

**THE 27TH ST. PETERSBURG INTERNATIONAL  
ECONOMIC FORUM**

**SPEECH BY I.I. SECHIN  
Chief Executive Officer of  
Rosneft Oil Company**

**ENERGY TRANSITION AND PHANTOM BARRELS:  
ABANDON HOPE, ALL YE WHO ENTER HERE.  
NOT EVERYONE WILL BE TAKEN TO THE BRIGHT FUTURE  
OF THE GLOBAL ENERGY INDUSTRY!**

**Russia, Saint Petersburg**

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## Cover SLIDE

### I. INTRODUCTION

Dear forum participants! I am pleased to welcome you at the Energy Panel and our discussion today!

I would like to wish everyone to stay in good health and successful fulfillment of your plans. On a separate note, I would like to thank **Aleksandr Aleksandrovich Dynkin**, Academician of the Russian Academy of Sciences and President of the Institute for World Economy and International Relations of the Russian Academy of Sciences, who moderates our discussion, and I would like to express my hope for a fruitful discussion that we will have today.

#### **SLIDE: Disclaimer**

Before starting this discussion, I should of course mention the limitation of liability since my presentation contains evaluative and predictive judgments.

**SLIDE: The link between emissions and climate change has not been proven**

## **II. THE LINK BETWEEN EMISSIONS AND CLIMATE CHANGE HAS NOT BEEN PROVEN**

Proponents of the theory of anthropogenic climate change claim that it is caused by **carbon dioxide emissions** due to "**uncontrolled**" **burning of fossil fuels** - coal, oil and petroleum products, and gas. **But is this really the case?** Let's try to figure this out.

The Earth's climatic cycles develop according to the natural laws inherent in any cosmic body and are influenced by such basic factors as the condition of the atmosphere, the activity of the Sun, the distance of the Earth's orbit from it, the angle of inclination and position of other planets relative to our planet, and many others.

**Climatic changes on the planet occur, among other things, as a result of fundamental natural phenomena** that are not comparable in scale to the influence of the anthropogenic factor. Such phenomena include, in particular, "**super volcanoes**", whose eruption of lava and ash emissions exceed 1,000 cubic kilometers. Not only these disasters can radically change the landscape, but they can also provoke sudden cold spells, the so-called "**volcanic winters**".

For example, scientists estimate that the **eruption of the Indonesian super volcano Toba** which occurred **74 thousand years ago**, caused global temperatures to drop between **3.5 and 9 degrees Celsius**<sup>1</sup> as a result of the release of more than **2 billion tons** of sulfur dioxide into the atmosphere. It took several years for temperatures to recover to normal levels.

Comparable eruptions have occurred three times in the **Yellowstone Province in the United States**, and the last known supervolcanic eruption, Taupo, occurred in New Zealand about 25 thousand years ago.

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<sup>1</sup> Source: Nature.com, The Toba supervolcano eruption caused severe tropical stratospheric ozone depletion, 12.04.2021

About 2.5 million years ago, the Earth entered a **new climate pattern** - a sequence of alternating ice ages. According to scientists' estimates, during this term there were **40 to 50 separate periods of glaciation**, and each time they became longer and colder.

Their frequency and scale are determined by the peculiarities of our world and the influence of gravity of other planets in the solar system. The Earth's climate is transformed, among other things, by changes in the shape of the orbit and the tilt and direction of our planet's rotation axis that are subject to cyclical changes, the so-called **Milankovitch cycles**<sup>2</sup>.

We should recognize that **the link between emissions and climate change requires an objective assessment**, and without it giving priority to the anthropogenic factor in climate change has no grounds.

**According** to a number of reputable scientists, such as **the Nobel Prize winner in physics John Clauser, the main cause of the Earth's climate change is the natural self-regulation mechanisms** of the planet, not the "human factor".

