

The International Oil Market in the Coming Decades

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I'm honored and pleased to be here to participate in this U.S.-Japan Energy Policy Dialogue, and to discuss "**The International Oil Market in the Coming Decades.**"

The enormous changes that have occurred in world oil markets over the past quarter century, and the changes we are currently witnessing, leave me, as a newcomer to the industry, humbled at the prospect of projecting what will happen in the decades ahead. Forecasting is, at best, uncertain.

Many people in the United States rely on the U.S. Department of Energy for projections about energy markets. Its most recent "reference case" forecast, released in April, estimates that Asian energy growth will account for over half the growth in global demand between now and 2020, and over 44 percent of the expected growth in the demand for oil during that period.

This Department of Energy scenario implies more than a doubling of Asian oil demand in just over two decades. This amounts to an increase of over 19 million barrels a day. That is more than double the level of current production by Saudi Arabia, currently the world's largest oil producer. Overall, global oil demand in this scenario rises by nearly 45 million barrels a day between 1996 and 2020, more than double the current production of the entire Persian Gulf.

The Department of Energy's projection calls for massive new growth in non-OPEC supply, which is expected to increase by 10.6 million barrels a day during the 12 years from 1998 to 2010. This is more than a five-fold increase from that experienced from 1985 to 1997.

Are these numbers realistic? The forecast must speak for itself. But at least two things are clear. First, an avalanche of technology in our industry is enabling us to find and recover new supplies that were earlier either overlooked or deemed uneconomic. And second, economic growth and energy use are closely entwined.

Forecasters recognize that there are many factors they cannot control. Yet, there are some factors that influence energy markets, and thus economic growth, over which we should try to exercise some measure of control. I have in mind the market-contrary activities of some non-governmental organizations that seek to disrupt energy markets. This activity is one of several important trends that are having an impact on the oil and natural gas industry. I would like to share with you some thoughts on the challenges those trends present, and how we might respond. I'm confident that certain of these issues will have a profound effect on the international oil markets of the future.

My review of these trends begins in Europe. There, on January 1, the euro will begin its phase-in as one of the world's newest currencies. It's the latest step in the development of an economic bloc of more than 300 million people. Instead of individual countries, the emphasis is shifting to one European Union. This action is yet further evidence of the growing trend toward globalization.

A world that is globalizing to an extent no one dreamed possible a decade or two ago offers both promise and peril. Globalization brings with it a growing number of international organizations—formal bureaucracies that have an increasingly important role both economically and politically. Those two factors—the trend toward globalization and the creation of new international “governments”—if you will permit me the liberty to use such a word—have led to the rapid globalization of environmental policymaking.

Everyone wants a clean, safe environment. That's not the issue. What is at issue, however, is how we arrive at our cleaner, safer world. Is it to be by command and control regulations that are dictated to us? Or is it by harnessing the creativity of the marketplace through the utilization of flexible regulatory mechanisms that incorporate the principles of sound science, risk assessment, benefit-cost analysis, and prioritization.

The rapid globalization of environmental issues makes the orderly process of decision-making more difficult, because many issues are now handled in non-traditional ways through multinational organizations.

Yet, the globalization of environmental issues is just one factor affecting our industry. Two other trends are also at play. The first of these trends is the rapid, wholesale adoption of the new communications technologies. As one observer has said, this is now a CNN world. The increasing number of highly competitive international news outlets creates a growing demand for new stories, fresh angles, distinct sources, and heightened controversy. At the same time, another technology—the Internet—is delivering on its promise of instant worldwide communication, both public and private, at relatively low cost.

The second of these other trends is the growth and influence of non-governmental organizations—often referred to by the acronym NGO. The United Nations defines an NGO as a “non-profit, voluntary citizens’ group.”

One observer estimates that 4,000 NGOs are active on environmental issues alone. Many are accredited by the UN as public representatives and are often present and in the room when international treaties and broad agreements are written. They monitor both private businesses and governments to determine if they are complying with national and international rules. They file suits in our courts and in foreign courts. They sponsor boycotts and launch media campaigns against the policies, companies, and governments with whom they disagree. They leverage their impact on the increasing interaction between the globalization of environmental issues and the rise of high-tech communications on an international scale.

NGOs are at the leading edge in utilization of the new communications technologies to influence environmental policymaking worldwide. Their stories conveyed to the news media are often intended to convince the public that global government programs—such as the Kyoto Protocol—are needed. They make the most of the new technologies to communicate quickly via facsimile, Internet and satellite TV. They are experts at staging events that get media coverage. And, they are masters at building coalitions that further leverage their already formidable list of assets.

