Clean energy: Oil and carbon at loggerheads- Japan Times 07.06.21

he full implications of the most recent report of the Paris-based International Energy Agency (IEA) are just beginning to sink in.

What that report said was that if the world is to get anywhere near its lower carbon goals, as set out in the Paris Agreement of 2015, then all future investment in oil and gas development must cease — now, immediately, just like that.

Of course this clashes head-on with reality. Saudi Arabia is planning $120 billion in new oil investments through Aramco alone. The United Arab Emirates is intending something of the same order. Russian companies are also planning massive new oil investments, while in the U.S., that nation's vast shale sector, which has already put America at the forefront of world oil and gas production, is poised to start up again.

And China, despite promises of achieving net zero carbon output by 2060, continues, through its Belt and Road Initiative, to fund new oil and gas projects across the world.

Oil producing countries around the globe, especially in Asia, Africa and Latin America, are all intent on making extensive investments in future oil and gas exploration and development projects. And they are doing so for very good reasons as their hopes and ambitions for development and poverty relief rest heavily on potential revenues and returns from those investments.

Conventional wisdom and most analysis predicts a world of declining oil demand as renewables take over and rising efficiency in energy use spreads, with the large oil producers expected to be the biggest losers in a shrunken oil and gas market. But other leading international oil and gas market analysts have pointed out that, in practice, the opposite is likely to happen.

It is the Middle East and Gulf producers — the OPEC ruling clique — all with their exceptionally low production costs, who are best equipped to survive and prosper. And the real damage will be done to the less efficient, higher cost producers, mostly non-OPEC nations, and those even more reliant on fossil fuel revenues who will be hit hardest. These are primarily those oil and gas revenue-dependent states that have failed to develop alternative industries.

Many examples across the world spring to mind. Some may have plenty of oil reserves, but if the costs of production are too high, revenues will vanish. Take countries such as Iraq, Libya, Venezuela, Iran, Angola, Azerbaijan, Syria, to name just a few — add to those some smaller would-be petrostates like Lebanon and Guyana — and one begins to see just how enormous the impact, both economic and political, oil's demise is going to have on many fragile communities and across the planet.

The outcome will be that, at least for a few years, the share of fossil fuel output from OPEC's richer members will increase. The IEA suggests it will rise from a low of 30%

at the turn of the last century to well over 50% by the mid-twenties. Far from escaping the OPEC monopoly, the world will be, for a time, more than ever in its grip.

This should worry the countries that rely heavily on oil and gas imports, Japan being a very notable example.

Most of the public discourse on the demise of the oil era has been focused on major international producers — the last survivors of the so-called "Seven Sisters" transnational oil consortiums who once towered over the world's energy output. The headlines have been full of stories of Exxon shareholders in revolt, appointing new directors, Shell coming under criticism and BP being shunned as they struggle to adjust to a fast-changing environment. Pension funds have also been veering away from investments in oil, gas, coal and other fossil fuel-dependent businesses.

But this is to divert the eye from the real problem. Considerably more than half the world's oil output comes not from the familiar international giants under assault from climate campaigners but from state-owned national oil companies. So far these have been largely impervious to shareholder pressure, green campaigning and protesters.

Slash the revenue prospects of the poorer and less stable oil states and you decimate the budgets on which many governments have relied, or are hoping to rely on, to keep restless populations surviving amid pitifully low living standards content. Monies that might have been used to foster other industries, reduce inequality through public assistance programs or the building up of wealth funds will dwindle away, exacerbating social tensions and unrest.

The consequences, both intended and unintended, of the great energy transformation begin to emerge like jagged rocks exposed as the "oil tide" recedes. And the impact will not just be felt by oil-producing nations. The globalwide oil and gas network has been by far the world's largest and most far-reaching industry for nearly a century. Its supply chains wind deep not only through the whole petrochemical sector, including shipping and refineries, but also in the manufacture of thousands products from toothpaste and umbrellas to credit cards and golf balls.

A clumsy unraveling of all this could walk us into the perfect scenario for creating more social division, violence and instability across the planet. Weakened and failing states would also become more vulnerable to Chinese penetration and dominance.

The conclusion is very clear: World energy transformation will require statesmanship and political patience on a scale not yet appreciated. It will need to be managed with the utmost caution and in a spirit of cooperation between the outgoing oil powers, the rising green industries and very skilled governments.

If that is not forthcoming and instead intolerance and impatience prevail, the outcome will not be a "green peace," but rather, bitter conflict and suffering. Worse still, it could halt the clean-energy transformation itself, and therefore, the whole struggle against a climate catastrophe.

For the next generation that would be the ultimate betrayal.