

**AUSTRALIAN INSTITUTE OF INTERNATIONAL AFFAIRS  
AND  
AUSTRALIAN HOMELAND SECURITY RESEARCH CENTRE**

**ENERGY SECURITY SYMPOSIUM:  
EFFECTS ON AUSTRALIA'S STRATEGIC ENVIRONMENT**

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**SYMPOSIUM SUMMARY**

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## **1. Introduction**

It is a challenge to sum up the broad array of material that has been presented to this important symposium on Australia's energy security.

As Emeritus Professor Stuart Harris (Australian National University) remarked at the outset, many of the nuances surrounding the subject of energy security are not understood. Stuart made the pertinent observation that the global oil market is largely beyond the influence of the policy position of any one government and, to a large extent, beyond the control of OPEC, except in so far as its setting of production quotas has an effect on the supply side of the equation. He emphasised that oil prices have risen principally because the world has been going through a period of economic boom which has caused demand for oil to surge. Supply has been unable to keep up with demand because of prior under-investment in production capacity.

We are nonetheless able to identify six broad themes that have been made explicit, or can be inferred, from this symposium, without needing to analyse all of the individual contributions.

## **2. The First Theme – The New Cold War: Worsening Energy Security or, We Should Say, Oil Security**

The first theme of the symposium was that the world is suffering from “the third oil shock” and that the energy security problem is getting worse, not better. As the symposium chairman, Professor Michael Wesley (Griffith University), pointed out in his opening remarks, the third oil shock is distinguishable from the first two shocks in being a demand-induced phenomenon.

This first theme was underscored by the remarks of Alexander Downer (Minister for Foreign Affairs) and Martin Ferguson (Shadow Minister for Primary Industries, Resources, Forestry and Tourism).

Clearly, energy security has hit the top of the foreign policy agenda. It has been top of the APEC energy agenda since before 9/11 and has become even more prominent after that horrific event. The G8 Gleneagles and St Petersburg summits have ensured that it will stay there.

As Martin Ferguson emphasised, energy security concerns now confront us with what he characterised as “the new cold war”. As he put it: “... whoever controls access to energy resources controls economic growth.”

The key strategy for Australia to overcome its own energy security problem is diversification, using every available option.

Luckily for Australia, the energy security problem only applies to oil and to products refined from oil. In a study that ABARE and ResourcesLaw International carried out for the APEC Energy Working Group in 2005, we emphasised that the oil security problem is not the adequacy of global reserves but their increasing concentration in the Middle East. Assuming global oil consumption continues to rise over the medium to longer term (and this is not an unreasonable assumption), the global distribution of oil production will shift to where the reserves are concentrated – that is, the share of the Middle East will rise.

In 2003, the Middle East's share of world oil production was 30%. Let us look ahead to 2030. The IEA projects that global energy demand will have risen 52% by 2030. By 2030, ABARE projects that the Middle East's share of the world oil production will have increased to 46%.

Ignoring any concern about climate change or other environmental effects from the use of fossil fuels, this trend is clearly not sustainable.

Increasing market dependence on the Middle East is therefore the single most important energy security risk for all oil importing countries.

### **3. The Second Theme – Australia's Declining Self-Sufficiency**

Australia is a net energy exporter, but this is due to our strong exporting position with respect to coal, natural gas (in the form of LNG) and uranium.

In the case of oil, both in its crude form and in the form of refined products, Australia is not self-sufficient and is trending south.

If there were to be a repetition of the 1973 oil crisis, or worse, Australia would be in much the same boat as most other oil importing countries. If there were to be a complete cessation of crude oil supply, Australia would have 2 – 3 weeks of stocks of refined products before most of our vehicular traffic would have to come off the road.

In the worst case of a prolonged inability to source imported crude, Australia may need to revert to charcoal or gas-fired engines for automobile transport – much as we did in World War II. The consolation, if you could call it that, would be that less self-sufficient oil importers than Australia would be even worse off than we would.

But imagine what this would do for the global economy! Australia could not isolate itself from the damage that would flow.

### **4. The Third Theme – Energy Security is Not a Risk for Australia But an Opportunity**

As Alexander Downer elaborated, the energy security problem provides Australia with the opportunity of helping China, India and other energy importers to reduce their vulnerability to energy supply disruptions. Australia cannot supply them with oil but it has ample supplies of coal, natural gas (by liquefying it into LNG) and uranium for nuclear power generation (provided that these countries use it for peaceful purposes).

Professor Yi-Chong Xu provided the symposium with a Chinese perspective – China looks to Australia as a reliable supplier of these non-oil energy forms. However, Professor Xu lamented China's lack of a rational energy policy and described it as "muddling through".

