

Examining the Idea of: “Security of Energy Demand”

Introduction:

Following the first oil shock and with the formation of International Energy Agency (IEA), the western industrialized countries employed a number of strategic policies later known as “security of energy supply”. In view of the fact that security of energy and supply of sufficient energy to the economies of industrial countries had been at risk during the shocks in the 1970’s when oil export was interrupted, those policies were adopted to prevent repetition of such a danger and to ensure sufficient and continuous supply of energy to the economies of these countries. Of course, among various types of energies, there was more sensitiveness toward crude oil. The main characteristics of policies aimed at energy supply security can be summarized as follows:

1- To minimize economic dependence on energy (as a whole) through saving, consumption optimization and increase of energy efficiency.

2- Diversification of various types of consumed energies and prevention of over-dependence to a special type of energy particularly crude oil through development of atomic energy and non-fossil energies.

3- Diversification of origins of crude oil supplies through promotion and development of oil production in non-OPEC areas particularly outside the Persian Gulf and Middle East regions.

4- Storage of crude oil for an emergency situation and encouraging OPEC oil-producing countries to possess spare capacity for raising output during emergency situation.

Now, after the lapse of years since those policies were compiled and pursued by industrialized countries, some oil producing countries have reached the idea to put forward the issue of “security of energy demand” versus policies of industrialized countries with respect to the issue of “security of energy supply”. Apparently it is an idea which is logical and should be taken seriously. However, the shortcomings and defects of such an idea should also be taken seriously and balanced beforehand.

There is no doubt, however, that the above-mentioned policies of industrialized countries have been one-sided aimed only at considering and protecting the interests of those countries. As a result, there are deficiencies in those policies which will be considered later. However, it should be mentioned that since they were designed and compiled several years ago, they have enjoyed clarity and transparency. Therefore, any idea to be put forward versus those policies should equally enjoy suitable clarity and transparency. In the continuation of this article, an endeavor will be directed to investigate and examine “security of energy demand”. This issue can be expanded and defined within the limit of opportunity.

Security of energy demand or security of crude oil demand

Securing demand for the export of crude oil has been the intention of designers of this idea. Their purpose is probably that their commodity (i.e. crude oil) will never be without customers. Thus, this issue is examined here from such an angle and a number of points in this respect are presented in the following:

1- The history has practically proven that in view of population growth in the world and its increasing needs, no raw material and God-given gift has ever lost its value and become unusable. Also, various types of energy carriers have never faced any long term market problem. In the 1980’s and 1990’s and as a consequence of policies pursued by industrialized countries since mid-1970’s (mentioned earlier), the demand for crude oil produced by OPEC started to decline. Thus, in order to prevent the collapse of prices (except during a short period in 1985), the organization of OPEC took action to reduce output. Certainly, some OPEC members have had spare production capacity at different periods of time. In other words, their oil production capacity had been more than the market demand. But this was intentional. In the case of some countries, it is perhaps safe to claim that creating spare capacity were under the influence and pressure of major oil consuming industrialized countries in order to control the market during an emergency situation. Therefore, the existence of such spare production capacities could not be related to inefficiency of demand.

Regarding production of almost all goods, the issue of Market Research is conducted prior to investment and even before technical-economic studies for investment is carried out. In other words, the investor, before anything else, should make sure that enough demand for his product exists when his investment reaches the production stage. Needless to repeat that in a competitive market, there are principally no guarantees that demand and its continuation exist for any commodity. But in the case of the oil market, there is a lesser market problem due to its natural monopoly. In various types of oil contracts such as Production Sharing, Service Contract or its special Iranian type called Buy-Back (which has attracted different debates); the only issue not considered is the question that to which market the produced oil should be sold? In other words, there is a presumption for all market elements and investment sides that crude oil faces no market problem and would not be without customer. To look at another angle, if production investments are made without market research and based on presumption of market existence, it would not look much logical if guarantees are requested from the market or the consumers for enough demand for the product.

2- The country or countries which put forward the issue of security of demand must not be contradictory in their policies. For example, it would be meaningless if a producing country,

knowing the market limitation, take action to increase production capacity with the aim of having spare production capacity and possibly competes with other producers and suppliers and, at the same time, request the consumers to have demand for all of its capacity. Also, it is not sensible that OPEC members, on the one side, lack any strategy and coordination regarding increasing crude oil production capacity and even attempt to compete with each other as well as insist on having spare capacities serving the interests of consumers more than the producers and, on the other side, seek guarantees for demand from the consumers.