Geological evidence indicates that atmospheric carbon dioxide concentration and air temperature have changed continuously over the past **600 million years**, and almost all of these changes have occurred without the impact of fossil fuels or humans<sup>3</sup>. Moreover, **carbon dioxide concentration has been much higher during some geological periods** which has not led to catastrophic consequences for the planet. And evidence from the last ten thousand years suggests that **air temperatures have never been constant**. Since the end of the last ice age there have been nine warming periods and during seven of them temperatures were higher than today<sup>4</sup>.

The proponents of the anthropogenic factor theory present the energy transition to us **as an illusion of saving the world**. Now, when we have

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<sup>2</sup> Milankovitch cycles are periodic oscillations named after the Serbian scientist who first figured out how space periods change Earth's climate

<sup>3</sup> Source: Robert Berner and Zavareth Kothavala, GEOCARB III: A revised model of atmospheric CO<sub>2</sub> over Phanerozoic time, American Journal of Science, февраль 2001

<sup>4</sup> Source: U.S. National Centers for Environmental Information

already accumulated some experience of the energy transition, it is clear that **neither its goal nor, accordingly, the preparation for it have been elaborated in accordance with the tasks and needs of the mankind**, such as infrastructure, financing, supply of raw materials and availability of the technologies needed for this.

I would like to remind that back in 1976, the future Nobel Prize winner in Physics, Academician **Pyotr Leonidovich Kapitsa**, using basic physical principles (the law of conservation of energy), predicted the probability of a **global energy crisis in energy production due to the lack of efficiency of all types of alternative energy**.

As Kapitsa argued, the key characteristic of any type of energy is the **density of its energy stream**<sup>5</sup>. By this parameter, such fossil fuels as oil (provides 195 W/m<sup>2</sup>) and gas (482 W/m<sup>2</sup>) are far ahead of solar energy (6.6 W/m<sup>2</sup>) and wind energy (1.8 W/m<sup>2</sup>) that, among other disadvantages, have an **uneven or, to put it in more scientific terms, stochastic nature of energy generation**.

From the studies available at the moment, **hydrogen** is considered to be the most promising type of "clean" fuel. However, there is still no commercially feasible production technology, logistics and, most importantly, sales markets for it. It is also necessary to take into account the low efficiency so far due to the fact that during hydrogen production the energy consumption spent for electrolysis is greater than the amount of energy obtained at the output. Thus, **alternative energy sources are not yet able to ensure either the reliability of supply or optimum technical and economic performance**.

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<sup>5</sup> Source: Source: P.L.Kapitsa, "Energy and Physics" presentation, 1975

**SLIDE: The share of renewable energy is still low**

### **III. THE ENERGY MARKET - A HOSTAGE OF IRRESPONSIBLE POLICY**

#### **1. The goals of the energy transition in its current form are ideological and unrealistic**

Despite about **10 trillion US dollars**<sup>6</sup> invested in the energy transition over the past two decades worldwide, alternative energy sources have failed to replace traditional fuels. Today, **wind and solar power** provide less than **5%** of the world's energy production, and electric vehicles account for about **3%**<sup>7</sup>.

**SLIDE: Fossil fuel consumption continues to rise**

Over the same period, **oil, gas and coal** consumption grew by a cumulative **35%**, while their combined share of the global energy mix remained unchanged<sup>8</sup>. Moreover, **oil and coal consumption and the use of gas in power generation reached a new record** in 2023<sup>9</sup>.

**SLIDE: The cost of the green transition is more than USD 270 trillion.**

#### **2. There are no profit-making sources for the “green” transition**

There are no profit-making sources for the “green” transition, and its implementation is an illusion, which leads to withdrawal of investments from the traditional energy sector. That is, there will be neither.