## **5. The Fourth Theme – The Complication of Climate Change**

All of us would accept that global warming must be minimised. However, current trends indicate little prospect in the next 20 – 40 years of achieving sufficient reductions in global GHG emissions to arrest the impact that emissions have on the global climate.

Accordingly, at the same time as continuing efforts to reduce GHG emissions, all countries must get themselves ready for the inevitable consequences of climate change.

This is a special challenge for the energy industry because energy production and consumption is the main source of GHG emissions. However, the symposium did not have time to address how energy security and environmental concerns can be accommodated in a comprehensive policy framework.

## **6. The Fifth Theme – A Free and Open Global Market is Fundamental But is Not Enough by Itself**

Because the world's primary energy resources are spread very unevenly amongst individual economies, there must be an increasing reliance on cross-border primary energy supply to supplement domestic sources.

As Alexander Downer emphasised, Australia's main policy priority is to see energy markets continue to operate efficiently and for there to be free and open trade amongst exporters and importers.

Symposium chairman Michael Wesley further elaborated on the importance of the market mechanism and made a number of thoughtful remarks that warrant further study.

I would however make the point that there is no single cross-border energy market. Nor is there any simple "energy highway" solution that can be devised to speed up the traffic. Rather, there is an aggregation of multiple, competitive, unregulated cross-border energy markets where supply and demand determines the volume and value of trade. And Australia is no energy super-power, despite some fanciful suggestions that it might be.

There are many barriers to energy trade. Two studies that ResourcesLaw International has carried out for the APEC Energy Working Group on barriers to energy trade ("Cross-Border Power", 2002 and "Great Expectations: Cross-Border Natural Gas Trade in APEC Economies", 2004) highlighted a wide range of trade barriers and recommended a range of strategies to overcome them.

One recommendation that has been taken up is the establishment of the APEC Gas Forum.

Martin Ferguson raised the question whether the activities of state-owned corporations are always governed by the dictates of free and open markets. Clearly, many "behind the border" barriers remain.

## **7. The Sixth Theme – Investors Are the Main Players: Governments Are Not**

The sixth theme of the symposium was more implicit than explicit. A scramble for global energy resources is now under way. Much of the new exploration activity for oil and gas is in high-cost deep water provinces, pushing up the cost of development.

Whilst international dialogue and common understanding are vitally important for the maintenance of orderly markets, the governments of most importing countries, including Australia, are not investors. Most governments are not disposed to, or are unable to, ordain what energy transactions and energy investments shall be undertaken. Decisions about these matters almost always fall to profit-seeking, risk-taking investors. It is fanciful and naïve to assume, as several participants seemed to do, that any government can ignore market realities in its policymaking.

To keep up with the need for energy, the IEA has forecast that the world must invest US\$17 billion per year in the energy sector. More than half of the IEA forecast needs to be invested in the Asia-Pacific region.

Of course, it is open to governments to use their own balance sheets to undertake transactions and investments but who is to say that governments are more likely to make the right decisions than private sector investors? In any case, the world is awash with capital at the moment and the use of government balance sheets will only be necessary if the private sector finds the risks unpalatable. Only very brave governments will rush in where private sector angels have been afraid to tread.

What we can safely conclude from this is that Australia's energy security problems can never be solved through global talkfests. The IEA has been trying that for long enough. Nor will any number of G8 or APEC summits make a significant difference.

## **8. Overall Conclusions – Australia Has a Particular Problem But a Particular Opportunity**

What are the overall conclusions for Australia that flow from this symposium?

The first is that Australia must manage its own most serious energy security problem, a lack of self-sufficiency in oil. The second is that Australia has a particular opportunity to help other countries to alleviate their own energy security problems.

**The solution to Australia's problem** involves at least three main policy priorities:

- one, find more indigenous oil
- two, reduce our use of oil as much as we can – for example by increasing our use of natural gas, by converting gas-to-liquids, by utilising clean coal, by progressively increasing our use of renewables and by using our energy more efficiently – perhaps some of that natural gas will come by pipeline from PNG as Stephen Brophy (Oil Search Ltd) outlined
- three, invest in fuel switching systems, both in the transportation sector and for power generation.

**The energy security opportunity** for Australia involves the increased supply of non-oil energy products to our trading partners. Each main product carries with it some potential difficulties:

- **coal** must be utilised in the cleanest possible way
- **LNG** requires massive investments in multi-billion dollar production and export facilities and
- **uranium** requires special safeguards against its misuse.

The challenge of nuclear waste disposal is deserving of the closest scrutiny as a possible avenue of enhancing global security, as Anthony Bergin (Australian Strategic Policy Institute) emphasised.

In this regard, we all look forward to reading the draft report of the Australian Government's Uranium Mining, Processing and Nuclear Energy Review (the Switkowski Review) that is likely to be released in November.