Changing Picture

Just as Japan's economic structure has changed and become domestic demand-oriented because of two major developments—the continuing appreciation of the yen and low prices for crude oil imports—changes have become apparent in the nation's energy picture.

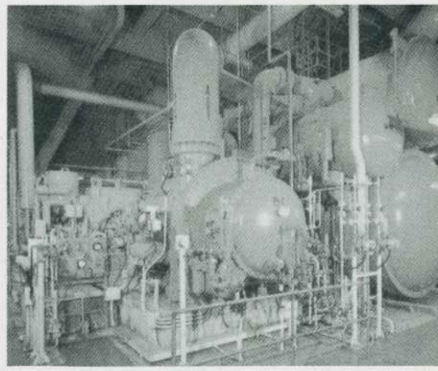
The demand for energy rose substantially because increasing domestic demand for various products and services prompted the general economy to grow rapidly in 1988. Thanks to both the government's policy for boosting domestic demand and industry's high-level capital investments, demand from industry recovered rapidly. The residential and commercial sector increased energy consumption partly because of city development. In addition, the transport sector consumed more energy because product distribution became active while the parcel business was booming.

The situation in 1988 consequently showed a drastic change from the years after the second oil crisis, when energy demand was sluggish. At present, demand for energy is growing at a faster pace than the GNP.

The general economy is expected to remain at a high level in 1989, too. This should cause energy demand to remain high. The demand for oil will rise by 3.2% in fiscal 1989, after an estimated 5.6% growth in fiscal 1988. The demand for electric power is likely to increase by 4.0% in fiscal 1989, following a 4.4% growth in fiscal 1988.

As for energy supply, Japan's dependence on oil as a percentage of total primary energy requirements has been declining in the 1980s, falling to 57% in fiscal 1987. But the price of crude oil has remained low while the business generally has been brisk, causing demand for oil to increase sharply. The nation's dependence on oil probably did not decrease in fiscal 1988 from 1987. In the long term, though, the share of oil in total primary energy supply is expected to go down because users will shift to both electric power and gas.

Photo: Tokyo Gas Co.



Electricity and gas utilities will probably increase revenues in the year ahead, though greater competition can be expected.

Given this situation, the energy industry, except for petroleum refining, is giving a favorable business performance. But the electric and city gas utilities' fiscal 1988 performances are likely only to match year-before levels. This is because although these companies benefited from lower crude oil prices and the yen's continuing appreciation as well as firm demand, they lowered their rates.

In fiscal 1989, the utilities are expected to increase both revenues and income because of continuing growth in demand. They will also be free from developments that raise costs. But the performance of oil refiners is predicted to decline in fiscal 1989 due to intensifying competition, at least for a while. Fierce price competition can be expected to result from the government's decision in June 1987 to ease oil industry regulations that began to have a major impact in the latter half of fiscal 1988.

Energy sales competition will deserve attention because it is liable to become a significant problem. The traditional energy suppliers will probably face competition from companies that begin cogeneration enterprises. This is generation and supply of both electricity and heat (steam) suitable for mainly hotels and large buildings. Also, interest in air-conditioning systems for whole districts is surging. Buildings in a given district will increasingly enjoy both air conditioning and a supply of hot water as a part of urban development projects.

There already exists substantial demand for energy from the residential and commercial sector because of city development and construction of larger buildings than before. Existing electric and gas utilities are beginning to make serious efforts to win the office energy competition by offering cogeneration and air-conditioning services.

Until recently, energy companies were content with sharing the total market as if barriers existed between the different sectors. The barriers still exist but they are becoming lower to allow competition. Winning the competition will require improvement of services for clients as well as development of "new products."

(Hiroto Koda, economist)

Energy Demand

	FY 1984	FY 1985	FY 1986	FY 1987
Total demand	289 (2.7)	293 (1.2)	294 (0.4)	308 (4.8)
Industries	158 (5.0)	158 (−0.4)	156 (−1.2)	163 (4.9)
Residential/commercial	69 (−0.3)	71 (3.8)	72 (1.1)	76 (5.2)
Transportation	62 (0.5)	64 (2.4)	66 (3.5)	69 (4.1)

Notes: 1. Units are crude oil equivalent, million kiloliters.
2. Figures in parentheses represent growth rate over the previous year.
Source: Ministry of International Trade and Industry