In order to meet the Paris Agreement targets, by 2030 **the global spendings on climate change** will need to be about **\$9 trillion** per year<sup>10</sup>, which is 5 times as much as was spent in 2023. This number equals almost **10%** of global GDP and more than **3 times** the annual investment in

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<sup>6</sup> Source: BloombergNEF, Energy Transition Investment Trends 2024 report

<sup>7</sup> Source: Our World in Data (primary energy consumption for 2022, share of electric vehicles for 2023)

<sup>8</sup> Source: Our World in Data (primary energy consumption for 2022)

<sup>9</sup> Source: International Energy Agency, Global Energy Agency

<sup>10</sup> Climate Policy Initiative Report: Global Landscape of Climate Finance 2023, November 2023

global energy<sup>11</sup>. It is also equivalent to the combined GDP of France, the UK and Italy. In total, **to meet the Paris Agreement targets by 2050 will require more than 270 trillion dollars<sup>12</sup> of investments.**

Obviously, **the climate agenda will require creating a new type of infrastructure, as has been the case many times before**, when in the 19th century increasing coal production required huge investments in mines, canals and railroads; developing the oil industry in the 20th century required wells, pipelines and refineries; and generating power required constructing power plants and developing a sophisticated power transmission network system.

**SLIDE: European gas bill exceeds \$600 billion**

### **3. How European allies were "saved" from purported energy dependence on Russia**

The idea of energy transition and applied regulations are aimed at **strengthening the unipolar structure of the world order** based on the control over financial infrastructure, technology and logistics.

Such concept of energy transition is based on the discrimination against the entire world. Even the interests of allies can be sacrificed at any moment. **As a Russian saying goes, "Friends we might be, but we keep our tobacco apart".**

This was especially evident when implementing the project of "saving" Europe **from purported dependence on Russian energy resources**. In fact, by sacrificing its energy security, **the EU also gave up its sovereignty.**

Having reduced its purchases of Russian energy, the **European Union** spent **in 2021 – 2023** more than **\$630 billion<sup>13</sup>** on gas import from other countries.

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<sup>11</sup> Source: International Energy Agency, World Energy Investment 2023 report

<sup>12</sup> Climate Policy Initiative Report: Global Landscape of Climate Finance 2023, November 2023

<sup>13</sup> Source: Eurostat

This value is:

- comparable to Europe's total gas spending over the previous eight years;
- close to the European investments into green energy over the same period<sup>14</sup>;
- comparable to the GDP of Sweden and Poland<sup>15</sup>;
- and almost four times the combined GDP of the Baltic states<sup>16</sup>.

### **SLIDE: Europe's Problems: Deindustrialization**

**Increased gas spendings** are eating up the margin of such energy-intensive industries as **steel making, fertilizers, chemicals, ceramics and glass**. As a result, the manufacturing activity in the Eurozone has been on the decline since the middle of 2022<sup>17</sup>, and **32%** of German companies are already planning **to relocate their manufacture capacity abroad**<sup>18</sup>.

### **SLIDE: Gas consumption in the EU has fallen by 20%**

Despite government subsidies, the household **gas prices in Europe almost doubled** between 2021 and 2023. High energy costs are forcing European households **to reduce gas consumption by unprecedented volumes**: as a result of the price shock, the gas demand in household and commercial sectors of Europe dropped by more than **20%** in the past two years and continues its fall this year<sup>19</sup>. As a result, for the first time in decades, Europe is facing a new reality - Europeans have become poorer.

In effect, Europe is meeting its emissions reduction targets by directly cutting energy consumption and slowing down the economic growth. The continuation of such policy may eventually destroy **the European**

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<sup>14</sup> \$260 billion in 2021 and \$154 billion in 2022 IEA estimate , \$360 billion in 2023 in BloombergNEF estimate (Energy Transition Investment Trends 2024 report)

<sup>15</sup> Sweden's GDP is \$593 billion, Poland's GDP - \$810 billion in 2023 according to the International Monetary Fund

<sup>16</sup> \$162 billion in 2023 according to the International Monetary Fund

<sup>17</sup> Business activity index in manufacturing sector has been below 50 points since August 2022.

