



GLOBAL ENERGY TRANSITION: AN ENHANCED ROLE FOR THE DIALOGUE

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The IEF15 Ministerial Meeting takes place as global energy markets undergo unprecedented change. New energy supply and demand patterns are taking shape due to shifts in the world economy, demographic trends, and technology breakthroughs in both the fossil fuel and low-carbon industries. The policy view that energy security must be based on investments that meet 21st century challenges and United Nations sustainability goals, is shared more widely too. This has brought energy efficiency and new energy technologies into sharper focus, specifically with regard to raising performance standards in the way we produce, transport and consume our energy.

In a world that experiences transitions at various levels that affect us all, the IEF provides a safe harbour to share producer and consumer perspectives on how today's more interconnected energy markets evolve. IEF stakeholders have a shared interest in a secure and healthy energy sector to remain competitive, stimulate growth and raise living standards around the world. Legacies of history and geology, however, mean that energy policy and investment priorities vary naturally, depending on the geography, market structure, rules and customs that differ across societies and regions. By remaining open to all, and well informed through data-driven dialogue, the mission of the IEF is to help find sustainable balances between all of these, with a view to strengthening energy security globally. As the new Secretary General of the International Energy Forum, it is my privilege to further enhance the work of the IEF and help governments and industry find mutual understandings that respond to their shared interests, while taking individual circumstances into account as well.

In the global energy transition, change is a new constant. Although new trends are emerging and patterns of behaviour are evolving, we must remember that one swallow does not make a summer. Projection of these patterns into future energy forecasts has become less straightforward, since with change, both uncertainty and expectations grow. Navigating the global energy transition successfully will depend, more than ever, on boosting commitment, reliability and trust. More dialogue is needed to avoid that uncertainty and rising expectations reduce investor confidence or options to chose among viable energy technologies and build up to suboptimal solutions. This can only be obtained by a truly globally engaged and more vibrant

energy dialogue, based on enriched energy market data transparency and a broader understanding of how current energy market developments affect future trends across the diverse regions of the world.

Two important new initiatives already acknowledge the need to broaden the dialogue by strengthening producer-consumer cooperation in areas that will provide an important new impetus for the IEF energy dialogue.

1. Asian Energy Ministers who gathered in Qatar endorsed the proposal of Saudi Arabia to establish an Asian Energy Efficiency Knowledge Sharing Framework under the umbrella of the IEF in November 2015.
2. The G20 Ministers Meeting, held recently under the Presidency of China, builds on this initiative by mandating the IEF to provide a Knowledge Sharing Framework on Energy Efficiency in cooperation with other organisations in the context of the G20 Energy Efficiency Leading Programme.

What have we learned so far?

Six new features define the global energy landscape in which IEF15 convenes today:

1. The pledges and goals of the landmark Paris Agreement, and 2030 Agenda for Sustainable Development show that all producer and consumer countries have agreed to move towards a more environmentally friendly and inclusive energy mix by reducing emissions and facilitating access.
2. Energy transitions from biomass to coal, oil, and gas, driven by natural conditions, have accelerated and become more labour-intensive over time. The push towards a low-carbon economy, including renewable energies, to meet modern-day technology and cost challenges is driven by much of mankind.
3. Shale oil and gas has opened a new energy environment that has already had an important impact on the oil market, by improving industry resilience and cost efficiency at lower price thresholds, while adding an additional source of swing supply.
4. The depth and duration of the current oil price adjustment have exceeded expectations and negatively impacted the deployment of new capital and technologies. This adversely affects future energy market security for both consumer and producer countries.
5. Gas prices have narrowed among regions, reducing arbitrage and trade options. With growing and more diverse supply and demand centres, natural gas may

well become a globally traded commodity similar to oil. The availability of more diverse trade routes illustrated by the expansion of the Panama Canal, will further increase competition between LNG and pipeline supplies.

6. Coal production and consumption is likely to endure longer than commonly believed due to market scale and structure, and the wide availability of relatively cheap coal in developing economies. Since the global energy mix is not uniform and some regions have unique features, a more sustainable energy mix still largely depends on the successful deployment of low-carbon technologies and will benefit from the sharing of experiences and an enhanced dialogue.

How have governments and companies responded to these developments so far? On the one hand, by reducing the risks associated with these uncertainties, while on the other, seeking to seize future opportunities. Governments have rationalised energy policies by cutting back on subsidies and have taken the opportunity that low oil prices offer to build strategic reserves in emerging markets. By reducing cost, and cutting back on investment programmes, industry and capital markets have largely focused on controlling the risk that the new energy market environment brings.

What are the consequences?

Firstly, capital expenditures have been significantly reduced by 10 to 30 per cent across the oil and gas industry. This includes a 50 per cent reduction in drilling activity in the US alone. Although drilled but uncompleted wells may make a speedy return, a total of 4 million barrels of daily oil production potential has been deferred, while current prices may only support a third of potential new production.

Secondly, spending on exploration of new conventional fields has dropped to a historic low. When markets are driven by the marginal cost of existing production, the risk of outages increases and the price recovery to mobilise investment and bring new conventional fields on-line to meet growing demand may well be abrupt.

Thirdly and finally, the industry risks the loss of the necessary talent and skills. This includes the capacity to research and innovate so that new technologies and business models are deployed successfully in a more rapidly changing energy market environment.

What can IEF stakeholders do?

To better understand the implications of the trends we observe today, and to promote an orderly transition to a more secure and sustainable energy future, it is my pleasure and privilege to invite IEF stakeholders to support:

1. An enhanced role for the IEF Ministerial Energy Dialogue by expanding into specific regions, as we have done in Asia, and exploring new areas that may improve understanding of present day energy market realities and help alleviate obstacles to investment in universal access to sustainable energy services. Now that the energy transition towards a low-carbon economy has become part of mankind's evolution and is a given that cannot be ignored, an assessment of the future risks and opportunities should be included.

2. The launch of an IEF Energy Efficiency Knowledge Sharing Framework, in accordance with the two mandates IEF was handed recently from the 6th Asian Energy Ministerial Roundtable hosted by the State of Qatar early November 2015, and the G20 Energy Ministers Meeting held in Beijing late June 2016 under the Presidency of China. Given the challenges and opportunities, I hope that IEF Ministers will further embrace this opportunity and voice their support for IEF engagement on energy efficiency and new energy technologies to improve performance.

3. Bringing in new perspectives from industry and government stakeholders in the Trilateral Work programme with the IEA and OPEC on energy outlooks, and physical and financial energy market interactions. The recent G20 Ministers' Meeting encouraged continuation of this fruitful collaboration. Expanding on this work by involving other relevant institutions and think tanks will improve the quality of the energy dialogue even further.

4. Reducing oil market volatility by strengthening the Joint Organisations Data Initiative that the IEF coordinates in collaboration with APEC, Eurostat, GECF, IEA, OLADE, OPEC, and UNSD. Policy and investment decisions will be more timely and accurately informed by improving energy market data transparency in oil, gas, and other energy markets, and through increasing JODI's global visibility and use.

As the above outlined circumstances prescribe ongoing commitment, I look forward to collaborating with you through the IEF, as a platform for open and engaged dialogue, to build partnerships and deepen our collective understandings of present day, and future energy market developments. ■