The Data Point to Watch? ASIA'S ENERGY DEMAND!

INTERVIEW: KEITH MARTIN, CEO, UNIPER GLOBAL COMMODITIES SE

Q: What is your outlook for the supply and demand dynamics of crude oil in 2019?

Keith Martin: The oil prices that we've been enjoying over the last couple of years have been a surprising combination of the cooperation between OPEC and non-OPEC. It appears that this alignment remains sound. The main influencer going forward will be Asia's massive demand appetite for oil and gas products. As long as that is still there, the fall in oil prices that we saw in the fourth quarter of last year could just be a bump in the road. This year will have a lot to do with what happens in Asia i.e. is the demand going to be as robust as we've seen before? Beyond that, digitalization and how much of an impact it will have on every part of our process is going to be immense! It's being embraced and is already starting to have a deep impact in all aspects of what we do. We'll see that more visibly in the coming year.

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Q: On the subject of the energy transition, we have seen some headline grabbing developments, including Germany's recent announcement to ban all carbon-emitting cars by 2040. Are you concerned about policy makers over-reaching?

Keith Martin: It really depends on where you are in the world. If you take Europe, there is definitely an incentive to get rid of all forms of carbon emissions. We are seeing coal being taken out of the power stack, and nuclear power in Germany is also being closed. Even gas (probably the most efficient complement to renewables) is being talked about as a bridging fuel to a lower-carbon economy. In Europe, you can afford to have these views, whereas in other parts of the world people simply do not have access to energy for basic household needs, never mind for job creation and economic growth. That's why you do need a balance. The reality today is that there are 1.3 billion people in the world without electricity. We can do two things at the same time – improve people's quality of life and give sustainability to the economy. If you take gas, there more than 40 floating storage and regasification units (FSRUs) projects around the world that allow the import of gas in a relatively cheap way. As well as providing basic energy needs, that is creating jobs and creating sustainability.

Q: As an international energy company facing these transformational policy changes, such as a ban on coal and nuclear power generation, how do you map out a way forward for your business when there is still demand for these fossil fuels?

Keith Martin: In Europe's case, tariffs were offered to make it effective to bring in renewables and this was at the expense of thermal generation. If we look at what happened in Germany, investments were wiped out if you were invested in the latter, so that's a difficulty in the future world if you've got new decisions to make. We need more consistency. There's a bigger role for governments to play in terms of ensuring that a market is liberalized and competes on cost, or that there are clear rules if it is subsidized. Otherwise, you'll simply choke-off investment. If we look at the UK, for example, it's the first time in 100 years that the country has not burned coal since the Industrial Revolution because of the change with the pricing of renewables. Nobody is willing to invest now in thermal generation in the UK without subsidies. Otherwise, you simply cannot compete against the government, which can change the rules at any time. The other issue now is, due to advancements in technology, renewables are becoming cost competitive for certain forms of power generation. So, from a company perspective, it's about being flexible and being part of the solution, while accepting the fact that we are now in a transition to a lower-carbon economy.

Q: Does this uncertainty risk suppressing the potential investment that could go into new technologies, such as clean coal?

Keith Martin: Without a shadow of a doubt, because people will always think in terms of how long it takes to recoup an investment. But we also need to look at geographies. In Europe, renewables have been established for a long time because of subsidies. In the rest of the world, we're seeing gas emerge as a direct competitor to oil in power generation as it's cheaper and more efficient. E.ON at its peak was an €80 billion company, but it missed the transition to renewables, it missed deregulation, it missed incentivization by government to encourage renewables at the expense of thermal. That wiped out €60 billion from the company's valuation – because it did not see those changes coming. Going forward, the key question for anybody will be how sustainable is the return on my investment. The important thing when we make a decision is to understand the prevailing climate and what will happen in the future to underpin our investment as the climate continues to change.

Q: How big a factor is US President Trump when it comes to the predictability of policy makers? For example, with the US pulling out of the Paris Agreement, where does that leave carbon as a policy?

Keith Martin: I think Mr. Trump is actually very predictable. 'America First'. He says it very clearly, he articulates it and he does it. And he is sitting on a wealth of natural resource of shale so that's a huge benefit for the US. He has made it clear to his voters that he doesn't like high energy prices and that's why he claims credit for them falling. Again, his policy is very clear – political expediency – that lower oil prices at that moment in time was good and made sense.

Q: Would you spend $10 billion investing in a coal plant in America based on 'Trump Likes Coal'?

Keith Martin: I think what Mr. Trump is saying when he says that he likes coal is that he didn't like when it was not being favored with other forms of energy for subsidies. I don't see many people investing in new coal mines, but what you do see is very healthy coal demand. More coal is being exported from the US than at any time in its history. Ironically, despite the fact that Trump has pulled out of the Paris Agreement, US coal has gone elsewhere in the world. And as a result, the US is one of the few countries where carbon output has actually gone down. It's a crazy world.

Q: How secure is gas as part of the future energy mix and energy security?

Keith Martin: Europe at the moment relies on gas for the majority of its peak demand power generation. Going forward, gas will play an important role as there is instability caused by the growth of renewables.

We do import liquified natural gas (LNG) into Europe, but we only use about a third of the import capacity. Having said that, because of the loss of coal and the loss of nuclear plants, alongside the decline with indigenous oil production in the North Sea, we're going to have to import more LNG than ever before. We see LNG as a complement to gas pipelines in Europe, because gas is important in this transition to a lower-carbon economy. We are already heavily involved in Nord Stream 2 and we see it as very important to ensure security of supply for gas in Europe. ▯

**Edited transcript*