<sup>18</sup> Source: German Chamber of Commerce and Industry (dihk.de)

<sup>19</sup> Source: International Energy Agency, Gas Market Reviews

**industry.** As we all know, **the lowest energy consumption is in the graveyard.**

#### **SLIDE: Europe's Problems: lagging behind the US**

According to the International Monetary Fund, **the European Union economy** has grown **by only 13%** in US dollar terms over the past 15 years, whereas **the growth of US economy** has been **85%** over the same period<sup>20</sup>.

Within the same time, the **average per capita income in EU countries has fallen** vis a vis **most of the US states**<sup>21</sup>, and now it is 52% lower than the US average. If this trend carries on, then already by 2035 the **gap in GDP per capita between the US and the EU** will be five-fold, meaning that it will be **as between Japan and Ecuador** today<sup>22</sup>.

#### **SLIDE: "Drain" of developing countries' resources**

#### **4. "Green" transition as a new form of colonial policy**

And for developing countries the situation evolves even more unacceptably, when under the pretext of "green transition" in practice we see the construction of "green" neo-colonialism being implemented.

In expert estimates, within the period **from 1990 to 2015** alone, the **"resource drain"** from developing countries to developed countries exceeded **\$240 trillion**<sup>23</sup>.

Energy transition, i.e. the announced program of energy transition, is a **powerful alias sanction barrier** for **88%** of the world's population, i.e. for all those who are not part of the "golden billion". These are essentially undeclared sanctions, which are applied nonetheless.

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<sup>20</sup> International Monetary Fund data from April 2024 in current prices, growth from 2008 to 2023.

<sup>21</sup> Source: European Center for International Political Economy

<sup>22</sup> Source: Wall Street Journal, Europeans Are Becoming Poorer. 'Yes, We're All Worse Off'

<sup>23</sup> Source: J. Hickel, C. Dorninger, H. Wieland, and I. Suwand. (2022). Imperialist Appropriation in the World Economy: Drain from the Global South Through Unequal Exchange, 1990–2015. Global Environmental Change.

**SLIDE: The U.S. uses sanctions as a method to struggle for the energy market**

#### **IV. STRUGGLE FOR THE ENERGY MARKET GOES ON**

##### **1. Sanctions as a method of struggle for the energy market**

The overall energy shortages which resulted from the energy transition and a wide range of direct sanctions and unfair competition has driven the market off balance.

For example, the **illegal sanctions** imposed by the US since 2016 against **Venezuela, Iran, and Russia** have affected a total of nearly **18 million bpd**<sup>24</sup> of oil production and helped the US capture a significant share of the market. As a result of these policies, energy resources have turned into the principal export commodity of the US.

**SLIDE: Share of energy resources in the US export**

In a **bid to control the global energy market**, the US besides sanctions are also using other tools at its disposal. Thus, for example, *Iraq*, being the second largest OPEC<sup>25</sup> member in terms of production and one of the founders of this organization, **lost the ability to manage its finances on its own after the US invasion in 2003**. Since that time the country's oil export revenues, which make up to 95% of its budget, have accrued in a special account at the Federal Reserve Bank of New York, which is a branch of the US Federal Reserve System<sup>26</sup>. **This provides the US administration with full control over Iraq's financial system.**

**SLIDE: The White House announces plans to cut Russia's oil revenues**

As for Russia, the US Assistant Secretary of State Geoffrey Pyatt directly stated the White House plans to cut our country's oil revenues. In essence, this means **ouster of Russian oil maritime exports** from the world

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<sup>24</sup> Source: US Energy Information Administration

<sup>25</sup> Iraq's production stands at 4.2 million bpd

<sup>26</sup> Source: Financial Times, Crippling dollar shortage underscores vulnerability of Iraq's oil-based economy, 27.03.2023

market<sup>27</sup>. Some oil producers are already getting ready for such scenario and ramping up their production capacity. We will come back to these phantom barrels later.

**SLIDE: Western oil majors are increasing payouts to shareholders**

## **2. Western oil majors are buying assets and increasing payouts to shareholders**

The unilateral actions of the US regulator lead to volatility and unpredictability of the energy market. This makes each market player act in its own interests.

