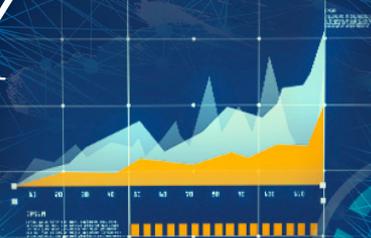


IAEE ENERGY FORUM



CONTENTS

- 1 President's Message
- 3 IAEE/Affiliate Master Calendar of Events
- 5 False Sense of Balance
- 9 Venezuela and U.S. Sanctions: Some Considerations
- 13 Trade and Labour Migration Effects on Oil-Macroeconomy Relationship
- 20 South African Association for Energy Economics (SAAEE)
- 21 Cost of Natural Gas in Eastern Chinese Markets: Implications for LNG Imports
- 29 The Petro-yuan: A Momentous Game Changer for the Global Energy Markets, the Global Economy & Sanctions
- 35 Independent Shale Oil Producers: The Next Chapter
- 37 NAAE/IAEE 2018 Conference Review
- 47 Calendar

Editor: David L. Williams

PUBLISHED BY:



PRESIDENT'S MESSAGE

Since my last message in April, I have participated in three very impressive affiliate events in Nigeria, South Africa and Athens and am on the brink of what promises to be an impressive 2018 IAEE International Conference in Groningen this month. The experiences of the last few months has reinforced my growing sense that “Energy Transition” needs to be seen in a much broader context than the overriding emphasis merely on decarbonization.

A geographic transition from a long the dominant set of developed economies primarily in the Atlantic Basin now moving eastward toward Asia. The natural evolution of trade patterns that goes with it faces not only aggressive US trade policies and sanctions discussed in this issue, but also an imminent decarbonization of tanker markets under new IMO sulfur restriction effective in 2020 that materially impact refinery product slates, global product trade and refinery operations.

Independent of decarbonization, energy poverty and energy access has become a dominant theme in the developing world and these countries have an opportunity for technological leapfrogging the infrastructure choices that have shaped energy systems in the developed economies. You don't see telephone poles in Africa, you see cell phones, drone deliveries compensate for the lack of roads, distributed power replaces central station power needs for land line. Each country has a unique set of resources, culture, history and political systems that affect the choice of transition pathways: “One-size does not fit all.”

Setting appropriate goals for a country and for the world in general is only a first step. Knowing where we are at the start of the transition journey is not as easy as it might appear, quality information and its effective communication is a key and a strong part of the IAEE's strategic plan. Flexibility in the face of intervening events along a chosen transition pathway is essential. The lessons provided by successes and, -- as important, if not more important -- failures from the experiences of developed economies can be a help if judiciously used.

Since I got my undergraduate degree in economics 50 years ago, I have learned that markets are usually in disequilibrium and transitions are happening on multiple fronts in response to both internal and external events. Energy markets drew me in almost immediately, with the legacy of my father's already long career as a senior economist with General Electric providing a fabric for a long and enjoyable career. In facing the current challenge, the need to understand national differences makes our involvement very much a two-way street. We need to learn first and teach later. My challenge to the organization and its members is simple: “If we can't contribute productively to the transition debate, what have we and the IAEE been doing for the last 41 years?”

David Knapp



EDITOR'S NOTES

With this issue we introduce a new format to *The Energy Forum*. We hope you'll like it.

In addition to the line-up of articles outlined below, we introduce IAEE's newest affiliate, The South African Association for Energy Economics and also report on the Nigerian IAEE Conference held in Abuja on April 22-24.

Joseph Naemi writes that it used to be easy: we worried about peak oil, the political stability of OPEC and the price volatility of crude and refined products. Now the situation is much more complex. The dream of renewables and the electric car has lulled us into believing our world can live on clean, green energy. The realities are otherwise. Meanwhile oil's reserve replacement ratio has dropped sharply and outside North America spare production capacity has dropped to a low of 2%.

Igor Hernandez notes that sanctions by the U.S. Government on Venezuelan officials and institutions, including PDVSA, the National Oil Company, not only have made financial constraints more stringent for the company, but also have immediate consequences for the short-term operation. He comments on some of these implications for the oil industry in Venezuela.

Saeed Moshiri reviews the oil-macroeconomy relationship concerning both oil-exporting and oil-importing countries and then presents the case for trade and labor migration as factors easing the pain. He uses Canada as a case study to show the importance of trade and labor movements in mitigating the adverse effects of oil price shocks.

Yue Wang and **Zhen Zhu** provide an overview of the natural gas supply and demand conditions for the Eastern Chinese markets. They estimate the cost of gas for the markets as gas pricing information for those markets are extremely difficult to obtain. In doing so, they estimate the gas production costs and transportation costs for various supply sources. Their results suggest that the U.S. LNG exports to those main consumption regions of China can be very profitable.

Mamdouh Salameh argues that the petro-yuan could mark the beginning of the end of the petrodollar. It is possible that the yuan could emerge as the world's top reserve currency within the next decade with the petro-yuan dominating global oil trade.

Eleanor Morrison notes that shale oil production resurfaced with improved efficiency gains, renegotiated (lower) contractor costs, higher oil market prices and technological innovations. It remains to be seen if lower production costs allow shale oil producers to withstand future crude oil price troughs and become a resilient contributor to U.S. oil supply.

David Williams

IAEE MISSION STATEMENT

The International Association for Energy Economics is an independent, non-profit, global membership organisation for business, government, academic and other professionals concerned with energy and related issues in the international community. We advance the knowledge, understanding and application of economics across all aspects of energy and foster communication amongst energy concerned professionals.

WE FACILITATE:

- Worldwide information flow and exchange of ideas on energy issues
- High quality research
- Development and education of students and energy professionals

WE ACCOMPLISH THIS THROUGH:

- Providing leading edge publications and electronic media
- Organizing international and regional conferences
- Building networks of energy concerned professionals

NEWSLETTER DISCLAIMER

IAEE is a 501(c)(6) corporation and neither takes any position on any political issue nor endorses any candidates, parties, or public policy proposals. IAEE officers, staff, and members may not represent that any policy position is supported by the IAEE nor claim to represent the IAEE in advocating any political objective. However, issues involving energy policy inherently involve questions of energy economics. Economic analysis of energy topics provides critical input to energy policy decisions. IAEE encourages its members to consider and explore the policy implications of their work as a means of maximizing the value of their work. IAEE is therefore pleased to offer its members a neutral and wholly non-partisan forum in its conferences and web-sites for its members to analyze such policy implications and to engage in dialogue about them, including advocacy by members of certain policies or positions, provided that such members do so with full respect of IAEE's need to maintain its own strict political neutrality. Any policy endorsed or advocated in any IAEE conference, document, publication, or web-site posting should therefore be understood to be the position of its individual author or authors, and not that of the IAEE nor its members as a group. Authors are requested to include in a speech or writing advocating a policy position a statement that it represents the author's own views and not necessarily those of the IAEE or any other members. Any member who willfully violates IAEE's political neutrality may be censured or removed from membership.