Some Farewell Comments

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I have just made an editorial decision that, after being in some sense responsible for Forum for 35 issues, and having been, in some other sense, involved on the fringes of the energy business for even more than that number of years, I might bow out with a few remarks of my own, for which neither Forum nor the Institute is, of course, in any way responsible.

Years ago I wrote a book on OPEC and you might, I suppose, expect me to start with some up-to-date comments on an organisation which is still demonised in some quarters and held responsible for many of our energy problems. However, now that we have 'dialogue' institutionalised, with its own Secretary General, in Riyadh, and the oil market taken over by financial wizardry, there's not much to say about those trusty old OPEC subjects of production, reserves, quotas and price. Even so, there is not much advantage in demystifying OPEC too much since its meetings and pronouncements still provide an important component for the generation of oil market activity by traders and fund managers.

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What I will do instead is to draw your attention to something quite different, and that is the relationship and relevance of OPEC to Saudi Arabia. They have been interdependent ever since Tariki, on behalf of Saudi Arabia, helped to create OPEC and, it has seemed to me, OPEC has ever since provided for it a sort of insurance policy. Saudi Arabia has needed this since it is a country that mixes potential power in terms of oil with weakness in terms of politics. Regionally it has been fatally dependent on US support and, with its relatively small population, has always been (or at least felt) threatened by its far larger neighbours, Iran and Iraq. This has, in turn, inhibited Saudi Arabia from flexing its oil muscle, if and when it may have wanted to do so, without the assurance of regional, or some other, support. OPEC has provided much of that support over the years.

If you pursue this idea further it may be possible to interpret Saudi policies through the agreements and disagreements of OPEC. In other words, a study of decision making in OPEC may illuminate the successes and failures of Saudi regional and foreign policy. Since for most of us who are not Saudis the internal machinery of government and policy-making is a mystery which it is difficult even to discuss in public, perhaps some PhD student could apply his or her mind to it and see if an analysis of OPEC deliberations could help us to understand Saudi Arabia rather better than most of us can now manage.

Let me now look at the question of energy security, a subject which becomes of overpowering concern only when something in the system breaks down. Surely we should have learned by now that absolute security is relative in every aspect of our lives and that really it shouldn't be assumed for energy any more than for anything else. The fact is that energy, and oil and gas in particular, is such an international commodity that it is that which in practice provides its insurance policy. When and if something goes wrong in the system there already exists as much backup as ever could be replaced by some other 'secure' arrangement. The arrangement least likely to help is energy 'independence', and whenever a politician starts demanding national (or these days regional) energy independence you can be sure that it's a disguise for something quite different. There's plenty of energy around in the world and it's all for sale. If politics gets in the way for some reason you can be sure that energy independence won't be the solution. The best bet would seem to be diversification.

Thirdly, there is the knotty problem of the environment. We can by now, unless we are unreconstructed academics demanding 100 percent scientific proof, be sure that CO_2 emissions are affecting and threatening our world's climate, even if the time-scale for actual disaster is far less certain. We can be sure, moreover, that our power stations, factories, houses and automobiles are the main causes of climate change. We do not, however, have to be unreconstructed sceptics to doubt the practical effectiveness of the Kyoto agreement as the mechanism for changing climate change. It provides a band-aid to prevent too much blood spilling on the floor, but that's about it. Wind, sun and water are going to require a supplement of something considerably more robust if we are to get nature back on track. But this is not to suggest that Kyoto is useless. Far from it; it provides a signal that a great number of countries and people accept that the threat exists and that they are, to a greater or lesser extent, prepared to do something about it. Twenty years ago only a few suspect scientists preached this message; today, only a few suspect scientists deny its validity.

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If, however, Kyoto by itself is in practice unlikely to do much to solve the problem, what will solve it? The best bet would seem to be technology, infuriating though this may be to all those who can't bear the thought that the United States might be right after all. But even if we grant that technology is likely to be more effective in the long run than Kyoto we still have every reason to berate the USA for not joining in the Kyoto effort as the only current, even if insufficient, measure available and failing, as a result, to underwrite the seriousness of our planet's situation.