A vivid example here is the ban imposed by the US Federal Trade Commission on Scott Sheffield, CEO of Pioneer Company, **to enter Exxon's Board of Directors after the merger deal completion** due to suspicions of his cartel collusion with Middle Eastern producers for the purpose of achieving high prices in the interests of the US shale oil industry.

Given the current standing of the market and its operating conditions, US companies have chosen to consolidate the industry, whereas majors such as Exxon and Chevron are carrying out merger deals with other producers and increasing their own production capacity in order to secure higher profits and dividends. And production growth remains behind the scenes, as it requires capital expenditures that must be supported by high prices.

The volume of transactions and acquisitions in the US oil and gas sector last year reached **\$200 billion**. Over the past two years, the five largest Western oil and gas companies have spent **a record \$220 billion on payouts to their shareholders**<sup>28</sup>, which is 30 % more than their investments over the same period.

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<sup>27</sup> Source: Financial Times, US aims to halve Russia's energy revenues by 2030, says official, 01.12.2023

<sup>28</sup> Source: Reports of Exxon Mobil, Chevron, Shell, Total, BP

## **SLIDE: Gulf countries are ramping up capacity**

### **3. Gulf countries are investing in creating new capacity**

At the same time we see that **the Gulf countries** are also actively ramping up **spare production capacity, streamlining sales channels and investing in assets in consumer countries.**

The four key OPEC members - **Saudi Arabia, UAE, Kuwait and Iraq** - already have significant **spare production capacity** of around **5.6 million bpd<sup>29</sup>**, which is equivalent to 13% of current OPEC+ production. Some time ago these countries announced their plans to further increase their capacity. In expert estimates by 2027 their combined spare capacity will increase by almost **2 million bpd<sup>30</sup>**.

### **4. OPEC+ agreement has no impact on the oil market**

**The stockpiling of reserves by both Western and Middle Eastern companies** that we observe may be an expectation of major market changes. **The presence of such phantom barrels** that can have a large-scale impact on the market **will offset the impact of the voluntary production cuts** undertaken by major OPEC members. This is also shown by market quotations, which went down after the recent decision by the ministers of the member countries.

We can assume **higher volatility due to the uncertainty associated with the prospects of presidential elections in the U.S.**, where election sentiment depends, among other things, on the increase in the cost of a gallon of gasoline (an average price - \$3.6/gallon, and in some states such as California - \$5.4/gallon).

**Regulation of the industry can change if a certain candidate wins** the upcoming elections. The emerging risks suggest that there may be a **Plan B** in case of a special period for each major participant.

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<sup>29</sup> Rosneft calculations based on data from International Energy Agency, ADNOC, Aramco

<sup>30</sup> Rosneft calculations based on data from ADNOC, Aramco, Rystad Energy analytical agency, Reuters news agency

So, **Exxon** is completing its merger with **Pioneer**, **Chevron** is closing its merger with **Hess**, **OPEC+** has already announced its plans for a gradual return of volumes starting in September, and **Aramco** is conducting its secondary public offering.

I am confident that **Aramco's** secondary public offering will be successful, attractive and efficient, and will be a historic event in the global oil industry.

### **SLIDE: OPEC+ Budget Can Withstand Pricing Pressure**

The budgets of most OPEC+ member countries are able to withstand a **possible drop in oil prices**, which could be partially or fully offset by an increase in supply.

In theory, for the Russian oil industry, a price decrease can mean the possibility of **removing all restrictions related to price cap**, while the revenue part of the approved federal budget is based on the crude price of **USD 60/bbl**. In these conditions, the ability of OPEC+ to promptly response to new emerging factors of influence will be of fundamental importance for stabilizing the world markets.

## **SLIDE: Diversification of Reserves of Central Banks around the World**

### **V. U.S. HEGEMONY IS NOT JUST ABOUT ENERGY**

The U.S. financial system is also **an active instrument of unfair competition**. Financial restrictions extend to the whole world, as the U.S. financial system is the basis of the world financial infrastructure. It is used as **one of the instruments of illegal influence** in violation the fundamentals of the Bretton Woods monetary system, under which the dollar should play the role of the world reserve currency and the main means of payment.