Many of these environmental NGOs are accountable only to themselves, and yet they are often funded by international organizations that derive their revenue from taxpayers. A number of environmental NGOs, such as Greenpeace, the World Wildlife Fund and others, see themselves as the true determinants of what is best for society from an environmental perspective. Their goal is to have both business and government conform to their view of the world. As a result, our industry is increasingly finding that when environmental issues arrive on our shores, their perspectives have been so well developed and so laden with mischaracterizations that the public is at risk of losing its ability to ensure a rational discussion and fair hearing before decisions are made. We in industry are at risk of being marginalized in the public debate, even when the facts are on our side, because we have not made the same commitment to education and advocacy on environmental issues as have many NGOs.

NGOs have combined the globalization of environmental issues with technologically proficient global communications—not just to take aim at individual industries, but to achieve significant reductions in both pollution and energy use overall. And I, for one, feel we in industry have not always been as prepared to respond as required. That must change. We must face the fact that NGOs have outflanked the energy industries in mobilizing the best use of communications technologies and globalization to advance their interests. Unless those of us in the energy industry are willing to cede yet further ground in the public policy arena, we must increase our attention to these developments. And, be prepared to do something about it.

We are all part of international organizations that effectively represent our own industry's interests. The World Petroleum Congress, for example, offers an international forum and worldwide perspective on issues facing our industry. IPIECA, the International Petroleum Industry Environmental Conservation Association, is highly effective at using trade associations to identify emerging issues by finding common themes being used in different parts of the world.

Yet, these two entities involve only the oil and gas industry. The industries represented at our conference today have broader concerns, but we are here focused primarily on just two countries—Japan and the U.S. All of us in the energy industry are at ever increasing risk unless we begin to develop more effective counter weights to the advocacy offensive being directed by many of the NGOs. Their pressure is one thing we have in common.

From the perspective of a trade association, I feel it is important that we identify creative ways to advantage ourselves in the arena of environmental advocacy. If we are to improve our effectiveness in this area, we must be more knowledgeable about what NGOs are doing and what they are promoting. IPIECA and other organizations have shown us a way. I

suggest that we at this conference consider whether we need to do more in terms of collaborating on international environmental issues that impact energy producers. To engender some discussion on this matter, either as a part of meeting sessions or in sidebar conversations during our social time, I'd like to offer a few thoughts.

- First, is there value to be gained if national trade associations representing key energy producers from several regions of the world were to meet annually, perhaps in a forum like this, to share information and analysis of critical issues?
- Second, these annual meetings might enable our respective associations in both Japan and the U.S. to explore more specific follow-up issues in greater detail.
- Third, we may even explore whether an early-warning system between us might be helpful. Energy producing trade associations from other countries might also be invited to join. Using the latest information technology, a "virtual community" could be created to identify and share responses to initiatives launched by NGOs, or actions taken by governments prompted by NGO actions. When an issue arises in Brazil, for example, we could all benefit by being better prepared to respond by the time the issue reaches our own shores. The Internet is one affordable way of doing this. API is willing to volunteer to explore this matter, to include helping launch a private Web site for this purpose, if it looks like it could prove helpful.
- Fourth, we could determine if messages, or even broader pro-active programs, developed in one country to promote the environmental stewardship of oil and gas companies, or energy companies in general, could be effective elsewhere.

There is no substitute for concerted, focused action. Strategic collaboration makes sense in today's globalized, interdependent world. One association acting alone, no matter how global, is no match for NGOs in influence, speed or access. If we act more collaboratively, I feel we increase our chances of making a difference.

Trade associations that want to play a critical role in protecting their members' interests into the future must try to level the playing field with NGOs. We must all enrich our advocacy, including quick responses to threats to our interests. A renewed sense of urgency is needed, because exposure and risk are intensified by the speed with which NGO advocacy travels in the world of today and tomorrow.

In conclusion, I want to apologize for taking some liberties in expanding my topic somewhat, and I also want to thank you for your forbearance in that regard. I did so, however, because environmental, health, and safety issues—and their increasing impact on our member companies' operations—are a top priority issue for our leadership. Effective collaboration, more open pathways of communication among ourselves, and the leveraging of our resources to advantage the energy industry are of tremendous benefit to the future of the oil and gas industry worldwide. I look forward to discussing with you whether we might find common ground for future sessions together beyond those we've already enjoyed.
Thank you.