

INDUSTRIAL  
SURVEY  
Energy

## Electrifying Changes

The environment surrounding Japan's energy industries has changed drastically under the impact of the rapid appreciation of the yen against the U.S. dollar since September 1985 and nosediving prices for crude oil following the December 1985 OPEC general meeting. The yen has gained more than 30% against the dollar since the first half of 1985. The import price of crude oil in dollar terms, meanwhile, has declined from \$28/barrel in the first half of fiscal 1985 to \$12.5/barrel a year later—a drop of more than 50%. In yen terms, crude oil prices nosedived 70%.

The Japanese energy industry, dependent as it is on imports for most of its energy resources, has benefited from the two changes. However, energy companies realize they must also be prepared for the risk of substantial price fluctuation in the future.

The strong yen is a plus for the energy industry, but it has a negative impact on energy demand. That is, the strong yen has weakened the economy as a whole, making demand sluggish for power and oil in the manufacturing sector. Production in the processing and assembling industry has stagnated because of declining export profitability. The pace of production in the materials industry—especially energy-intensive industries such as steel, artificial fibers and cement, among others—slowed as the strong yen cut ex-

ports by its clients. As a result, power supplies to major companies began to drop year-on-year in March 1986. Demand for C fuel oil, the major product oil consumed by industrial companies, has been declining even longer than that for electric power.

Total demand for energy will remain steady, however, as residential, commercial and transportation consumption continues firm, making up for the decrease in industrial power consumption.

Electric utility companies decided to temporarily cut rates about 8% between June 1986 and March 1987 to share the benefits of the strong yen and cheap crude oil with consumers. After the rate cut was implemented, the yen continued to rise, while crude oil prices fell even further. Businesses are now clamoring for utility companies to cut rates once again. Even then, Japan's nine regional utility companies' combined profits for fiscal 1986 would still top ¥1 trillion (about \$6 billion) for the second year in a row.

By comparison, oil refiners and distributors are believed to have suffered losses. Although refiners did enjoy exchange gains due to the strong yen, product oil prices fell faster than did refining costs in the first half of fiscal 1986. During fiscal 1987, the energy industry is likely to see a recovery in demand, but continuing declines in profits.

The growth of the economy and the



OPEC is expected to set the import price of crude oil at around \$18 per barrel.

spreading effects of lower energy prices will boost demand, and especially industrial energy consumption. Energy use in homes and businesses is also likely to increase because of lower prices and the spread of electric appliances in the home, office automation and increasing demand from new air-conditioned office buildings. Demand for product oils is likely to turn upward in the first half of fiscal 1987, with that for electricity to follow in the second half.

Electric power companies' profits will remain high, although they will suffer a slight decline as low oil prices will no longer have a cost-cutting effect. Major refiner-distributors cannot afford to let down their guard. The market prices for refined products may fall further, making it difficult to predict overall petroleum industry performance.

The fundamental task for the energy industry in the years ahead will be to maintain stable energy supplies to users while improving their industrial structure to cope with a changing business environment.

It is essential for electric utilities to devise a new rate system that can promptly reflect fuel cost fluctuations. It is equally important to prepare the ground for their future nuclear fuel cycle projects.

Petroleum refiners will have to ready themselves for the internationalization and liberalization of Japan's oil business, while continuing their basic policy of consolidating operation through flexible oil imports and the scrapping of excess refining capacity.

(Hideaki Saito, senior economist)

## Energy Industry Demand and Profits

