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Perspectives on the New Energy Security: Consumers and Suppliers

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Abstract

Energy Security is at the forefront of geopolitics driven by the New Era of Supply Anxiety. Delivering energy for tomorrow has forced both consumer and supplier nations to heighten their roles in the energy arena. Consumer nations are re doubling their efforts to insure supply for their economies. New large fast growing consumer blocks have emerged in the last three years – India and China, along with the tradition ones. They seek diversity of supply, both in type and geography. Supplier nations are also feeling the pressure as things go global and new sources of supply emerge. As such, they are reasserting control of their assets both at home and abroad. Suppliers want to have long term market access and reasonable prices for their products. All this is leading to increased competition and a squeeze on fiscal terms and profit. This paper discuss how some of the key consumer and supplier blocks work, and some of the issues they are facing. The world's number one consuming nation, the US, is seeking diversification via supply and hydrocarbon type. Examples from Europe and Latin America provide insight into interdependence between consumer and supplier nations and highlight how hard it is to strike a balance. An example in Asia highlights how new partnerships are being formed between consumer and supplier nations which several years ago never would have been possible. The result of the new dialogue on energy security has been identification of a set of benefits and challenges. Challenges include—a change in role of National Oil Companies; resource nationalism, surging capitol costs; while benefits are – regional and global delivery systems; renewed technology development; and addition of refining capacity and infrastructure.

Landscape and Definition

Currently we are in a period of “Energy Anxiety” brought on by the steep rise over the last 2 years in energy prices. The current price is attributable to an imbalance in supply and demand. Factors leading to constraints on supply are:

- Lackluster reserve replacement and discovery doldrums;
- Restricted access to remaining known resources and future exploration areas;
- Heightened political risk leading to “resource nationalism” and instability of contracts and fiscal terms;
- Delivery bottlenecks and aging infrastructure;
- Conflicts in the Middle East, Nigeria and Latin America;
- Rising costs and shortage of manpower
- Natural disasters such as hurricanes and earthquakes

This paper focuses on the above ground risks to supply, which are dominantly driven by securing new supply, which is shifting from traditional regions. Access is thus a key issue and “resource nationalism” a prominent factor in determining access. Competition for access is being squeezed by “resource nationalism” leading to declining economic attractiveness of many regions. This in turn has lead to acceleration in portfolio rebalancing and large reshuffling of ownership. The return of “resource nationalism” is highlighting the greater need for cooperation among nations and market blocks. On the demand side, the greatest driver is the surge in energy usage in rapidly growing China and India, which averaged approximately 10.5% and 7 % GDP growth respectively last year, coupled with continued moderate growth in the OECD and emerging countries.

All of these factors combined have lead to the renewed focus on ‘energy security’. However, not all agree on the meaning of energy security, it is different depending on whether you are a consumer or supplier nation. And it is different depending on your geographic location as regional issues make certain market areas unique. Figure 1 shows a map of the current major consumers and suppliers. The status of some of these nations is set to change shortly -- Brazil, Egypt will become a significant suppliers, while Indonesia and Colombia risk becoming consumers.