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SUMMARY OF DISCUSSION POINTS¹

How will we manage energy companies and systems in the emerging new global order?

Wednesday 8 July 2020

In keeping with these changing times, The London Energy Club, operating as an exclusive gathering of energy leaders, joined the virtual world at its sixth meeting to offer its contributions towards achieving a more sustainable, resilient energy world.

The full video of the discussion in which around 100 members and guests took part is available upon request. To receive a copy, please contact (f.watson@londonenergyclub.org). In addition, we have summed up below some of the key points that emerged from the meeting:

Moderated by Mehmet Öğütçü, *Chairman, The London Energy Club and Global Resources Partnership, UK*, prominent members of the LEC Advisory Board discussed:

The need for a new style of business and government leadership domestically and at international level.

Lord Howell of Guildford, *Former Minister of State (Foreign and Commonwealth Office) and Chairman, Windsor Energy Group, UK*

¹ Produced by Mehmet Öğütçü, Alastair Watson and Fiona Watson

- COVID-19 will accelerate and magnify trends which are already anticipated.
- With the collapse of demand for oil, the \$100 a barrel oil world has disappeared.
- Asia will become a greater focus. High tech and growth; new patterns of government. A post-Western world.
- Debate in the West on the role of the state. Technology will be the middle-man between the state and the individual.
- China will remain a major factor in the economies of the West. There are major issues of concern, and these will not go away.
- Zero emissions by 2050 will only be achieved by significant additional input from governments: in planning, innovation and technology. The key will be dealing with coal burning in Asia. There will be very significant costs.
- Will patterns of work and behaviour change after COVID-19? Skeptical.
- There are major issues with the way we are governed, in a virtual world. Parliament cannot really deliver. Grass roots need to be empowered; but localism, factionalism and identity issues can potentially lead to anarchy.
- There will be a v shaped recovery, in the short term. There will be plenty of problems thereafter, many from the pre-COVID period.

How will energy companies cope with the fall in demand, over-supply and investment decline?

Bassam Fattouh, *Director, Oxford Institute for Energy Studies, UK*

- The impact of COVID will accelerate energy transition.
- COVID will reduce globalisation from its current peak.
- Public debt will rise significantly.

- Inequalities between countries will increase, and the poor will be hit hardest.
- There will be stagnation in the World economy. Spending will decrease, savings will increase and companies will invest less.
- International co-operation has been weak during the crisis and is exposed.
- There is a shift in the long-term view of fossil fuels, brought on by the lockdown. The portfolios of energy companies are being changed towards renewables.
- Different parts of the world will take different paths; there will not be a common way forward.
- IOCs face significant challenges. Availability of finance is reduced. Shareholders will see a lower rate of return. COVID has led to a fall in revenue and cash flow.
- IOCs are expected to shoulder massive costs in transition. Shareholders will not be willing. Are IOCs the best people to handle the transition anyway? Is this their skill? Do they have the funding? Could others do it better?
- Ultimately costs will have to be shared. IOCs cannot do on their own. Needs to be an honest discussion.

Following the pandemic, what difference will the EU Green Deal make to renewables and climate change, both within Europe and to external suppliers?

Julian Popov, *Former Minister of Environment, Bulgaria*

- The EU Green Deal is a complex package (EUR 750bn) which was introduced in December 2019, concerning biodiversity, food and energy.
- Accelerating EU transition to carbon neutrality by 2050.
- The programme has been put under pressure by the Coronavirus.
- The Green Deal has the support of EU countries and will fly.

- EU policy has already had impact on energy. Managed to reduce coal by 19% in one year. In the UK coal has decreased from 40% of the energy provided to 0%; in 8 years.
- Gas is replacing coal and existing capacity. By 2030, gas will be down 75%.
- Europe is 9% of the world emissions and is the biggest trading bloc in the World. A zero-emissions target will affect the supply chain outside Europe; suppliers will have to conform. Carbon Border Adjustment Mechanism (CBAM). A carbon tax on imported goods (although the EU says that it is not).
- The impact may well be the development of a global carbon price mechanism, perhaps with a global tax by 2030.

