

IEA Roundtable meeting on “Producing Economies in a Changing Energy World”

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On April 26, I had an opportunity to participate in a roundtable meeting on “Producing Economies in a Changing Energy World,” sponsored by the International Energy Agency in Paris. As indicated by the title, the meeting discussed challenges and prospects of oil and gas producing economies amid uncertainties and great changes, including fluctuating crude oil prices, growing geopolitical risks and a potential future oil demand peak. Every November, the IEA publishes its flagship report titled “World Energy Outlook (WEO)” featuring specific themes selected for each year. The meeting was designed for preparations for compiling this year’s WEO planned to feature electricity and oil producing economies.

Nearly 60 people, including Executive Director Fatih Birol and other senior IEA officials, and energy policy and industry stakeholders and experts from Europe, the United States, the Middle East, Russia and other major economies, participated in the meeting, holding vivid discussions under the Chatham House rule. The meeting comprised four sessions dealing with “The state of play: markets, policies and vulnerabilities,” “Strategic response: the energy agenda,” “Strategic response: the broader transformation” and “Implications for the world energy outlook.” In each session, keynote presentations were made before free discussions among participants. In the following, I would like to summarize impressive points for me at the discussions.

The most impressive point is that I felt anew that oil producing economies face numerous great challenges. An oil price slump following a plunge from the second half of 2014 has been prolonged as U.S. shale oil production has remained more resilient to low oil prices than originally expected. Although crude oil prices have recently risen above \$70 per barrel, 2015 and 2016 represented a challenging period for oil producing economies depending heavily on oil revenues. Plagued with slackening economic growth and deteriorating budget balances, oil producing countries had to secure and increase oil revenues. Therefore, the Organization of the Petroleum Exporting Countries and non-OPEC oil producing countries including Russia implemented a coordinated oil production cut to eliminate oversupply or normalize oil inventory level. While securing oil revenues, they launched strategic long-term initiatives to reduce their structural dependence on oil revenues by diversifying and advancing their economic structures. Typically, OPEC leader Saudi Arabia has launched the “Vision 2030” initiative to vitalize and expand non-oil sectors to diversify its economic structure for social and structural reform.

The initiative to eliminate oil oversupply has produced some effects. Global oil inventories have continued declining since 2017, falling close to a normal level. This has allowed crude oil prices to follow an uptrend under a supply-demand equilibrium. Recently, the initiative has been

combined with growing geopolitical risks to lead the benchmark Brent crude oil price to rise above \$70/bbl as mentioned above. Depending on global economic developments and the expansion of U.S. shale oil production, however, oil prices could be destabilized again. As far as oil producing countries remain dependent on oil revenues, their economies remain vulnerable to oil price volatility.

From a long-term viewpoint, the future of oil on which oil producing economies depend is uncertain. A traditional mainstream prospect had been that global oil demand would continue increasing moderately on robust demand growth in developing countries. Demand had been expected to expand for oil for petrochemical production, shipping and aviation as well as automobiles. Amid a global electric vehicle boom last year, however, some analysts advocated that oil demand would peak in the future due to the diffusion of advanced automobile technologies, attracting global attention. The prospect of peak oil demand has great uncertainties before further research and analysis. If oil demand peaks, however, it will have great impacts on oil producing countries. Given the potential oil demand peak, oil producing countries are more urgently required to diversify their economic structures.

The current oil price hike can relieve oil producing economies over a short term. Over a long term, however, it has a serious implication. The oil price hike could discourage oil producing countries from promoting economic diversification. “The danger past and God forgotten.” The proverb has been represented by actual events in the past. At the meeting, it was pointed out that oil producing Middle Eastern countries have failed to make sufficient progress in their economic diversification and oil dependence reduction efforts launched in the 1970s. While oil price drops have led to serious efforts, these efforts have lost momentum on oil price hikes. In fact, the oil sector is the most competitive, advantaged economic sector in oil producing countries. Therefore, it is the most rational for them to depend on and make effective use of the oil sector. As noted in the meeting, meanwhile, oil producing countries must foster and secure high-quality labor if they are to diversify their economic structures through industrialization efforts. To this end, they must implement long-term, serious and thorough initiatives. The current oil price hike is feared to dampen such initiatives.

However, a key point is that oil producing countries have made their economic diversification efforts over a half century while global oil demand has continued expanding. If oil demand in the future is uncertain, future economic diversification efforts will be of unprecedented significance.

Discussions at the meeting led me to recognize anew the importance of the interdependent relationship between oil producing economies and Asia. Asia that is increasing dependence on energy imports has a strategic interdependent relationship with major oil producing countries such as Middle Eastern nations and Russia that depend on oil and gas exports. The interdependent relationship will deepen further in the future. For Asia, oil producing countries’ stability remains key to international oil market stability and international energy security. It is significant for Asian countries to not only play a role as oil and gas buyers but also contribute to stabilizing oil producing countries through economic, technological and human resources development cooperation for structural reform and diversification of oil producing economies.

As mentioned above, oil producing countries' relations with each other and geopolitical risks are growing more complicated while oil producing countries face a mountain of challenges. As far as oil and gas remain key energy sources, oil producing countries' problems account for the center of global energy problems. We may have to pay much attention to trends of oil producing countries' own stabilization efforts and their international relations and cooperation with other countries.

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