

CERAWeek Reflections of an Economist

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The Conference Setting

I have now attended my first [CERAWeek](#). This conference – once mainly an oil and gas industry gathering - is billed as the premier global energy event focused on global energy markets, geopolitics, and technology. Now sponsored by S&P Global following our merger with IHS Markit, CERAWeek did not disappoint. The exceptionally rich [program](#) featured leaders from the industry, policy makers, academics, journalists, and yes, even a few economists like me.

In terms of my conference contribution, I appeared on two panels including the one pictured below, which focused on the extent to which the macro world changed due to the effects of the COVID pandemic. I argued – and the panel agreed – that indeed it has changed a lot. In particular, the era of downward inflation pressures and very low interest rates is coming to an end.



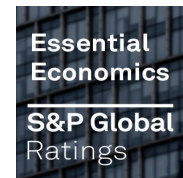
My Top Ten Takeaways

As I certified newbie to the energy world, I had a lot of catching up to do at CERAWeek. I attended more than thirty sessions and filled up an entire notebook as I tried to absorb as much as possible. To that end, here are my top ten takeaways from the conference:

1. ***The energy sector is optimistic about tackling climate change.*** This was a surprise, and the opposite of climate denial. An orderly and successful energy transition is seen as “the challenge of the century.” The industry prides itself in meeting challenges and fully expects to rise to the occasion.
2. ***The energy trilemma – the challenge of attaining security, sustainability, and affordability- is fully in play.*** The tradeoffs came to the fore following the Russian invasion of Ukraine, which put security front and center. These tradeoffs need to be front of mind as we go through the energy transition.

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3. *Transition dynamics matter.* Having a net zero target is commendable, but not sufficient. What is the path from now to the target? What is the role of transitional fuels such as gas? What are the intermediate milestones? Not specifying the path risks a bad outcome on the trilemma.
4. *Energy literacy is critical.* We all know about financial literacy; this is the same idea. Public understanding of the centrality of energy in our daily lives is critical, as is an understanding of how the industry operates and the constraints it faces. This understanding will underpin public support.
5. *The Inflation Reduction Act is viewed very positively.* This was also a surprise to me. The “carrot” approach of the US is seen as better than the “stick” approach of Europe. Other countries are likely to mirror the US model, which lays down the guideposts but lets the industry innovate. No picking winners.
6. *Focus on emissions, not the product.* The industry is decarbonizing to help ensure a sustainable future, but demonizing particular products is seen as unhelpful. Technological advances, market signals, policies and consumer preferences will guide the way. We cannot predict how these will play out.
7. *Technology will be key to the transition.* The CERAWeek consensus was that a successful transition cannot happen without new technologies; the venue was exploding with new ideas and potential products. Key areas include storage, carbon capture, low carbon fuel and hard to abate sectors.
8. *Learning is essential.* Countless leaders noted that their companies cannot tackle the challenge alone and they were acquiring partners who could help them apply new techniques and/or move into new markets. These are not takeovers - learning from new partners is seen as essential.
9. *Emerging markets can leapfrog.* Financing the transition was a hot topic; emerging markets and lower-income countries were seen as being at a disadvantage. However, as we have seen in other areas like telecom, these countries can adopt techniques from the leaders and potentially leapfrog ahead.
10. *The energy future is eclectic.* For its energy needs, humankind has moved from biomass to coal to hydrocarbons. We are now entering a new era, but the energy future will not be monolithic. Rather, energy will come from a blend of sources and include sequestration. One size will not fit all.

Macro Implications

As a classically trained economist, CERAWeek was an eye opener for me. In terms of growth, we tend to think of physical and human capital accumulation as the main factors driving the economy forward. As a result of this bias, in much of our analysis, energy has been taken for granted and natural capital has been largely ignored. This is no longer satisfactory and has indeed begun to change.

Bottom line: Given the enormity of the transition challenge before us, energy and natural capital should be central to macroeconomic surveillance.

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