The energy future of Syria and Libya: What role will geopolitics and investors play?

Harry Tzimitras, *Director, Peace Research Institute Oslo – PRIO Cyprus Centre, Cyprus*

- The Eastern Mediterranean is plagued by politics, and a lack of ability to break the long term logjams. No sense of urgency on climate or fuels. Considerable time has been lost.
- Two new issues in the region; the pandemic and the UN stating that this is the area of the planet where climate change is happening the fastest.
- LNG is selling at \$2 mbt and needs to be at \$5 if local suppliers are to survive. Losses are increasing.
- Outstanding issues in Cyprus are unlikely to be dealt with in the foreseeable future.
- Turkey is exercising power projection in the region; involved in Syria and Libya.
- Israel is planning to annex part of the West Bank.
- The conflicts in Syria and Libya are causing rifts in the EU; N/S and Hanseatic/Mediterranean.

- Pragmatism required by governments, and IOCs need to engage with governments and also collaborate with each other on both supply and pricing.

In what ways will the existing social contract between governments and society change over the next decade within the Middle East?

Adam Siemenski, *President of the King Abdullah Petroleum Studies & Research Center (KAPSARC)*

- Difficulties resulting in reduced oil prices may lead to unrest. There is a collapse of the social contract, and we have yet to see how the Middle East will cope with this crisis.
- The World Bank expects that global energy will shrink by 5% this year. In MENA will be down 2.5%. There is a very strong underlying demand for crude oil.
- Think the GCC is likely to be relatively OK. Seem to be controlling the Corona virus successfully.
- Supply and demand crisis similar to 1973 and 1979. But consensus of forecasts is that demand will be robust.
- Fossil fuels demand will remain strong in the medium to long term. While renewables are growing rapidly, this is from a low base.
- It will take a long time to switch to electric vehicles. There are so many vehicles powered by fossil fuels in the world, as well as marine and aviation.

What are the new dynamics in LNG markets across the world?

Mohamed Althani, *Chairman, Mohajl Group, Qatar*

- LNG supply increased 13% in 2019.
- Qatar is the lead supplier, followed by Australia and the USA.

- In 2014, at the peak, the price was \$19 mbt in Asia. Now \$2 in Europe. Everyone is losing money.
- Because of the pandemic there will be a shortage of LNG in 4-5 years' time.
- In Asia, 71% of supply is imported LNG (The biggest is Japan 77mbt, followed by China at 61mbt). In Europe 20%. The rest goes to South America.
- Long-term contracts are being changed as a result of the pandemic. Force Majeur. Considerable discussion.
- Worries about oil in Saudi and UAE. Potential has changed.

Questions and Answers

- Will gas extracting countries form a cartel, like OPEC?

No, they will not create a cartel. The gas market is driven by buyers, based on competition and forces. A cartel cannot dominate prices. But there is an opportunity to coordinate on the technologies.

- How will geopolitics effect energy in the Middle East?

The Arab Spring in 2010/2011 was a shake up. Currently there are three drivers: Iran – involved in Syria, Iraq and Yemen. Saudi Arabia and UAE , and the resurgence of the GCC, and Turkey, which has growing influence in the region. In the aftermath of the pandemic the Middle East will not be stable again, and Iran will continue to be a problem.

- Will renewables lead to less international trade? Will finance in the future be a big problem?

Not worried about finance. Marketable projects will be financed. Nuclear will have problems; currently prices likely to be 2-3 times the market price. One size will not fit all in renewables. Prices will come down. There is fossil fuel hostility. The thrust towards renewables is

inevitable and there will be arbitrage in energy and greater distribution of energy between countries. The UK can draw energy from France, Belgium, Ireland and Norway, and potentially Iceland. The march towards renewables should increase trade.

The next meeting of the London Energy Club will be held by webinar on 22 July 2020 at 13:00 BST (London time), focusing on *the Future of Oil in the Middle East – How to transform the region’s economies away from hydrocarbon reliance?*

Held in partnership with Iraqi Energy Institute and King Abdullah Petroleum Studies and Research Center, Saudi Arabia.

Membership: Please contact A.watson@londonenergyclub.org for enquiries regarding membership.