

Discussions in Europe on the International Energy Situation

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From the second half of last week to the middle of this week, I had the opportunity to have discussions with experts on energy issues in London and Oxford. Although topics for the discussions ranged wide, I here would like to discuss issues that are important for analyzing the future energy situation from my viewpoint.

First, with regard to the short-term international oil situation and crude oil price trends, I sensed a growing interest in how to view the key Brent crude oil futures price's steep decline below \$70 per barrel during my visit to the United Kingdom and what would happen in the future. In relation to supply and demand fundamentals behind the steep decline, many energy experts noted that growing concerns about future growth in the global economy, especially China as the world's largest oil importer, were coupled with uncertainties about the future course of oil production cuts by the OPEC-plus group of oil-producing countries. As for financial factors that have an important short-term impact on prices in today's international oil market, there was a view that technical trading, in which selling triggered more selling, was behind the sharp decline, indicating that the decline was excessive in a sense. Citing speculators' net-short positions, however, some experts noted that market players were dominantly bearish about future oil prices. Against this backdrop, there was a great deal of interest in the next move of the OPEC-plus group that has had significant impacts on the outlook for oil supply and demand and for oil prices. It is necessary to continue to pay close attention to supply and demand factors, financial factors, and OPEC-plus actions that would affect them.

During our talks, we had various discussions on how we should view the future energy transition. Many experts argued that the energy transition would make steady progress thanks to reductions in clean energy technology costs through technological advancement and learning effects and hopes for the effects of the strong promotion of industrial and other policies towards the acceleration of the energy transition. On the other hand, I frequently heard that the energy transition would make bumpy or slow progress as people, though understanding the importance of the energy transition promotion, become aware of emerging and widening gaps between the envisioned energy transition path based on ideals and actual progress.

I also heard various opinions on the future of fossil fuels, which will be affected by the degree and intensity of progress in the energy transition. Naturally, those who expect steady progress in the energy transition tend to believe weaker growth in fossil fuel demand and in some cases argue that overall fossil fuel demand would peak before 2030. One of the most interesting arguments in our discussions was that fossil fuel demand trends in China would play a very important role in the arrival of the peak demand for fossil fuels before 2030. For nearly 30 years since the 1990s, China has driven energy demand growth in the international energy market. It is interesting to note that if a slowdown in demand for fossil fuels becomes apparent in China, it will have a significant impact on the global demand pattern. China's energy market will require particular attention due to such factors as a

worsening economic slowdown in addition to the energy transition. Depending on these factors, China may exert a great influence on the global fossil fuel market.

On the other hand, those who seriously take the impact of the widening gap between ideals and realities of the energy transition and expect moderate progress in the energy transition are of the view that demand for fossil fuels will be reasonably firm. In relation to this view, an energy expert pointed out that if there were any hindrance to new investment even amid reasonably strong demand for fossil fuels such as oil, a significant supply shortage would emerge in the future in a manner to boost crude oil prices. This is precisely an energy security problem that would be triggered by underinvestment in the energy transition process, reminding us that how to secure necessary investments as well as how to predict future energy demand will be an important challenge for the world in the future.

Regarding the energy transition, we had various interesting discussions on the energy situation in Europe. After the elections, both the European Union and the UK will implement policies to advance the energy transition under their new regimes. However, it seemed to me that the key issue here is what kind of policy initiatives would be implemented in the face of the widening gap between ideals and realities. While the emphasis on decarbonization efforts has not changed in the EU, a more important issue at present is how to enhance its economic and industrial competitiveness. Even if there are additional costs associated with the energy transition, it is important to try to control and minimize them as much as possible. Therefore, a more pragmatic attitude than before is now seen, seeking to use all available options. For example, there is a movement to expand hydrogen options regardless of the emphasis on green hydrogen derived from renewable energy. There is also a great deal of interest in carbon capture and storage, which in the past had reportedly not been popularly supported because it would be viewed as extending the life of fossil fuels in some cases. Under these circumstances, we will have to keep a close watch on the specific energy transition policies that the EU and UK will develop in the future.

We also had interesting discussions on critical minerals, which are indispensable for promoting the energy transition and will become increasingly important in the future. It has been pointed out that as decarbonization becomes more thorough and deeper, demand for rare earths such as lithium, cobalt, neodymium, and dysprosium will increase dramatically, leading to a medium- to long-term supply-demand crunch. It is well known that major countries around the world are enhancing measures to secure the stable supply of those critical minerals from the perspective of economic security as they become aware that not only the upstream sector for these minerals but also the midstream sector covering their refining is dominated by a few countries such as China. During our discussions, however, I heard an opinion that it should be noted that the enhancement of these measures itself has important side effects, such as the intensification of competition for resources that in turn leads to an increase in resource nationalism and geopolitical conflicts. Historically, the intensification of competition for strategic minerals and energy resources as well as critical minerals has led to the destabilization of supply, the rise of nationalism, and even the outbreak of full-scale conflicts. It will become important to learn from past problems and failures and engage in calm discussions and relevant initiatives to stabilize the market.

In addition to the above, we had various discussions during my stay in the UK on issues related to the importance of nuclear power, which is attracting attention under the new situation, on Russia, which maintains its presence as a very important player in the international energy market even under economic sanctions, and on China, which is the world's largest energy consumer and the center of gravity for clean energy production and critical mineral supply—the key to the energy

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transition. The gathering and analysis of accurate information on international affairs is indispensable for the formulation of energy strategies for any country.

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