



# How will the Middle East respond to the Global Carbon Neutral movement?

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# The questions

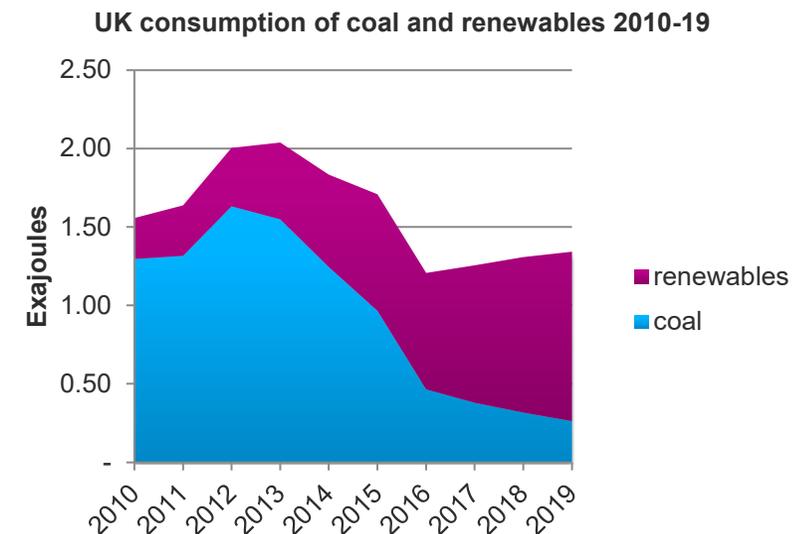
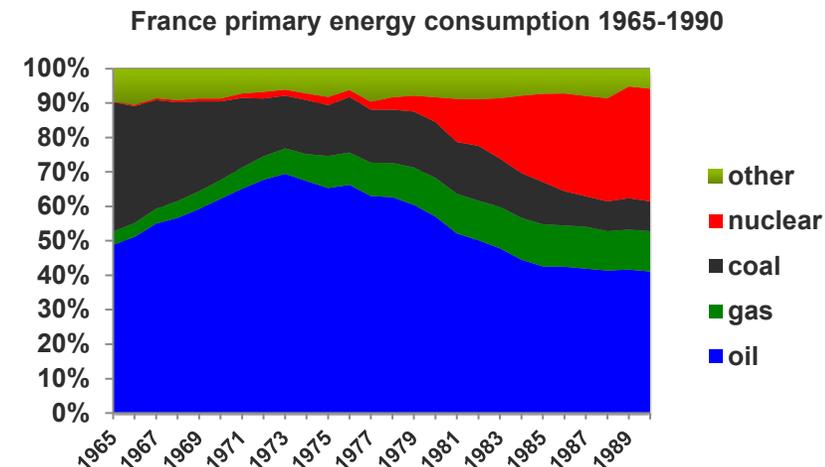
- What does 'carbon neutral' imply?
- Will there be a significant decline in global oil demand?
- What is the probable impact of a decline in global oil demand on MENA producers?
- What are the policy responses of MENA producers?

# What does 'carbon neutral' imply?

- Complex and controversial – confused by language
- Carbon neutral is not equivalent to net-zero carbon emissions
- Carbon neutral implies carbon offsets which simply shifts responsibility = public relations in disguise?
- What is needed to reach Paris targets = reduction in GhG emissions
- For this presentation: 'carbon neutral' simply = falling future oil demand

