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Escaping a confusing global energy maze

There are many contradictions, such as trying to phase out fossil fuels while demanding increased production – 04.07022



A liquefied natural gas tanker prepares to dock at a thermal power station in Futtsu, Chiba Prefecture, in December. | BLOOMBERG

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The minds that shape world energy policy have now worked themselves into a quagmire of contradictions.

We have U.S. President Joe Biden calling for a phasing out of fossil fuel production while at the same time urging greater oil and gas output (and discouraging gas exports for fear of raising prices internally).

We have the Germans re-opening coal-burning power stations but refusing to keep open their remaining low carbon nuclear plants. We have the British heavily

committed to net zero emissions yet encouraging more North Sea oil and gas drilling. We have Japan continuing as a major importer of oil and gas while many gigawatts of low carbon electricity from nuclear plants lie idle.

Meanwhile, we see the OPEC powers talking about the global oil market being “in fundamental balance” when plainly it has been radically unbalanced by checks on Russian oil and gas exports to Europe. Western leaders have been begging the Middle East producers to relent and pump more — and very recently a small increase was grudgingly agreed — but still far from what is needed and what could be produced.

Adding to the confusion, a recent meeting of Group of Seven ministers in Bavaria could not decide whether to try capping oil prices to curb inflation (probably impossible) or to let them stay sky-high to deter oil consumption — ending up calling for both at once.

Bewildered Treasuries and central banks have been struggling to sit on rising inflation with “demand destruction” (a polite phrase for further impoverishing the poor and inducing recession) via hikes in interest rates, when plainly the roots of this inflation are energy driven and wrapped up in supply, refinery, storage and distribution problems.

There are forces at work here that bank rate juggling cannot solve. Puzzlingly, though, there is actually plenty of oil and gas about in the world and in transit on the high seas, with some oil market experts predicting a return to massive over-supply, as in the past. Russian oil, if not sold to Europe, can be, is already being, snapped up at discounted prices by Asian customers, especially the Chinese and the Indians.

Then there are governments, as well as the prestigious International Energy Association, saying that all future investment in fossil fuel production must desist, while simultaneously urging producers to be sure to continue meeting oil and gas demand. Somehow, it is argued, the global energy transition must be kept in sync with continuing near-term demands for fossil fuels.

At the moment no one knows how to do this. We see the results in unmanageable fuel price spikes, triggering near-record inflation, followed inevitably by protests, angry wage increase demands and growing political unrest.

Running through all the debate we hear the well-intentioned green lobby demanding an ever faster phaseout of fossil fuels, but finding that the resultant rise in fossil fuel prices encourages more investment in — yes — coal, oil and gas production.

Myopia and misunderstanding about energy markets are in full swing, leading to the nightmare scenario in some European economies, including the U.K., which all energy planners dread and struggle to avoid — namely, actual power cuts and shortages, alongside soaring bills that millions of households find impossible to pay.

If and when reached — and it is not far away now in some countries — this will represent the point of final policy failure, with disastrous consequences. Its roots lie in the inability to grasp a simple central truth: that climate goals cannot be achieved without energy security. And behind that lies perhaps a deeper truth — that energy, processed into electricity, has become in the modern world the absolute fundamental

basis of all industrial and civil life — and of social order itself. It has ceased to be just one more utility supply and become as crucial as water.

Interrupt it, even for a moment, and in industrialized societies the entire social and political structure immediately begins to crumble and every vital service collapses.

Oil and gas analysts are completely divided on what happens next. The big banks see crude oil prices rising still further, at least over the next few months.

At the same time the EU economies, led by Germany, are frantically searching for alternative energy supplies as Russia openly uses its oil and gas exports as a weapon. Hopes for more gas are pinned on North Africa, particularly Algeria and Egypt (plus Cyprus), and on many more liquefied natural gas shipments from the U.S. But it all takes time, whether because of transportation or pipeline construction, to get it from the gas fields to European consumers — and time is just what climate experts say is running out fast.

Is there any way out — in a reasonable time frame — of this maze of fears, conflicting views and contradictory policies?

There is no single solution, of course. But here, starting from the central truths above, are three guiding principles for the path to recovery:

First, all of Europe, with wider G7 support, should concentrate on pressing producers to deliver a maximum boost to short-term oil and gas supplies to supplant Russian exports as fast as possible and show that it is in their own interests to do so. OPEC should be pressed really hard on this front.

Second, governments and monetary authorities must exercise fair energy demand restraint without triggering a full-blown recession (although a small one may now be unavoidable). And they should do so without hitting the poorest even harder than they have been hit already.

And finally, all like-minded nations must unite solidly to show Vladimir Putin he cannot win. This will require a lot of work since half the world is still neutral or actually pro-Russian. Simply focusing on the fact that big countries invading smaller ones undermines the entire international order, rather than relying on outdated Cold War rhetoric about East versus West, would be the best and most unifying approach here.

Set out in these directions and slowly the rabble of tangled views and disagreements from the energy world, the economists and the policymakers, all in their narrow silos, will begin to re-connect and the world can be put straight again. But it will take time.
