

Japanese Oil Companies' Long-Term Strategies for the Paris Agreement: Comparison with the World Major Oil Companies

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Overview

With the Paris Agreement coming into effect, the decarbonization movement is gaining momentum worldwide, and all oil companies have begun to adopt strategies to shift their traditional core businesses into low-carbon businesses, renewable energy fields, hydrogen, and ammonia utilization. On the other hand, it is not easy to replace the huge amount of energy supplied by hydrocarbons with renewable energy sources, and it is expected that the supply of hydrocarbon energy will continue to be stable for 10, 20, or even 30 years. In 2040 and 2050, however, the share of low-carbon or zero-carbon energy supply is expected to increase substantially, not only in developed countries but also in developing countries. In light of the above situation, we will compare the medium- and long-term plans adopted by the world's major oil companies, such as ExxonMobil, Shell, and BP, with the medium- and long-term plans prepared by Japanese oil companies, such as ENEOS, Idemitsu, and INPEX, which are positioned as medium-sized companies in the world. By comparing the medium- and long-term plans of these companies with those of Japanese oil companies that are positioned as medium-sized companies in the world, it would be very meaningful to examine what kind of ideas the major and medium-sized companies have in mind to formulate their medium- and long-term strategies and which direction they are aiming to take. This is because if the business of each company is not seen to be sustainable, the supply of oil, gas, and other hydrocarbon resources will not be stable in the short to medium term, which could easily lead to global energy supply shortages, soaring and/or fluctuating energy prices, and dysfunction of the global energy resources market.

Methods

We will collect and analyze investment plans, medium- to long-term management plans, financial information, and other information published by Japanese and global oil companies, and examine their management resources, corporate philosophies, origins and characteristics, global expansion, and advantages they possess. In addition, we will analyze whether or not the future plans of each company have been prepared in a way that makes the most of their advantages. Based on the above analysis, we will evaluate the approach of oil companies in free economies. We will also examine whether oil companies will be able to meet their future supply responsibilities under the pressure to decarbonize oil (and gas) supply, and whether they will continue to be viable in the first place.

Results

The Russian military invasion of Ukraine on February 24, 2022, created a crisis situation that halted oil and gas supplies to European countries that rely on large amounts of fossil fuel imports from Russia. World gas, oil, and coal prices all rose. Western countries have imposed economic sanctions on Russia and have adopted policies to reduce or stop imports of gas and oil from Russia.

If supplies from Russia, which is responsible for as much as 10% of the world's oil and gas exports, are cut, an economic crisis due to energy supply shortages could occur in Europe.

The critical issue for Europe is whether it can avoid an energy supply crisis in the next one or two years.

Even with regard to the movement toward carbon neutrality by 2050, the policy of maintaining power plants that use existing fossil fuels in operation is based on the policy that the first priority is to secure energy supply for one or two years in the foreseeable future.

As a result of the above security crisis in Europe, countries around the world are reaffirming the importance of energy security and the need to work on economic security. Furthermore, the era of peace after World War II has ended, and we are moving in the direction of protecting our own countries. Globalism has come to a halt, and companies need to find ways to survive in a limited market.

A comparison of the medium- and long-term plans of oil companies shows that ENEOS, Idemitsu, and INPEX, which specialize almost exclusively in the downstream sector, and INPEX, which specializes in the upstream sector, have a limited degree of dynamism in their corporate strategies and business transformation, compared to the large scale companies such as ExxonMobil, Shell, and BP, which are major global players. It turns out that corporate size, market share and the scope and scale of that market, and the type of business segment in which the company is operating and has built a solid business are important factors for companies to transform their business operations. The bifurcation of Japan's oil companies into upstream and downstream companies can be seen as a handicap in terms of international expansion when looking to the future. In the import and export of petroleum products, whether or not a company has secured a presence in a target region will give it an advantage when seeking new opportunities. An analysis of the differences in medium- and long-term plans will be useful in determining the direction of future business development for oil companies, whether the supply of oil and gas will be reliable in the short to medium term, especially in the liberalized world, and whether there will be management challenges that could lead to exits from the energy business. It is also extremely important to consider whether the supply of gas and oil will be ensured in the short to medium term, especially in a liberalized world, and whether there will be challenges to corporate management that could lead to withdrawal from the energy business.

Conclusions

An analysis of the corporate information of the world's and Japan's major oil companies, including their medium- and long-term business plans and financial data, shows that they have reached a major turning point since their inception and are making every effort to change their core businesses in order to survive. The world's major oil companies shows that European oil companies are investing heavily in renewable energy, adopting a direction away from oil and gas companies towards becoming broader 'energy companies'. US oil companies, on the other hand, have invested less than 20% of their total investment in renewable energy.

The strategy of Japanese oil companies in these times will be to secure markets for chemicals and high-performance products, while focusing on entering the power sector for downstream-centered companies (ENEOS, Idemitsu). On the other hand, upstream-oriented companies (INPEX) have a growth strategy of increasing oil and gas production. Japanese oil companies are now at a major turning point where they need to restructure their strategies and are facing an ever more challenging situation to survive.

In order for a company to survive, maintain cash flow, and continue to play a role in society, it is imperative that it has strengths that set it apart from other companies or that give it an advantage over them. In the absence of such a strong point, Japanese companies, for example, will need a strategy to secure sales and profits by securing a niche market. In particular, the use of IT and digital transformation (DX) will be an important breakthrough. As funding for the oil and gas sector, not to mention coal, is dwindling and stock prices are likely to decline, we are facing a situation that requires extremely strict corporate management. Meanwhile, the world's huge demand for oil will continue, but consumption will begin to decline in developed countries, or has already begun to decline in Europe and Japan. However, if oil companies are unable to fulfil their role in oil supply and exit the market, an energy crisis could easily occur, with serious consequences for the global economy. It is essential to understand the operations of each oil company and to maintain the trading mechanism in the oil market in order to achieve a medium- to long-term transition.

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