EUCERS/KAS/ISD Energy Talks 2016

The Future of North Sea Oil:

Is every challenge really an opportunity?

Heriot-Watt University, Edinburgh.
30. January 2016, 10.00 - 12.30.

Conference Report

On Saturday 30th of January 2016 the Institute of Mechanical, Process and Energy Engineering at Heriot-Watt University (HWU) had the pleasure to host the Energy Talk "The future of North Sea Oil" with collaboration between the European Centre for Energy and Resource Security (EUCERS), the Konrad Adenauer Foundation (KAS), and the Institute for Strategic Dialogue (ISD). The event counted with the participation of four speakers: Hans-Hartwig Blomeier, Director of KAS London office; Professor Friedbert Pflüger, EUCERS Director; Dr Ian Duncan, Conservative MEP for Scotland; and Dr Frank Umbach, EUCERS Research Director.

The Energy Talk was opened by Mr. Blomeier by welcoming the speakers and participants and emphasising that this activity is the first of a 4-year-long partnership taking place outside London. Mr. Blomeier acknowledged the Heriot-Watt University team for their hospitality and noted that it was a privilege to have this activity as part of a KAS-fellow seminar for scholarship recipients organised by Dr Renate Kremer (KAS) and Peter Szabo (HWU, KAS).

Professor Pflüger continued acknowledging the cooperation of KAS, EUCERS and ISD and gave a general overview about the dropped oil price, the role of global oil producers such as the Middle East, US and Russia with the effect on global resource politics. These resent event have resulted that investments of up to 1.8 trillion $ are currently hold or completely cancelled.

Dr Duncan, the only Scottish geologist in the European Parliament sitting on the Energy Committee and Environment Committee, having been in Paris and Lima climate talks as one of the European delegates, and being the Parliament's chief negotiator on the Emissions Trading Scheme (ETS) began his statement by giving a brief historical reminder of the importance of the North Sea. After setting the scene Dr Duncan moved into the question of the future of oil. He began by reminding the audience of the proverb that reads "the stone age didn't end because we ran out of stones". He used this proverb to bring attention to the dilemma we face with regard to hydrocarbons, as the reality continues to be that the economy is dependent on carbon. Whilst there is an effort to decarbonize, most houses in Scotland use gas for heating and there are very few electric cars in the road. As such, he noted, change is not something likely to emerge soon. He said it is a fact that the North Sea will continue to be important as another undeniable fact is that there is oil in the North Sea, albeit difficult to extract and thereby expensive. He considered that competition in the region will continue to get tougher as long as prices stay low. The question is when prices will bounce back at which it will become sensible to pursue further reserves in the North Sea. Furthermore, the impact that a low oil price may have to employment, thus far having costed more than 60,000 jobs and estimated to go past the 100,000 mark. This concerns Dr Duncan as a fact that this is a loss to Scottish economy that is greatly based in two things, oil and fish. Coming back to the issue of climate change and Paris Agreement's "well below 2°C" target and its ambition to actually keep global warming under 1.5°C Dr Duncan emphasised that these goals are currently not feasible if oil and oil depended prices such as natural gas are decreasing so that people continue to buy more oil. In such manner, Dr Duncan noted that the world needs to start thinking about mitigating measures. One would be Carbon Capture and Storage (CCS) with concern that very little money has been put into it albeit of a need of about £40 billion. Dr Duncan considers that a solid ETS may help in this regard by raising the cost of emitting. However, the current price of €7 per ton is extremely low as CCS would require a price of about €80 per ton but, at the same time, he estimated that his current ETS effort will only take us to about €30 per ton. Consequently, Dr Duncan noted that a CCS effort will require of the willingness of emitters to embrace costly technologies. However, Dr Duncan stated that this may have to be transferred to the consumers as he always pays the cost of technologies and as such we should prepare to live in a future in which energy will be more expensive.

An academic view was presented by Dr Umbach emphasising the impact on the oil price by Saudi Arabia. In tradition point of view Saudi Arabia acts as a stabilizer for the marked and it way of considering Western interests. Dr Umbach stated that Saudi Arabia's unwillingness to cut production precipitated the fall and noted how it is questionable whether Saudi Arabia will return to mind Western interests. This is not only because it has not done so yet but also in the light of factors such as Saudi Arabia's internal politics and geopolitical considerations like its relation with Iran. A recent statement from the World Bank revised the oil price forecast for 2016 down from $52 to $37 per barrel. Analysts still consider this as too high. Dr Umbach related this to the economic growth in China that will further decrease, the return of Iran to the global oil market as well as the 20% worldwide drop in investment last year and an expected 16% drop this year. whilst Saudi Arabia's focus in defending its market share may have success against inefficient players, it is doubtful whether it will be able to offset technological progress such as fracking. As Dr Umbach considered a slow recovery if the present low oil price he considers a loss of experts to other industries throughout the period of under investment. Currently hedge funds and private equity funds have $60 billion ready to take over bankrupted oil assets. Dr. Umbach stated that currently only Saudi Arabia, Iran, Iraq and Kuwait are producing at a lower cost than the current oil prices. This necessarily means that all other producers will continue to have a serious gap in their finances insofar oil continues at current prices. Considering the future of the North Sea Oil Dr. Umbach stated that there are many similarities between Norway and UK such as the prioritizing of short-term earnings, up to 15 fields to be closed by 2020, a 16% fall in investment in 2015, and further cuts in investments announced recently despite of several licenses being awarded. Dr. Umbach concluded his views with the following statements. Firstly, there is a developing 'oil mantra' in which experts have moved from thinking that oil will continue 'lower for longer' to thinking that oil will be 'a lot lower for a lot longer'. Secondly, it is difficult to imagine production cuts in the short term as Saudi interests are against high cost producers and Iran emerging as major oil producer and exporter. Thirdly, it is not realistic to expect a price recovery before 2017 and, even then, oil may only come back to $50/$60 per barrel rather than to

$70/80 as assumed last year. Likewise, it would not be a surprise if oil prices do continue at record lows past 2017/8, decreasing temporarily even to just US$20 per barrel. Fourthly, on the medium term perspective the worldwide transportation sector is the defining feature, particularly the issue of the battery prices and performance – which Dr Umbach noted being optimistic about in the mid-term future.

After the individual statements of the speakers the event continued with an additional hour of Q&A.