It is for many years that cooperation between OPEC members has been limited to very short term decision makings regarding regulation of oil supply. This organization has lacked long term and clear strategy capable of countering consumers' countries long term and clear strategies. Therefore, the organization can also take a rational and clear position vis-à-vis consuming countries with respect to demand guarantee.

3- The issue of energy demand is put forward in such a way that can be regarded as paradoxical and from a weak position. For instance, a country possessing oil reserves can request from consuming industrialized countries to assist her in the area of capital and technology and meanwhile give guarantee to buy the produced oil. The oil producing country will in return be able to play its role to provide security of oil supply continuously! There are some negative and indecent admissions in this regard that can be listed as follows:

A- Our economy is dependent on oil and will remain so.

B- We will not be able to develop our oil industry without relying on foreign investors.

C- Whilst the industrial oil consuming countries, in their one-sided energy policies, have not and do not pay attention to our interests and take into consideration only their own interests, we consider it as our duty to provide their required energy.

This concept can also be put forward from an active and aggressive position and mention that: Despite many problems facing OPEC, most of the organization's members have demonstrated that, in spite of political tensions and issues, they are not only thinking about their own interests and are not indifferent with respect to providing world oil requirements.

We can also mention that: In view of the level of the world oil prices in the past few years, many oil producing countries particularly OPEC members at present are facing with extra foreign exchange revenues and all these countries are making efforts to diversify their economies and reduce dependence on oil revenues. Also, most of these countries have considered mechanisms for depositing foreign exchange to prevent leakage beyond the limit of oil revenues to their economies. Therefore, under this situation, it may be possible to simply manage the economies of these countries with lesser crude oil export. The lesser oil production and export will not only save the reserves for the future generations but, in view of the economic characteristics of crude oil, will also cause prices to rise guaranteeing more revenues. However, the oil exporting countries have always demonstrated that in their planning for oil production and exports have considered the interests of international community and not only their own national interests. However,

it is indisputable that this cooperation with the world can not be one sided. If the industrialized world expects OPEC and its members to consider their energy requirements above its members own national interests, those countries should also provide, under just conditions, their capital and technology required for development of hydrocarbon reserves. In this case, the cooperation will be changed into a win-win relationship otherwise will not be a stable and lasting cooperation.

If the industrialized countries are in need of OPEC's spare production capacity, OPEC members could only cooperate in providing the conditions and there is no reason that they undertake to pay the costs.

In addition, it must be pointed out to the industrialized countries that: Even at the times when others have created mental and political factors in the oil market, OPEC has made efforts to calm down the market atmosphere and create confidence in the market for continuation of supply and meeting the requirements.

Also the industrialized countries should be made to understand that: The excessive rise in the price of other raw materials and the costs of oil and gas exploration and production in recent years and the continuous fall in the value of the dollar (against other major world currencies) on which oil prices are determined and announced, have created conditions that make the return of the past oil prices impossible. The price should be set at a level to ensure sufficient investment in this industry for meeting growing demand for oil in the future.

What was recommended above for mutual dialogue with industrialized countries, more than the issues related to "security of energy demand", is a manifestation of one-sidedness and lack of temperance and reasoning in the policies of security of energy supply and can be discussed in that context. We will discuss it in more detail later.

4- As already mentioned, although the policy of security of energy supply is one-sided and faulty, but it should be noted that much of the main elements of this policy is rational and acceptable by wisdom and even religious law. Saving and optimized consumption is something praiseworthy and it can not be expected and recommended that any good be consumed by world community lavishly and irregularly in order to keep customer for its producer. Replacing clean energies with polluting energy like oil is definitely in the interest of human community. Its importance has been revealed more than ever by issues related to environment and sustainable development during the past two decades. Therefore, the continuation of irregular dependence on a polluting source can not be recommended. Of course, it is also a one-sided policy to obtain taxes called carbon tax from this polluting energy and pay subsidy to coal with higher pollution to maintain its share. This could also be a subject for dialogue and criticism.

De-monopolization from world oil market and diversification of the number of producers can not also be opposed. But this expectation can be put forward that each producer is allocated a share in proportion to its underground reserves. Perhaps the deadlocks in the world oil market during the past few years were due to the fact that this proportion has not been observed. Thus,

here also care should be taken that the issue of security of energy demand does not receive a take contrary to wisdom and logic acceptable by world community. This matter can also reveal another part of deficiencies in the policies related to security of energy supply.