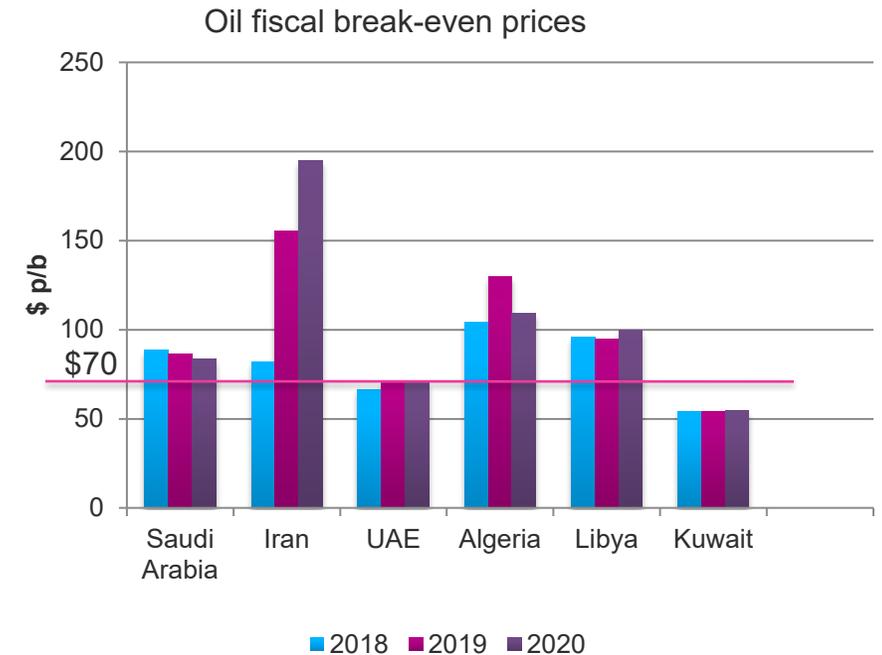
# Will there be a significant decline in global oil demand?

- Current energy transition grossly underestimated by the “Energy Establishment”
  - They argue: “energy transitions are slow” ...BUT...
- The COVID pandemic has probably increase the speed of the transition
- Politics and the role of government intervention
  - Behavioural changes – working practices
  - Self sufficiency and fuel poverty favours renewables
- Oil demand has peaked but what next?



# What is the probable impact of a decline in global oil demand on MENA producers?

- Obviously there are financial difficulties to maintain the ‘social contract’ and defuse domestic opposition
- Growing competition for market share in a declining market and in an increasingly unpredictable and conflicted region



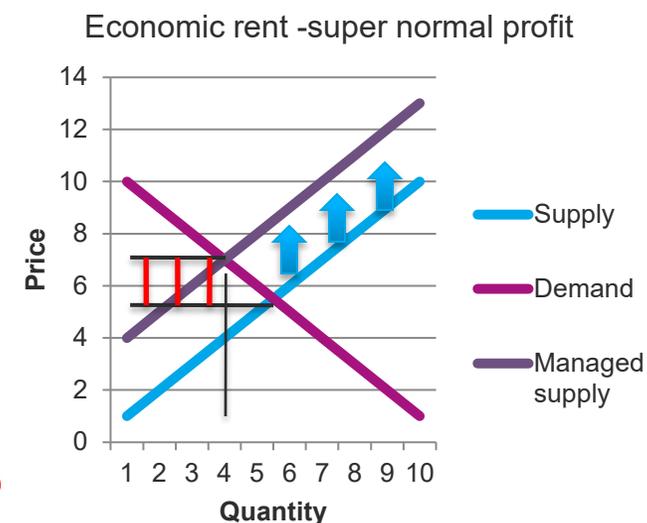
# What are the policy responses of MENA producers? (1)

- Ignore it and deny the energy transition
  - The main problem is that it is increasingly clear this will not work!
- Develop cleaner energy options
  - Reduce carbon emissions – CCS etc.
  - Hydrogen
  - Other options?
- The main problem with these:
  - Cost
  - The lack of ‘economic rent’ to pay for the ‘social contract’

# The role of 'economic rent' is crucial!

- What is 'economic rent'?  
= Market price – full cost of production
- Where does it come from?  
'Producers' surplus from low costs + supernormal profit from market manipulation
- Why is it so important in oil?  
Relatively low cost production + managed markets
- Why is it missing from low carbon options?  
Limited relatively low cost + very competitive markets

**The only really effective solution???**



# What are the policy responses of MENA producers? (2)

- **The only effective solution is to diversify their economies**
  - Past failure to do so
    - Talked about since the First Oil Shock of 1973-4
    - Usually driven by low oil prices but when prices rise, policies lose impetus
  - Reason for past failures = weak private sector
    - Because of an absence of property rights and the rule of law
    - The behaviour of ruling elites
- Future solutions?
  - Complete political reform- *'perestroika'* needs *'glasnost'*
    - Economic liberalization
    - Political liberalization
  - Or face the prospects of failed states

# THANK YOU FOR YOUR ATTENTION

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