#### **1. The dollar as an instrument of sanction restrictions, and the search for alternatives**

In recent years, **the use of the dollar as an economic weapon, and the uncontrolled growth of the U.S. national debt** have set in motion the process of **de-dollarization**.

Since 2001, **the dollar's share in international foreign currency and gold reserves** has fallen from 71% to **58%**<sup>31</sup>. The crisis of confidence in the U.S. dollar as a reserve currency has caused central banks in developing countries to favor other protective assets, including gold. As a result, its share in foreign exchange reserves has almost doubled over the past ten years<sup>32</sup>.

In addition to increasing the share of gold in reserves, **developing countries are withdrawing gold reserves** from the vaults in the United States and the United Kingdom. In particular, the Reserve Bank of India moved more than **100 tons of gold** out of the Bank of England, a quarter of its reserves stored abroad<sup>33</sup>. A number of countries, such as Saudi Arabia, Nigeria, South Africa, Egypt and others have taken similar decisions to repatriate gold reserves.

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<sup>31</sup> Source: IMF COFER

<sup>32</sup> Source: The World Gold Council

<sup>33</sup> Source: The Times of India, RBI moves 100 tonnes gold from UK to its vaults in India

## **SLIDE. Developing Countries Reduce Holdings of U.S. Treasuries**

At the same time, over the past 15 years, the share of developing countries among foreign holders of U.S. Treasury bonds declined from **51% to 28%**<sup>34</sup>.

There is also **a need to find alternatives to the dollar in international trade**, for which **many of the generally accepted economic theories are no longer relevant**. According to Karl Marx's formula "Commodity-Money-Commodity", money is a product of commodity circulation. However, nowadays we can see that money does not fully perform its main function as a settlement mechanism. Milton Friedman's theory, according to which money is not only an instrument of settlement, but also has an independent value expressed in the interest rate, also fails occasionally. We can observe how **the political system uses money as an instrument of manipulation**.

## **SLIDE. The Unbridled Growth of U.S. National Debt**

The growth of US national debt is another important factor in undermining confidence in the dollar and shifting problems from the financial sector to the energy market and the rest of the world. Over the past 20 years, **the US has aggressively used the special status of the dollar to finance large-scale borrowings**. As a result of such policy, in the last year the ratio of US government debt to GDP came close to **100%**. To address the liquidity bubble, the US Federal Reserve was forced to raise interest rates in record time from near zero to **5.5%**.

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<sup>34</sup> Source: U.S. Department of the Treasury, Treasury International Capital reports. Calculations based on top 20 largest holders

## **SLIDE. Interest Payments on U.S. National Debt Exceeded Defense And Health Care Spending**

So far, we have not seen **any practical steps to limit the growth of the national debt**. On the contrary, now the U.S. continues to increase its debt at a record pace - **by USD 1 trillion** every 100 days. Interest payments on the national debt have already exceeded USD 1 trillion<sup>35</sup>, which is higher than government spending on defense and health care.

Last year, total U.S. Social Security and Medicare liabilities exceeded **USD 250 trillion**, including **more than USD 70 trillion not supported by future revenues**<sup>36</sup>. In a high-rate environment, the U.S. budget deficit is already at **9% of GDP**, four times the average of the last eighty years<sup>37</sup>.

History tells us what can happen to the currency of a country whose debt keeps rising. Before World War II, **the British pound** was the world's reserve currency. However, the increase of the UK government debt to **130% of GDP** became one of the factors that put an end to the pound's dominance in the world.

### **2. The range of sanction restrictions has also touched the technological sphere.**

The use of technology access bans is another sanctions barrier. The latest blatant example of this is **the imposition by the U.S. of barrier duties on renewable energy goods and equipment from China, which is a world leader in this field**. As the Chinese Foreign Ministry rightly pointed out, according to the US logics, the subsidies it provides are considered "essential industrial investment" and the subsidies from other countries are seen as "disturbingly unfair competition".

