

ENERGY CRISIS: WHAT NEXT FOR POLICIES, MARKETS, AND GEOPOLITICS?

Comments made by The Rt Hon Lord Howell of Guildford, former UK Energy Secretary, Chair of the Advisory Board of Crystal Energy and Co-Chair of Access for Women in Energy (AccessWIE), on the Future Energy Prospects and Prices seminar organised by AccessWIE and hosted by the Arab Bankers Association on 6th October 2022

1. We are in the midst of a media hysteria about energy prospects, with columnists and economists contradicting each other about policy, inflation, taxation, and public spending. Balanced middle ground has been abandoned, both in the UK and Europe, and especially in the US.

However, the comments of the former UK Prime Minister, Liz Truss, in Times on 6th October 2022 indicated a welcome and constructive improvement in UK relations with all EU neighbors in facing common energy supply problems. Interconnectors will be the key in preventing winter shortages and gas supply cuts.

2. Energy prices are trending down, despite spikes and extreme volatility, while OPEC+ members, now seeing a recession ahead, are trying to flex muscles by quota cuts. But muscles are weak and the impact on prices is proving small. Inflation from global energy prices (certainly oil and, maybe, gas, depending on several things, such as Putin, Norway, US LNG, etc.) will wind down sooner than expected next year. And, anyway, longer-term demand trend is peaking and pulled down as oil intensity drops.
3. No-one knows how the Russia/Ukraine war will work out or when. But all gas supply contracts with Russia, while Putin (or any other hardliner) is still in office, are now completely unreliable. The likelihood of use of a small nuclear weapon by Putin to clear space between Ukraine forces and the 'annexed' Donbas region is increasing, with China being deeply concerned at losing restraining influence of the Russian leader.
4. The current UK domestic reaction is badly distorted. Public spending and borrowing are now at maximum tolerable because of Covid furlough money and energy price emergency subsidies. So, whether tax increases are delayed, or taxes actually cut, a major curtailment of all public spending is now inevitable to restore balance.
5. This should be done by cutting state functions, not just slashing all budgets. A systematic questioning and curtailing of all functions in all departments, central and local, is required, similar to techniques developed by the US Office of Management and the Budget. Nothing to do with 'Left' or 'Right' as so many half-baked professors, commentators and MPs keep claiming. If energy-drive inflation comes in at lower than forecast, it should weaken wage demands/strikes, and, thus, reduce government spending (and borrowing needs) substantially.
6. On the climate front, as world emissions continue to rise and further depart from Paris targets, policymakers have at last realised that Net Zero, if achieved, will not cut emissions nearly enough and, thus, big new carbon absorption initiatives will be needed. COP27 will require major upward revision in global initiatives to halt severe climate violence.