

The International Situation Centering on Fossil Fuels **<Report Summary>**

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Even as renewable energy surges, fossil fuels will remain the key players

1. With the passing of the COVID-19 pandemic, global energy demand grew solidly in 2023, increasing by 2% compared to the previous year.
2. Renewable energy is surging against a backdrop of climate change policies and energy security policies. However, as ever, the world's fossil fuel consumption continues to grow. Although fossil fuels' share in primary energy supply is gently declining, even today it accounts for over 80%.

Petroleum Market

3. Prices climbed substantially as a result of the tightening in supply and demand that accompanied the post-pandemic economic recovery process, as well as the heightened geopolitical risk arising from the Russia-Ukraine War. However, the price spike subsided due to continued Russia's petroleum exports even amid the embargo imposed by the West in addition to a slowdown in the global economy triggered by inflation. Recently, prices remain high as a result of multiple factors including the ongoing geopolitical uncertainty and OPEC Plus' production cut strategy.
4. Points to watch going forward are "fossil fuel imports by China and India," "fossil fuel exports by Russia," "the Middle East situation," "OPEC Plus' strategies," and "the mismatch between demand for petroleum products and refining capacity."
5. **Fossil fuel imports by China and India:** The pace of economic growth in China, the world's largest importer of petroleum, is expected to slow. Attention needs to be paid to the very significant impact of changes of the country's import volume. India is anticipated to maintain a high annual GDP growth rate of around 6.5% over the same period, so there is a strong possibility its import volume will increase.
6. **Fossil fuel exports by Russia:** Pipeline gas export to Europe declined substantially. The course taken by other fuels (petroleum exports, LNG exports) from here on will attract attention. The impact of attacks on Russian petroleum facilities by Ukraine will

also be worth keeping an eye on.

7. **The Middle East situation:** Attention should be paid to disturbances by anti-Israel and anti-U.S. forces, and their potential impact on the Gulf region and on petroleum facilities in particular. The next U.S. administration's Middle East policy and the impact it has will also attract attention.
8. **OPEC Plus' strategies:** The policy course taken by Saudi Arabia, which holds the key to OPEC Plus' production cut policy, is particularly important. Saudi Arabia is grappling with maintaining the high oil price levels necessary to balance member countries' budget, and the strategy of Saudi Arabia taking the plunge with maintaining and boosting production cuts, and the outcome of those efforts will attract attention going forward.
9. **The mismatch between demand for petroleum products and refining capacity:** Up to now the world's petroleum refining industry has been optimizing facilities in order to maximize the supply of transportation fuel, gasoline and diesel oil. As progress with the energy transition alters the structure of demand for petroleum products, the middle and downstream segments of the petroleum industry will need to respond to those changes.

Gas and Coal Markets

10. In the gas market, the LNG market tightened as Europe moved to procure LNG from around the world after significantly reducing its imports of pipeline gas from Russia. The spot price rose sharply in 2022 accompanying the outbreak of the Russia-Ukraine War. In 2023 the price fell thanks to a mild winter, gas conservation by Europe and abundant inventory levels at Europe's underground storage facilities. Nevertheless, price remain at historical high range.
11. As for the future, uncertainty is high in the global gas/LNG market condition up to 2025. The uncertainty includes supply and demand in Europe and the state of LNG shipping route, such as the Panama Canal, will attract attention. In the medium to long term there is a possibility of a supply shortfall occurring from 2035, which is something that will need to be avoided. The importance of long-term contracts from a stable supply perspective has come to be recognized, but in Japan one challenge will also be setting up the business environment to make that possible. Additionally, there is a need to take note of the additional demand for natural gas that will accompany the halting of coal-fired thermal power.
12. In the coal market, increases in China's import volume, demand for replacing Russian coal or natural gas and other factors have created tension in supply and demand, and prices have soared. When it comes to forecasting the outlook going forward, so for

the time being demand is predicted to continue to grow as a large number of coal-fired thermal power is being build worldwide, centering on China and India. At the same time, however, there are destabilizing factors present on the supply-side, including changes in the market players, and the policies of coal exporting countries.

Other points worthy of attention

13. If decarbonization initiatives (energy conservation, renewable energy, nuclear power) fail to reach targets, the impact will increase fossil fuel demand. The energy supply shortfalls and price rises resulting from that will particularly impact the socially vulnerable (those in low-income brackets and so forth) and the global south. Pursuing a shift away from fossil fuels without putting in place adequate alternative supply measures will heighten the risks to stable supply.
14. The world's "fragmentation" will influence the energy transition. There is a possibility that fragmentation with regard to China will have an impact on the creation of supply chains and technology choices, and that the momentum of the world's climate change policies will be affected by south/north fragmentation.
15. The reality is that the fossil fuel business continues to appeal to companies, shareholders and institutional investors from a profit ratio standpoint. There needs to be an appropriate balance struck between moving ahead with clean energy investment while also maintaining fossil fuel investment in the interests of stable energy supply.
16. The right wing increased its seats in the European Parliament in June 2024. Changes in public opinion will form a backdrop to that, and there is a possibility the pace of decarbonization will slow. There is a presidential election approaching in the U.S. in November 2024 and depending on the outcome, U.S. policies over the four-year period following the election will potentially differ greatly. The possibility that major impacts on international energy situations could surface needs to be kept in mind.

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