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<sup>35</sup> Source: U.S. Government Accountability Office, The Nation's Fiscal Health Report, February 2024

<sup>36</sup> Source: U.S. Department of the Treasury, The 2023 Financial Report of the US Government, 15.02.2024

<sup>37</sup> Source: The Economist, the article "America's fiscal outlook is disastrous, but forgotten", May 4, 2024

Like attempts to dominate global energy, U.S. efforts to maintain its technological superiority come at a high cost to its allies. The estimated cost of eliminating Chinese components for 5G network deployment **in the UK** alone exceeds **USD 5 billion**<sup>38</sup>. For **Germany**, the figure is much higher.

## **SLIDE: Revision of the Energy Transition Objectives**

### **VI. THE "GREEN" TRANSITION IS NOT VIABLE IN ITS CURRENT FORM**

#### **1. The West begins to revise its "green" goals**

Europeans are already noticing that **their countries' climate policies are hitting their own pockets**, driving up energy, real estate, transportation and food prices. As a result, **Europe's green agenda bill will soon exceed half a trillion euros**, and this is far from a final figure<sup>39</sup>. According to the German Chamber of Commerce and Industry, **the management of more than half of the companies in Germany have a negative attitude towards the energy transition**<sup>40</sup>.

**Some EU countries**, such as Germany, France, Belgium, Sweden and others, are already **willing to reconsider their approach to meeting the goals of the so-called Green Pact for Europe. And the World Bank**, in a recent report, pushed the deadline for achieving the green transition goals ten years further, to 2060<sup>41</sup>. We are convinced that **the emission targets will be revised many more times**.

**Shell** has abandoned its goal of reducing emissions by **45%**<sup>42</sup> by 2035 and plans to cut staff in its climate change divisions.

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<sup>38</sup> Source: Harvey Dzodin. The U.S. is Blindsided in Efforts to Block China's High-tech Rise - CHINA US Focus 27.03.2024

<sup>39</sup> Source: Bloomberg, Last-Minute Green Deal Hiccups Expose EU Concerns Over Political Costs

<sup>40</sup> Source: The German Chamber of Commerce and Industry (dihk.de)

<sup>41</sup> Source: World Bank, The Net zero energy by 2060 Report

<sup>42</sup> Source: Bloomberg, Shell Weakens 2030 Emissions-Cut Target in Move Away From Clean Power

## **SLIDE: Investors Have Not Appreciated the Green Intentions of BP**

Several years ago, **BP** was a pioneer of the "green transition", but that bet did not work out - the market did not appreciate the change of the strategy. Since the announcement of the new strategy to achieve carbon neutrality in 2020, the company's stock price has fallen by **3%** as the European and American supermajors' performance has grown more than **20-60%**. **Investors have openly referred to BP shares as "dead money"**.

The company's management has already publicly stated that **its 2030 production decrease target may be adjusted**, and they do not rule out additional exploration activity or acquisition of new oil and gas reserves, at the same time writing off significant resource base in Russia.

Currently, **BP has the lowest credit rating among supermajors** due to its high debt burden and weak balance sheet. The other day, S&P downgraded the company's credit rating outlook from "positive" to "stable" due to lower-than-expected debt reduction rates.

At the end of the 1st quarter this year, **BP's** total debt exceeded **USD 64 billion** – the growth came to 12% per annum. Its value is the maximum for the last two years and exceeds the combined figure of Exxon and Chevron (*for the two companies - USD 62 billion*). Such a trend led to the fact that the debt load of the British company became the highest among the indicators of the five majors.

## **SLIDE: Outflows from sustainable development funds**

### **2. Investors are disenchanted with the green transition**

A well-known investment fund - Blackrock, being the largest financial market operator and an apologist for the green transition, having planted its representatives directly into the White House administration, such as **Brian Deese - director of the National Economic Council, Adewale Adeyemo - first deputy secretary of the U.S. Treasury, and Mike Pyle - counselor to the U.S. vice president**, has sought other application for its investments. It is also **heavily investing in the U.S. defense industry** as well. Its investments in the five largest defense industry companies alone

exceed **USD 20 billion**, that were originally intended for the green transition.