Securing economy with respect to oil demand

But the OPEC oil producing countries can take inspiration from the policy of security of energy supply for domestic arena as well as collective cooperation. If the policy of security of energy supply has been formed for keeping immune the economies of major oil consuming countries vis-à-vis reduction or possible interruption of oil flow, the policy of security of energy demand can also be formed for reduction or possible interruption of oil revenues to oil producing countries. In other word, the security of energy demand can be interpreted as the security of economy with respect to oil demand. If the industrialized countries considered the minimization of energy share in the economy, the oil producing countries can aim at minimization of economic dependence to oil revenues. If the industrialized countries have considered diversification to different energy types and origins of energy supply, OPEC countries can also consider economic diversification and origins of their foreign exchange revenues to prevent economic crisis and stagnation with the possible interruption of the flow of oil revenues. Also, these countries may be able to work for new non-energy demand for crude oil through collective cooperation and joint research so that if a day comes when demand for using crude oil as an energy carrier no longer exists, other demands (like changing to petrochemical products) is created for oil. If the industrialized countries have considered the mechanism of oil storage for countering with the conditions of oil flow interruption, the oil producing countries can also insist on mechanisms of depositing foreign exchange revenues from oil and always keep a part of current oil revenues for countering possible future crisis and for the benefit of future generations.

Only in this case the oil producing countries can get out of dependence and inactiveness and form a common position vis-à-vis consuming countries and their policies. Otherwise, they will always remain in an inactive position.

Inefficiencies and faults of the policies of “security of energy supply”

As noted above, in order to design setting up dialogue with major energy consuming and importing countries, it would be better to focus on the faults, inefficiencies and one-sidedness of policies related to security of energy supply instead of putting emphasizes on the idea of security of energy demand that its creditability and necessity was investigated in the above lines.

The most important paradox of policies of energy supply security is the lack of attention to major energy suppliers particularly crude oil suppliers and to their interests. Today, it has been proved that any planning will not succeed if all the interested parties are not considered during design of the policy and planning.

The history of the past forty years show that despite all the West's policies, the possibility for becoming needless of oil as an energy carrier as well as becoming independent from Middle

East and Persian Gulf oil has not been materialized. Also there is a consensus that the oil market is an international and uniform market. Thus, this important question is raised that: How can we quest for the security of energy supply in view of insecurity in the major world oil regions? Interventions and political instigations by outside powers along with creating obstacles for economic development of Middle Eastern and Persian Gulf countries have caused chronic insecurity in the region. This is whilst most of these interventions are carried out under the pretext of energy supply security.

Energy has special importance because the market mechanism can not take its lead. In other words, if energy (as a commodity) is an evidence of market failure, and if the market should be put under control, such controls should be designed by collective agreement between producers and consumers so that the required investments' guarantees can also be provided.

During the past two years, the importance of the OPEC's spare production capacities alongside the strategic reserves for controlling and calming down the world oil market in the interests of consuming governments, became evident. However, in view of the share of investment costs in the production costs of a barrel of oil, perhaps from now on, it can not be expected from OPEC to keep a part of its capitals stagnant for spare production capacities. Keeping and maintaining spare capacity imposes costs on OPEC members. It is necessary that either through price mechanism create the necessary incentive for maintaining it or the major consumers undertake to provide the related subsidy. In this respect, cooperation between major energy producers and consumers regarding access to advanced technologies has a special significance. The role of technology in improving recovery factor and increasing oil production capacity is undeniable. If the countries possessing new technologies, which are mainly from energy consuming countries, fail to do their responsibility with respect to transfer of needed technologies and know-how to owners of oil and gas resources, the world will be denied a part of non-renewable energy sources due to the loss of these resources and the reduction of recovery factors. Undoubtedly, this will be to the detriment of the whole world community and will have a negative impact on the energy supply security. Therefore, it seems that even the big industrialized countries should ask their affiliated companies that in their mutual contracts with the oil producers, they should give preference to improved recovery rather than their own short term institutions' interests.

Why some countries consider it their right to diversify the origins of their energy supply while denying others and, meanwhile, talk about energy supply security?

In general, it should be said that accessing energy security requires paying attention to all its dimensions as well as continuing cooperation and dialogue between consumers and producers. In order to secure the sustainable energy security, a number of factors such as supply security, investment security, security to obtain latest technologies, market security and suitable price should be jointly pursued and prepare the ground to bring in line the consumers' and producers' interests.

Director