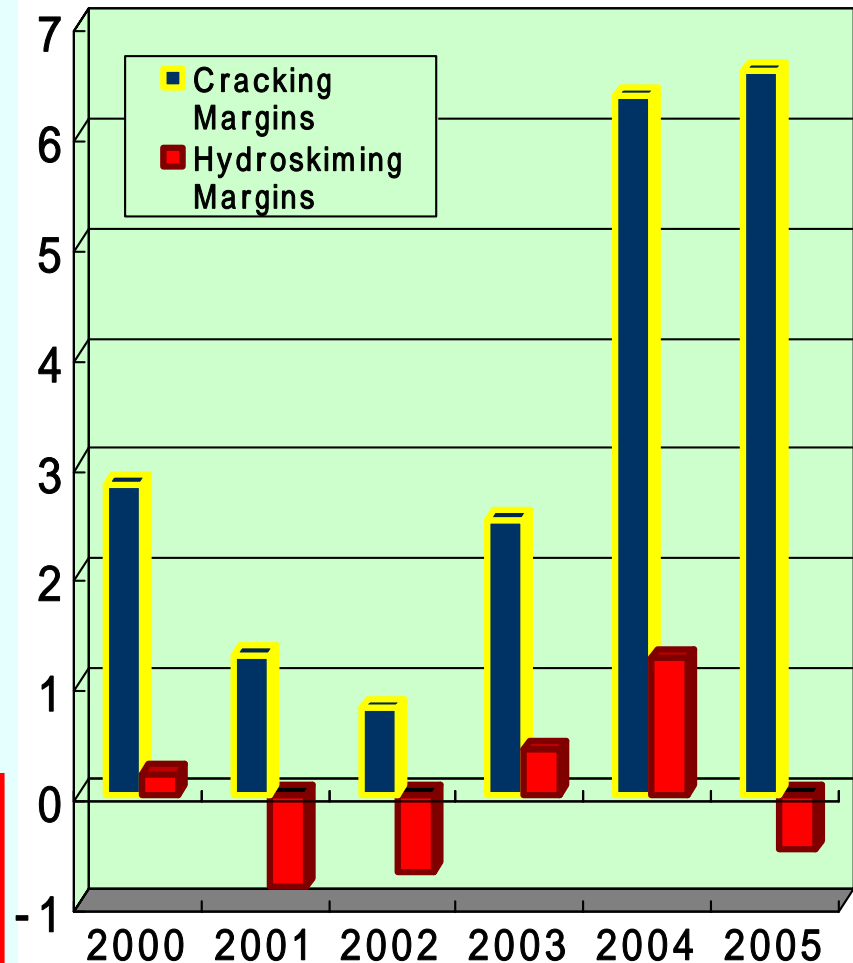
Sluggish domestic prices due to over- capacity of supply



