

## **Oil-producing Countries Growing Confident in Oil/Gas and Their Importance**

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Oil-producing countries' restoration or enhancement of their self-confidence is one of the international energy situation changes that impressed me and attracted my attention at my talks with energy experts and industry stakeholders during my visit to the United Kingdom earlier this month and my later talks in Japan. While restoring confidence in the future and importance of oil and gas on which their economies depend, they may be growing confident in their own importance for the international energy market. I feel that this point is particularly evident in major OPEC oil-producing countries such as Saudi Arabia and other Persian Gulf oil producers. Not only when hearing remarks by people from oil-producing countries but also when talking with energy experts and industry stakeholders including oil-producing country watchers, I feel oil-producing countries' growing self-confidence.

Their enhancement or restoration of their self-confidence suggests that their self-confidence had been shaken or destabilized temporarily. I believe such temporary change is indicated by the international energy situation over the past few years, especially since 2020.

The first important point in the international energy situation in the past few years may be the acceleration of the trend towards decarbonization. Efforts to control and reduce CO<sub>2</sub> and other greenhouse gas emissions as much as possible as an initial step can be called low-carbonization initiatives. In the 2010s, initiatives such as those to cut GHG emissions by 10% in 10 years or by 20% in 20 years were launched remarkably. Amid this trend, future demand for coal, which features a high emission intensity attracted attention, followed by that for oil and gas. A shadow began to be cast over the future of fossil fuels as the current mainstream energy source.

However, a series of carbon neutrality pledges in 2020 dramatically accelerated the decarbonization trend, turning the situation around. In addition to the European Union, which had announced its carbon neutrality goal for 2050, China, Japan, South Korea, the United States and other major countries successively announced their respective carbon neutrality goals for 2050 or 2060. Against this backdrop, the International Energy Agency released the famed "Net Zero by 2050" report in March 2021, providing the NZE scenario in which the entire world would achieve "net zero emissions" in 2050. While the report represented a normative back-cast analysis of how the future should be for the NZE goal and differed from a forecast in a strict sense, this scenario depicted global oil and natural gas demand that would peak quickly and fall sharply in a manner to make new oil and gas investment unnecessary. The "shocking analysis" made headlines in major media throughout the world.

For oil-producing countries, whose national economies depend heavily on oil and gas export revenue, the impact of the IEA analysis was enormous. Some oil-producing countries questioned the reality of the analysis, pointed out relevant problems, and refuted them. As the global trend toward

decarbonization accelerated, however, a sense of uncertainty about the future of oil and gas increased significantly. In fact, this was why oil-producing countries enhanced their efforts to diversify their economies, which rely solely on oil and gas, seriously pursued the possibility of exporting CO<sub>2</sub>-free hydrogen and ammonia, and launched efforts to advocate to the world that it is important to manage CO<sub>2</sub> as part of their decarbonization efforts because CO<sub>2</sub> emissions from fossil fuels, rather than fossil fuels themselves, are problematic.

In the midst of the decarbonization trend, oil-producing countries apparently experienced a period in which the future of oil and gas was greatly shaken. As I mentioned at the outset, however, I feel that oil-producing countries are regaining confidence in the future and importance of oil and gas, although there are still great uncertainties about the far future. Of course, this does not mean that they have become optimistic that oil and gas demand would grow persistently over the long term, as seen in the past. I feel that they are beginning to think that the oil and gas market may not shrink as rapidly and substantially as indicated in the NZE scenario, that oil and gas demand may peak far later, and that oil and gas demand may decline more slowly. This seems to be the result of their renewed awareness about the realities of developing and emerging countries supporting future energy demand growth and about the difficulties of rapid, drastic innovation envisioned in the NZE scenario.

In this regard, we cannot overlook the impact of the drastic changes in the international energy situation caused by the Ukraine crisis. Amid energy price spikes and market destabilization, the global focus of attention regarding energy shifted from climate change and decarbonization to energy security or a stable energy supply. This is an important point. While decarbonization has remained important, energy security has become the most important, urgent challenge, leading the world to be confronted with the reality that coal consumption must be increased to secure a stable energy supply even if CO<sub>2</sub> emissions increase. We learned how important it is to secure a stable fossil fuel supply in order to support real livelihoods and the economy. Furthermore, the importance of non-Russian oil and gas has suddenly increased as the Russian energy supply has become a risk factor. In this regard, the presence of the United States has been greatly highlighted along with the importance of oil and gas in the Middle East. The affordability of energy prices has also become a crucial challenge as well. As even developed countries such as European nations and Japan have introduced energy subsidies, energy affordability has become an essential factor in developing countries with low incomes. Strengthening energy access under such circumstances is a challenge for developing countries. Amid this trend, there is a growing awareness that the role of oil and gas will remain important during the long-term energy transition. This may have led to oil-producing countries' restoration of their self-confidence.

As confidence in the future of oil and gas increases, it is only natural for oil-producing countries, especially major Middle Eastern oil producers, to become confident in themselves. As the international energy situation continues to be unstable in the short to medium term, it may be inevitable for Middle Eastern oil-producing countries with surplus oil supply capacity to increase their power. With oil prices rising, the United States and other Western countries are increasingly urging oil-producing countries to increase production and China is keenly interested in cooperation with oil-producing countries. So, oil-producing countries naturally believe that their power is increasing. From a wider point of view, I think that in the current international situation where the division of the world is deepening due to intensifying confrontation between the United States and China and between the West and the China-Russia group, oil-producing countries are strengthening their position as key energy suppliers in the international energy situation as confronting countries try to win over these key energy market players.

Of course, it is difficult to predict whether this situation will continue and be stable, or whether new major changes will emerge. The future of oil and gas remains highly uncertain. The international energy situation is so uncertain that it is impossible to predict future developments. In this context, there is a good possibility that the situation surrounding oil-producing countries will change significantly. However, it seems to me that understanding the reality of oil-producing countries, which are strengthening their self-confidence, is becoming extremely important for analyzing the international energy situation.

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