

Must Respond to Deregulation

Domestic energy consumption trends

Amid cloudy consumer spending trends there were corrections to the strong yen and signs of an underlying corporate sector recovery in fiscal 1996, but growth in domestic energy consumption was expected to have slowed. Although overall production is on the upswing in the manufacturing industry, continued production growth slowed in the petrochemical and paper and pulp industries, and the energy consumption growth rate was expected to have fallen slightly below the fiscal 1995 rate in the industrial sector. The transport sector should see continuing strong growth, particularly in automotive fuel. However, growth in energy consumption lagged in fiscal 1996 due to the warm winter, in contrast to the substantial increase in heating demand during the severe cold of fiscal 1995. Final fiscal 1996 energy demand in the private sector was 1.8% over the previous year, with a slower growth rate than in fiscal 1995.

In fiscal 1997, the pace of the economy's recovery is expected to remain gradual and demand growth is not anticipated in the industrial sector. But demand in the private sector will bounce back to its normal level after the mild winter, and overall energy demand growth is expected to remain at the same level as in fiscal 1996.

Facing changing business environment

Japan's energy industry can look forward to steadily increased demand in future whatever the growth rate, however, thanks to deregulation designed to correct the price disparities between Japan and elsewhere, the business environment has been greatly transformed. As the industry tries to procure stable energy supplies as in the past it must now confront a new competitive environment by improving operational efficiency and restructuring.

First, in the petroleum industry gasoline, kerosene, and light oil imports were liberalized in principle from April

1996 following the abolition of provisional measures contained in the laws governing importation of refined petroleum products. Although the amount imported by new market entrants remains limited for now, gasoline market prices have fallen to the same level as imported products and the effects of deregulation have become clearly apparent. Major supermarket chains and other companies in different industry sectors are entering the petroleum market, and a steady drop in retail prices is observed in the markets they have entered, which symbolizes the effects of deregulation.

These changes in the profit environment are not temporary; deregulation is perceived to promote reform of the industry's structure. In response to these changes, petroleum companies have all assiduously implemented sweeping rationalization programs. Service station operators will also be called upon to implement thorough rationalization and establish independent management. While future selection is inevitable, the ability to create their own low-cost, powerful corporate service station networks should distinguish superior petroleum companies from inferior ones from now. It can truly be said that the petroleum industry will be called upon to devise unique corporate strategies that transcend previous business methods.

Next, the electric power industry saw the introduction of a pricing system that added new elements of competition from January 1996, and utility rates were lowered by 4.2% when the system was introduced. The repercussions are expected to produce an inevitable drop in profits for fiscal 1996 earnings. Pressure to correct the imbalance between domestic and overseas



Eased restrictions bring even supermarkets into the gas station industry. (Daiei's DM Gas Station, Tochigi-Ishibashi Branch)

prices is also expected to continue from 1997 on.

Moreover, the Electricity Utilities Industry Law was amended in 1995, permitting new entrants to become electric power suppliers. During fiscal 1996, the first year of liberalization, six electric power firms (Hokkaido, Tohoku, Tokyo, Chubu, Kansai and Kyushu) offered initial tenders and received approximately four times the number of bids needed, primarily from the materials and energy industries. Regular recruitment is expected to continue from here on, with expectations that it will lead to the development of a more efficient power supply system and amelioration of external and internal tariff disparities.

With the effects of this type of deregulation of the power generation industry and the introduction of elements of competition, the electric power industry will face an even more urgent need to take steps to further streamline operations. ■

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Domestic Trends in Final Energy Consumption

(Unit: Million kl of crude oil conversion)

FY	1990	1991	1992	1993	1994	1995
Final energy consumption	3.8 336	2.6 349	0.5 358	0.7 363	3.7 376	3.2 388
Industrial use	3.2 183	0.7 185	-2.0 181	0.4 182	3.5 188	2.2 192
Private sector use	4.6 85	4.9 89	4.0 93	1.1 94	3.2 97	5.0 102
Transport sector use	4.5 80	4.5 84	2.3 86	0.9 87	4.7 91	3.1 94

Note: Upper figures indicate percentage change from previous year.