Wide light-heavy differential causes competitiveness gaps among oil refineries

## Singapore Refining Margins

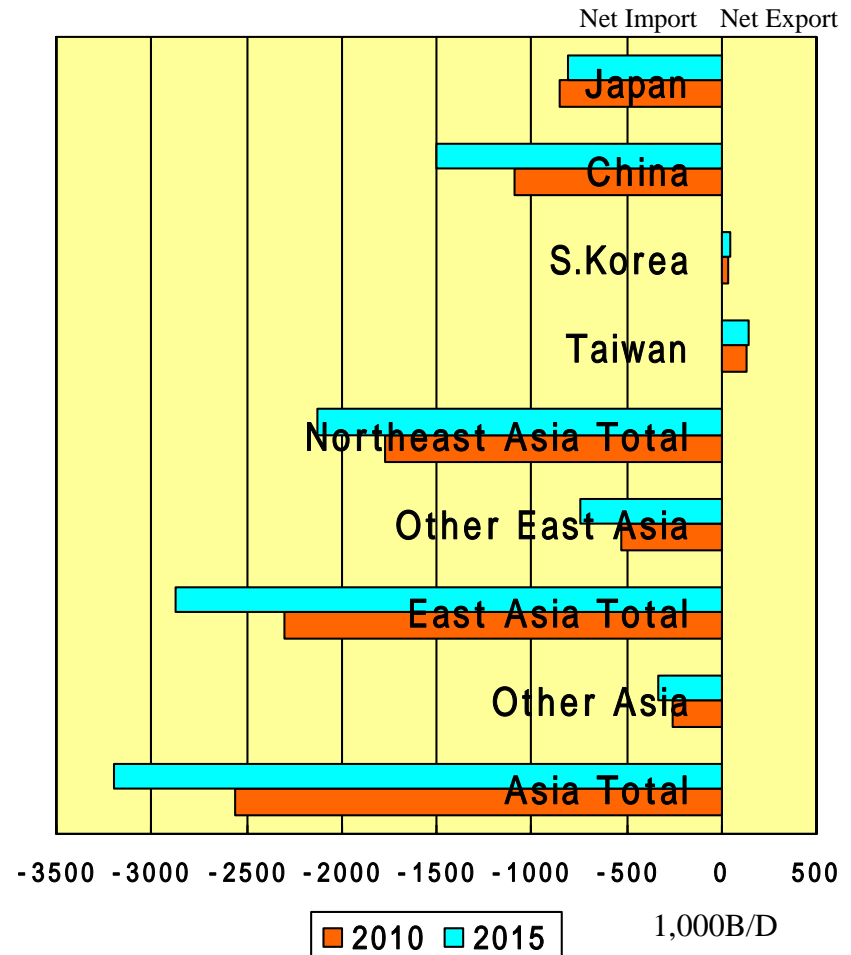
\$/BBL



Sources: PLATT'S & Other Sources

- Need for transparency and information sharing in the Asian products market
- Matured products market could affect pricing scheme of Middle Eastern crude oil
- Internationalization of Japanese domestic pricing system may be required

Trade Balance of Petroleum Products in Asia  
(Projected by IEEJ)

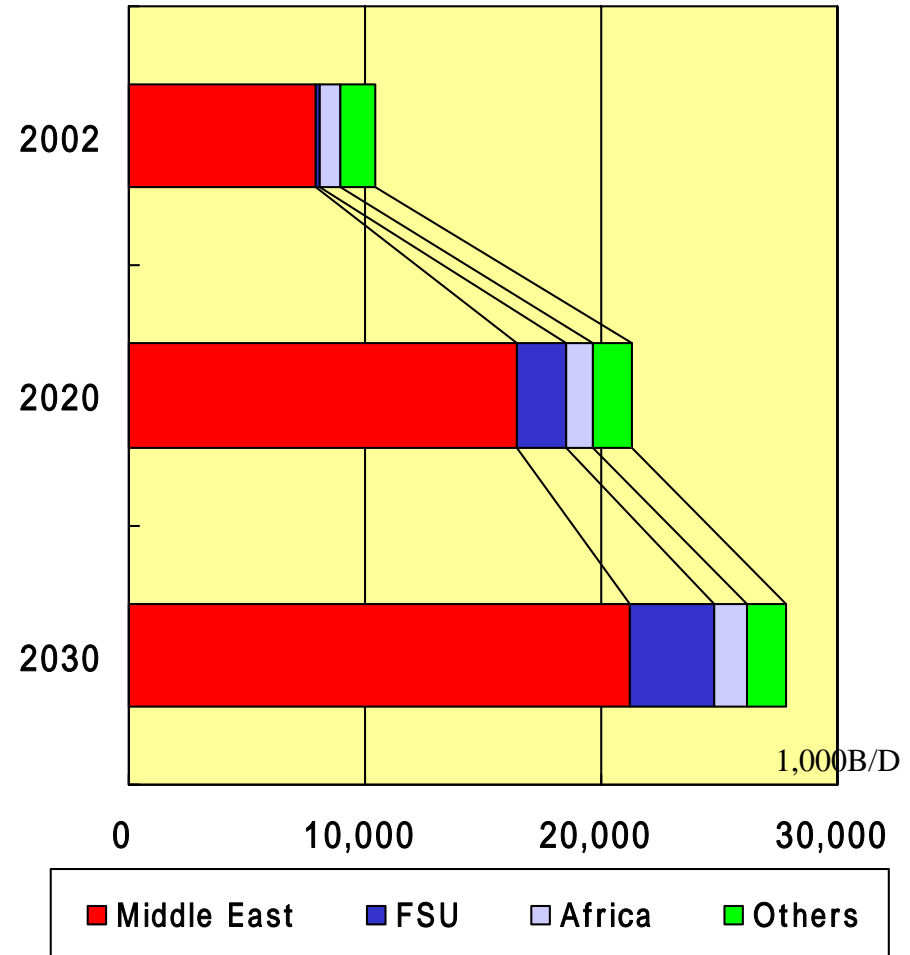




# To Cope with High Dependence on the Middle East

- Enhancing multilateral relationships with Middle East oil producing countries
- Crude oil source diversification
- Other measures for supply security
  - Pipeline project
  - Securing sea lanes
  - Oil stockpiling, etc.

Crude Oil Imports by Source in East Asia (History & Projections)



Source:IEEJ