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Environmentalists unfortunately tend to be particularly, if not emotionally, attached to solar and wind and wave power well beyond their capacity to give a sufficient answer to the CO_2 emission problem and at the same time to provide the energy required now and still more in the future by the inhabitants of our world. If you look for a moment at the distribution of primary energy resources in the world you will quickly notice that the USA, China and India have between them 50 percent of the world's coal reserves and that the proportion of coal in their total energy consumption in 2004 was 24 percent for the USA, 69 percent for China and 55 percent for India. It is surely self-evident that these countries will not, whatever Kyoto says, stop using coal, which is after all the worst offending source of CO_2 emissions, and that the only practical solution is to find a technology that will sequester the CO_2 before it is emitted into the atmosphere. And that, of course, is one of the most active areas of research now being pursued in the USA (and elsewhere). They will no doubt succeed in this endeavour and in, say, ten years we shall have the ability to burn clean coal. And no doubt we shall also have clean automobiles to drive in the same sort of timescale given the research being put into hydrogen and batteries. But, whatever happens, we shouldn't forget that our existing stock of dirty power stations, factories, houses and automobiles will remain in use for decades to come. Technology will do far more to save this planet than Kyoto, but Kyoto has provided, and will continue to provide, a vital catalyst for ensuring it will happen.

There is then the related question of energy policy. This is a subject dear to politicians who believe that, if only things were to be left to their own management, all would be solved. While attempting to satisfy all lobbies they usually mess everything up. In practice, the content of energy policy is invariably no more than the distribution, or redistribution, of either subsidies or taxes and there needs to be a logic behind them which has a reasonable chance of achieving whatever is being sought. Unfortunately this is often not the case. And, in this context, it's worth reminding ourselves that the climate is the ultimate globalised commodity and that trying to deal with it in a competitive fashion at country level is pointless. Beware of energy policy. Goalposts are, of course, needed, but moving them is, perhaps, the most potentially counterproductive, but politically attractive, activity open to lobbyists of every shape and size.

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Another subject, rich in quixotic implications, is information. For years, experts and non-experts of every kind have been tilting at the windmills of perfect data. If only we could know accurately and quickly the figures for oil demand, production and stocks (stocks in particular) we would be better able to … do what? Would such information, which by definition can never be immediate, have led, or might it lead, to different decisions by producing companies, energy companies or any government on investment or operational concerns? It might encourage greater activity by the traders and analysts, but that is hardly the point. But keep hoping, an organisation called JODI has recently been set up to give us more and better data more quickly, even if we are still waiting for it. And, who knows, one day it might actually succeed in transfixing one of those windmills.

Lastly, we come to the energy companies themselves, without whom it seems improbable that we shall have any form of energy at all. It's a strange reaction, when you come to think of it, that we should assail companies for perceived failings when we are so dependent on them, and when on the whole most of us would probably agree that they do an effective job. Some of us attack them for not investing in whatever we happen to prefer, some for employing the wrong people, some for making too much profit, some for not making enough. There are investors, usually disguised as analysts or fund managers, who demand instant financial gratification at least every three months even though they know perfectly well that energy is a long-term business. There are consultants and theorists who know far better than the company's management how the company should be managed. Et cetera … and not forgetting the politicians who know better than anyone else how everything should be run. Even so, one may, of course, have a legitimate worry or two, and one of them is this. Energy companies get bigger and bigger but their capacity for expansion is presumably not limitless. At what point will they implode or, like Gulliver, be so tied up in their own, or externally imposed, red tape, regulations and guidelines that they cease to know what they are doing and become unable to react at all?

Oh, I nearly forgot supply, demand and price. I bet you (though I may not be around to collect my winnings) that in 2025 supply and demand will be in balance and that the price will be sustainable. Just as they always have been.