Special Bulletin

A Japanese Perspective on the International Energy Landscape (432) June 12, 2019

Participation in 3rd Dundee Energy Forum

Ken Koyama, PhD
Chief Economist, Managing Director
The Institute of Energy Economics, Japan

On June 10 and 11, the third Dundee Energy Forum took place in Dundee, Scotland, cosponsored by the Center for Energy, Petroleum and Mineral Law and Policy at the University of Dundee and the International Energy Forum based in Riyadh. I was enrolled at the CEPMLP between 1995 and 1997 before earning a PhD there. CEPMLP Director Peter Cameron invited me to participate in the forum as a speaker in Session 1 for the first day of the forum.

In the keynote session at the outset of the forum, Mohammad Barkindo, secretary general of the Organization of the Petroleum Exporting Countries, delivered an address, with the IEF's secretary general, Dr. Xiansheng Sun (who earned a PhD at the CEPMLP) serving as moderator. Other major speakers in the session included Prof. Paul Stevens, a distinguished fellow at Chatham House (who serves as a professor emeritus at the CEPMLP), and Prof. Bassam Fattough, director of the Oxford Institute for Energy Studies. Also participating in the session were European Commission and other energy policy stakeholders as well as academia stakeholders and others. In the following, I would like to introduce impressive views given at the forum.

The CEPMLP, though covering overall energy sources and minerals as indicated by its name, is well famed in the United Kingdom and Europe for its focus on oil and gas law and policy. However, a hidden theme of the forum was that participants should analyze oil and gas challenges and explore solutions to them at a time when the future course of oil and gas is growing more uncertain amid the ongoing global energy transition. Naturally, therefore, the focuses of discussions at all sessions of the forum included the importance of climate change countermeasures, the significance and prospect of the expansion of non-fossil energy sources including renewables, and the potential and effects of advanced or innovative technologies. As Europe has spearheaded the discussions on the global energy transition, forum participants were apparently conscious of how to respond to challenges facing overall fossil fuels including coal that has plunged into the most serious situation in Europe in particular.

Nevertheless, OPEC Secretary General Barkindo and I pointed out the consensus forecast of various think tanks that oil and gas will still account for some 50% of the global energy mix in 2040 or 2050 while renewable and other non-fossil energy sources will expand their energy mix share over a long term, indicating that oil and gas will remain very important. We also noted that even if oil demand peaks out, the world will still require massive quantity of oil, implying that adequate investment in oil and gas will be indispensable for stabilizing the global energy market.

Under the title “The Architecture of Energy Governance” in Session 1, interesting arguments were made about the maintenance of international energy market stability and order. I noted that challenges regarding energy security, market stability and sustainability are emerging from the viewpoint of global energy governance, that Asia's importance will increase in the energy market and that how to supply electricity stably and affordably in an environmentally friendly manner will become a key challenge amid electrification. Participants also discussed hot issues including how to interpret the effects of geopolitical risks including the U.S.-China trade war and the fate of the United States' policy on Iran.

Arguments were also made on energy governance focused on Europe or the European Union. European Commission and other presenters pointed out that Europe-wide policies and strategies, rather than country-by-country ones, have been taken in response to energy and environmental challenges under the grand policy of forming a single European market. They emphasized that regional responses could increase cost efficiency and hold down burdens on consumers. For example, Europe-wide electricity storage system development and grid enhancement measures required to respond to electricity supply intermittency in line with renewable energy expansion would cost less than country-by-country ones, contributing to holding down burdens on consumers. However, participants in the forum noted that if such measures were to be implemented on a Europe-wide basis, good governance for planning and implementing policies and measures integrally would be indispensable. Some participants pointed out that while the EU has steadily implemented governance initiatives, such initiatives regarding energy are not easy to implement because of energy security involving national sovereignty. I felt that while an argument for Europe-wide initiatives to save costs is reasonable, the excessive enhancement of governance based on the reasonableness might have contributed to the growing anti-EU movement in Europe.

On energy industry and company strategies and investment amid the energy transition, Prof. Paul Stevens provided an interesting view. He pointed out that conventional business models for international oil companies are failing to work well, forcing them to face a severe business environment. Mainly European IOCs have seemingly pursued business diversification and indicated a trend of enhancing climate change countermeasures. However, IOCs have generally been unsuccessful in business diversification or decentralization in the past. Learning lessons from the unsuccessful business diversification, they have sought to refocus on their core businesses. Among their current business diversification efforts, their expansion into the renewable energy business is attracting attention. However, their renewable energy business has a problem from the viewpoint of business. The problem is that profit from the renewable energy business is far less than from the oil and gas business, providing far less investment return for shareholders. IOCs have taken advantage of a rent from a large gap between uncompetitive oil prices and low supply costs (indicating access to low-cost resources) for generating huge profit. The renewable energy business lacks such a rent and provides relatively lower profit. By expanding into the renewable energy business, IOCs are facing a decline in their profitability or in their attractiveness for shareholders, forum participants said.

As for challenges facing Middle Eastern oil-producing countries amid the energy transition, Prof. Fattouh gave an impressive analysis. The professor pointed out that while Middle Eastern oil-producing economies have depended on oil revenues, these revenues have not necessarily been successful in covering expenditure due to unstable oil prices, that the capital-intensive oil and gas sector, though being vitally important for these economies, has failed to contribute sufficiently to the creation of jobs to secure young people's employment, and that the dependence on oil could become a risk due to a potential oil demand peak. These countries have taken initiatives to advance and diversify their economic structures, including Saudi Arabia's Vision 2030 initiative. However, Prof. Fattouh noted that these initiatives are difficult to implement and that these countries are required to adopt strategies to take adequate advantage of the oil sector for advancing and diversifying their economies.

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The energy transition will exert great and complex influences on national policies on a world-wide basis. It will grow even more important for countries and companies to foresee the future and take flexible and adequate measures for their survival and prosperity.