

Reconsidering Importance of Oil Issue in International Energy Situation

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Almost a quarter century after the end of the 20th century, known as the “century of oil,” the world today is moving toward a new energy transition. In the international energy market, oil's share of total primary energy consumption peaked at 49% in 1973 and has continued its long-term downtrend, falling to 32% in 2023. From the perspective of the overall international energy situation, it can be said that the importance or presence of oil has shown a gradual but steady relative decline.

In important news related to the international energy situation, however, the oil issue has remained the center of attention as an issue that exerts great impacts on the world economy, international politics, the geopolitical situation, national security, international order, and the balance of power. While a variety of energy-related information and news dominate newspaper headlines today, the oil issue seems to be the largest focus of global attention.

For example, a global stock market crash that occurred in early August was accompanied by a steep crude oil price fall. The crude oil price plunge amid the global stock market crash and a capital flight from risk assets was the top economic news. On the other hand, the risk of a surge in crude oil prices through the Gaza crisis that occurred in October last year and the subsequent instability of the situation in the Middle East has become a matter of serious concern worldwide. Recently, the news of the loss of oil supply from Libya due to the destabilization of the Libyan situation has pushed up crude oil prices and attracted attention from market participants.

When the international energy situation was severely shaken by Russia's invasion of Ukraine, the oil issue and crude oil price spikes attracted the greatest attention in regard to the world economy, international politics, geopolitics, and security. From a technical point of view of the energy market, the gas crisis in Europe, which depended heavily on Russian gas, should be seen as the most important and serious regarding the impact of the Ukraine crisis. In reality, however, Western economic sanctions on Russian oil, subsequent oil supply instability and oil price spikes, and Russia's discount oil sales to China and India amid the sanctions were most significantly and frequently covered by various media to report on the international energy situation. In the context of the Ukraine crisis, the oil issue has become the center of the world's attention as a serious issue that decisively affects the international energy situation.

From the perspective of consumers and national governments, the crude oil price spikes amid the Ukraine crisis caused gasoline price hikes, which led to political responses such as gasoline subsidies for low-income groups even in developed countries. The U.S. government, while refraining from providing federal gasoline subsidies, had no choice but to take strong measures such as the release of strategic oil reserves and the request for Saudi Arabia and other oil-producing countries to increase oil production in order to deal with the political issue of soaring gasoline prices. The international energy situation in the past few years thus leads us to reaffirm the oil market issue as an

important factor that moves the world significantly.

Why is the oil issue so important as a global issue? In the following, I would like to consider the question from various angles in order to derive the answer.

First, we must pay attention to the fact that oil is still the largest source of energy, albeit in decline in the share in total primary energy, while energy is an indispensable commodity for civic life, economic and industrial activities, and sometimes for the operation of the state. Although oil's share of energy consumption has been gradually decreasing over the past half century, oil consumption has basically continued to expand in the world as a whole. The use of oil as an important energy source has been expanding. The stable supply of oil as the energy source that has the largest share of total energy consumption at present is undoubtedly the most important challenge in the world. Although its share of primary energy consumption is expected to continue to decline, oil is likely to remain the largest energy source for quite some time to come. While the peak oil demand concept has recently become an attention-attracting topic, I personally feel that the peak oil demand is unlikely to come relatively early and that even if the peak comes, a later oil demand decline will be moderate (a rapid decline is unlikely).

Second, an even more important fact is that the importance of oil as an internationally traded energy commodity is dominantly high. It is a global reality that countries that supply energy resources on the strength of high competitiveness in terms of production costs and abundant resources and those that consume massive energy are geographically far apart. From the viewpoint of international trade between remote sources of energy supply and consumption, it is fair to say that no other energy source with such advantages for oil has so far been found. The most important fact in this regard is that oil is a liquid. Compared to coal and natural gas, oil has demonstrated overwhelming advantages regarding cost competitiveness and ease of handling for transportation. Against the backdrop of these strengths, the more the importance of oil as an internationally traded energy commodity occupies an overwhelming position, the greater the impact of the oil issue on the international energy situation becomes.

Price fluctuations for oil, which occupies the position of the most important energy source as an internationally traded energy commodity, have become an important factor that exerts a decisive influence on the global economy. Such fluctuations have also affected the balance of power between oil-producing and -consuming countries. Serious oil supply insecurity has undermined the solidarity and cooperation between allies and between oil-consuming countries, causing the international order to be shaken. Because the oil market functions as a big global market, oil price fluctuations cause similar problems for countries that import oil and those that are self-sufficient for oil. In the United States, which has finally regained its status as a net oil exporter thanks to the shale revolution, for instance, crude oil price hikes in the international market induce domestic gasoline price hikes that immediately develop into a domestic political issue.

Third, the oil issue has become a central international issue very frequently in the history and reality of the international oil market. This means that the destabilization of the oil market and its enormous impacts on the world are taken for granted in reality. As there are many powerful players in the international oil market, upheaval has always occurred depending on their relationships, bargaining, and geopolitical developments. Given the reality that the international situation regarding the United States, Russia, China, the Middle East, Europe, and India is becoming more complex in a manner to further divide the world, it should be assumed that various turbulent and disruptive factors will continue to exist in the international oil situation and trigger great fluctuations in crude oil prices and

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serious oil supply insecurity for the entire world.

The process of the world's energy transition toward decarbonization may be bumpier and longer than imagined. In the meantime, oil and other fossil fuels will continue to play a major role, leading their stable supply to remain an extremely important challenge for the world.

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