Pursuit of Power

Photo: Tokyo Gas Co.

A relaxation of rules on energy imports is likely to lead energy industry companies into cutthroat competition in prices and services.

Supply and demand trends

Supply and demand trends for energy are changing greatly under the impact of industrial and social changes and Japan's business recovery.

In fiscal 1986, despite a sharp drop in the price of crude oil and other energy prices, Japan's primary energy supply fell short of previous-year levels for the first time in four years. The recession triggered by the strong yen and a cool summer and mild winter helped account for the drop.

Early into fiscal 1987 the situation was reversed, and primary energy supply began to increase sharply. The growth is primarily attributable to the government's economic package to stimulate and expand domestic demand, which upset original forecasts of a prolonged recession. The package helped invigorate the construction, housing and service industries. An upturn in production in manufacturing industry, while yet to take hold across the board, has also played its part.

Demand for energy for industrial consumption is expected to increase as the business recovery accelerates, while household demand is projected to rise steadily. Barring unusual weather conditions, such incremental increases in demand are expected to continue for the time being.

Broken down by source, demand for petroleum, an aggregate of all fuel oils, is expected to increase 2.2% year-on-year in fiscal 1987, as against 1.7% in fiscal 1986. In fiscal 1988 it will likely slow to 1.2%.

Demand for electric power, which dipped 0.4% in fiscal 1986 from the year before, is projected to increase 4.2% in fiscal 1987 and 2.3% in fiscal 1988. Demand for city gas will increase 5.5% in fiscal 1987 and 5.8% in fiscal 1988 following a year-to-year increase of 4.0% in fiscal 1986. The ongoing shift to electric power and city gas is expected to continue in the future, albeit only slowly.

The Advisory Committee for Energy of the Ministry of International Trade and Industry revised the Long-Range Outlook for Energy Supply and Demand in Japan in October 1987 for the first time in four years (table).

Long-Range Outlook for Energy Supply and Demand (as of October 14, 1987)

	FY 1986		FY 1995 (forecast)		FY 2000 (forecast)	
Demand for energy (million kl)	433		490		540	
Energy sources						
Coal (million tons)	103.9	(18.3)	121.0	(18.3)	136.0	(18.7)
Nuclear power (million kw)	25.8	(9.5)	41.5	(13.4)	53.5	(15.9)
Natural gas (million kl)	42.8	(9.9)	55.0	(11.1)	58.0	(10.8)
[domestically produced natural gas (billion m^3)]	[2.1]		[3.6]		[4.2]	
[LNG (million tons)]	[28.8]		[36.0]		[38.0]	
Hydropower (million kw)						
General hydropower	20.2	(4.2)	23.0	(4.5)	24.5	(4.4)
Pumping	15.6		19.5		21.0	
Geothermal (million kl)	0.4	(0.1)	2.0	(0.4)	4.4	(0.8)
Synthetic energy, etc. (million kl)	5.5	(1.3)	12.5	(2.5)	24.5	(4.5)
Petroleum (million kl)	246	(56.8)	245	(49.7)	242	(45.0)
[domestically produced (million kl)]	[0.7]		[1.3]		[1.6]	
[LPG (million tons)]	[16.2]		[18.0]		[19.0]	
Total (million kl)	433	(100.0)	490	(100.0)	540	(100.0)

Notes: 1. Other types of energy are converted into oil equivalent at the rate of 9,250 kcal/liter.
2. Included in synthetic energy, etc. are solar energy, oil sand, shale oil, alcohol fuel, liquefied coal, black liquor (liquid waste from pulp), firewood, etc.
3. Figures in parentheses show percentage share of the total. They do not necessarily total 100 because fractions of 0.5 and over are counted as one unit and those under that amount are disregarded.

Source: Advisory Committee for Energy, MITI

The revised outlook predicts that household demand for energy will surpass that of the industrial sector in fiscal 1995. At the same time, demand for more sophisticated, higher-quality energy supplies will strengthen as consumers seek greater amenities and conveniences in the home. The revised outlook also forecasts that the share of petroleum in Japan's total supply of energy will gradually shrink, dropping below 50% in fiscal 1995 and continuing to contract by one percentage point annually thereafter.

Nuclear energy and coal are expected to continue to increase their shares among alternate energy sources.

Corporate earnings and expenditures

The earnings of energy-related companies are expected to fall in both fiscal 1987 and 1988.

In the 1986 business term energy companies posted all-time record recurring profits despite the slowing demand for energy, thanks to a sharp drop in raw material prices. A sharp decrease in earnings resulting from an electricity rate cut in 1987, however, will cut deeply into the earnings of electric power companies, which alone account for as much as 70% of the corporate earnings of the entire energy industry. Electric company earnings will be down 30% in fiscal 1987 and another 14% in fiscal 1988.

Longer-term energy forecasts see demand, brisk at the present, becoming sluggish over the long run. Competition among different energy sources will also intensify as a result of deregulation and the liberalization of energy imports. In order to survive, energy industry companies will likely resort to cutthroat price and service competition reaching beyond their existing business boundaries. They will have to step up management efforts on both the supply and demand sides, encouraging new energy demand and trimming supply costs.

(Yoshimi Yasuda, economist)