

Pathways to Equitable Fossil Fuel Supply Management

Webinar Conference
8 November 2023, 13:00–14:30 CEST

PANELISTS

Practical structures for a Framework – Peter Newell (Sussex University)

Geo-political considerations in Norway – Bård Lahn (University of Oslo)

Economics of Pricing Alignment to Paris Agreement.

- Angela Picciariello and Olivier Bois Von Kursk (IISD)

Just Transition Considerations – Vicente Paulo Yu (G77 Negotiator)

Investor-State phase-out disputes, Canadian perspectives – Kyla Tienhaara (Queens University)

OVERVIEW OF DISCUSSION

Global negotiations to address climate change have focused almost exclusively on emissions reductions targets (demand reduction), most notably through the UN Framework Convention on Climate Change (UNFCCC). At first glance, several factors would suggest that production regulation should be easier to achieve than emissions reductions. Seventy-three percent of global oil production is in only ten countries, making for a smaller group of key negotiators. The International Energy Agency (IEA) predicts demand for oil and gas will peak before 2030. If this is the case, producers have vested interests in both stable prices and avoiding stranded assets. However, despite strong climate emission reduction commitments by some major oil producing countries, investments in new production by these same countries continue to rise, with no linkage to global climate objectives. As a result, countries who are leaders in investing in emissions reductions, such as Norway and Canada, continue in parallel to invest heavily in expansion of fossil fuel production capacity.

The leading structure for production limitation is OPEC+, which controls more than 40% of the global oil market. OPEC+ currently withholds 3.5 million barrels per day of available oil production from global markets in order to increase prices. OPEC+ pricing is focused on profit maximization, with less consideration of potential costs of capital write offs from a declining oil market, nor climate transition objectives. OPEC research predicts a 13 million b/d production increase in oil production between now and 2045, with additional investments of \$12.1 trillion required to achieve these levels.

The IEA notes that even its own predications for declining future oil emissions and production – which are significantly lower than OPEC's - are significantly too slow to meet Paris Agreement emissions targets. They note that there are already more than sufficient existing fields to exhaust the carbon budget. As the energy transition accelerates, western oil and gas producers have strong economic interests in stable pricing and avoiding the collapse of public investments. However, there is little political appetite for production limitation amongst western producers. Unilateral production decreases could lead to lost revenues, with limited decrease in global supply. High prices are also deeply unpopular. Domestic political anger over oil and gas price spikes at

the start of the Ukraine war have shown that maintaining low fuel prices and concerns over energy security are as important political drivers as domestic environmental constituencies.

There has been little research into the ideal price point for oil and gas to transition towards the Paris Agreement targets. Higher long-term prices encourage a faster transition away from oil and gas. On the flip side, initially high prices risk driving consumers back into coal, as happened in parts of Europe in 2022. The low short-term elasticity of demand for oil and gas means that most of the profits from high price points are simply transferred to producers. High prices also encourage the development of otherwise unprofitable new fields, creating further sunken capital costs with long term operating horizons. The most effective pricing to ensure stability and an effective transition might therefore be to start with moderate pricing, which would increase gradually over time.

Recent efforts at creating production limitation agreements include the Fossil Fuel Non-Proliferation Initiative, and the Beyond Oil and Gas Alliance (BOGA). Neither of these initiatives are yet endorsed by major oil producing states. There are also numerous stand-alone initiatives to cancel or restrict specific oil and gas development projects. In a context where OPEC+, and in particular Saudi Arabia, maintain production at below capacity to impact global prices, decreased output by one supplier could be compensated by others, dampening the impact on overall global supply.

Oil and gas pricing have significant global and social economic impacts. Discussions of a global production regulation framework would need to take these into consideration, particularly for low income and developing states. One potential avenue for mitigation could be a tiered pricing system. Additional profits made by producers from a regulated global market could also contribute to supporting just transition initiatives. Examples of these initiatives are already being discussed at the UNFCCC COPs.

SPEAKER BIOGRAPHIES

Peter Newell is professor of International Relations at the University of Sussex. Professor Newell has published extensively on the political economy of energy transitions, as well as political structures for potential fossil fuel production management. In addition to his academic research, he has worked as a policy consultant (UK, Finland, Sweden, Ireland & India) as well as for international organizations (UNDP, GEF, World Bank, UNCTAD). Professor Newell has also published on the case for a Fossil Fuel Non-Proliferation Treaty.

Vicente Paulo Yu is a Senior Legal Adviser with the Third World Network, a Visiting Research Fellow at the UN Research Institute for Social Development (UNRISD), and a founding partner of the Clean Energy Innovations Partnership. Mr. Paulo Yu is a negotiator for the G-77 at the COP summits, promoting pathways to equitable transitions.

Angela Picciariello is a senior energy researcher at the IISD, focusing on fossil fuel supply and the financial implications of net-zero transitions. She has carried out research on the financial risks of exposure to the portfolios of National Oil Companies.

Olivier Bois Von Kursk is a policy advisor at the International Institute for Sustainable Development (IISD). His work has focused extensively on the economics of the energy transition. He previously worked at the United Nations Environmental Programme Copenhagen Climate Centre (UNEP-CCC). He has been involved in the UNEP Emissions Gaps reports. IISD currently hosts the Beyond Oil and Gas Alliance (BOGA).

Bård Lahn is a Research Fellow at the University of Oslo. His research has focused on Oil and Climate policies in Norway, the Nordic countries, and globally. He currently leads a project called “The Futures of Oil”, which looks at modelling tools and technologies used in government fossil fuel extraction decisions. He previously worked for the Norwegian Ministry for Climate and Environment as well as for CICERO, a leading Norwegian climate research institute.

Kyla Tienhaara is a Canadian Research Chair in Economy and Environment, and an Assistant Professor at the School of Environmental Studies at Queen’s University, Canada. One of her research focuses is investor-state disputes, particularly with regards to liability issues related to country phasing down fossil fuel developments. She also follows Canadian political discussions around fossil fuel phase-out.