**SLIDE: Wealthy countries have a responsibility to reduce emissions**

## **VII. A WELL BALANCED GREEN TRANSITION IS NEEDED**

### **1. It is necessary to focus on the interests of the majority**

**The energy transition should be well-balanced and focused on addressing the interests of the majority** that will ensure the growth of energy consumption in the coming years, i.e. developing countries. Indeed, it is the developed countries, representing a minority of the world's population today, that have contributed most to the climate crisis. Here are just a few facts:

- developed countries account for **65%** of the cumulative emissions produced over the last 200 years<sup>43</sup>;
- the world's **10%** wealthiest population is responsible for half of all CO2 emissions<sup>44</sup>;
- the world's **1%** wealthiest population accounts for twice as much carbon dioxide emissions as the poorest **50%** of the world's population<sup>45</sup>;
- and the entire African continent produces less than **4%** of the world's emissions<sup>46</sup>.

### **2. Energy security: sufficiency, affordability and reliability of energy sources**

**To achieve energy security, it is necessary to ensure the sufficiency, affordability and reliability of energy sources.** In fact, today's consumers are concerned not only about emissions, but also about **the security of energy supply** from new sources, as well as **the reliability**

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<sup>43</sup> Source: Our World in Data

<sup>44</sup> Source: UN

<sup>45</sup> Source: International association Oxfam

<sup>46</sup> Source: UN

**and convenience** of using new technologies. Unfortunately, the current **green transition strategy does not address these needs.**

**SLIDE: Demand for EVs is slowing down in the U.S.**

### **3. Electric vehicles are not a panacea**

**Electric vehicles** are a case in point. It is obvious that, contrary to optimistic forecasts, they **are not a panacea for all environmental challenges. Demand for electric vehicles is slowing down worldwide,** despite unprecedented efforts to support this industry on the part of the governments.

**SLIDE: Uncollected motor fuel taxes could exceed USD 110 billion by 2035**

Revision of electric vehicle subsidy policies demonstrates **the lack of planning and haste with which Western countries initially approached electrification of vehicles.** While they succeeded in attracting buyers with high subsidies a few years ago, Western governments are now planning to impose **taxes on electric vehicles to plug budget holes.** The International Energy Agency (IEA) estimates that by 2035, **the shift to electric vehicles could result in a USD 110 billion shortfall in motor fuel taxes,** which are allocated to maintain roads and improve transportation infrastructure<sup>47</sup>.

To compensate the budget shortfall in revenue, a number of countries, including the **UK, New Zealand, Israel and most North American states,** are already imposing taxes on electric and hybrid vehicles. And **Germany** recently announced an end to incentives and accelerated removal of subsidies.

As subsidies are reduced, it becomes clear that even in wealthy Western countries, **buyers are not willing to overpay for an electric car.**

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<sup>47</sup> Source: Financial Times, Governments slap taxes on EVs as \$100bn fuel duty shortfall looms, May 07, 2024

**SLIDE: An electric vehicle requires 6.2 times more metals**

On top of the high price, there are **a number of issues that should be addressed to ensure widespread deployment of electric vehicles**. These include insufficient drive range, underdeveloped charging infrastructure, the need to recycle batteries, shortage of critical metals and environmental impact of their extraction, safety issues on the road, and much more.

In particular, studies show that **charging station failures** in the U.S. have jumped **50 percent** in over two years, and that one in five attempts to charge an electric vehicle fails<sup>48</sup>.

In terms of safety, recent studies show that **hybrids and electric vehicles are two to three times more likely to hit pedestrians** compared to internal combustion engine (ICE) vehicles<sup>49</sup>.

**SLIDE: Risk of power shortages in the US and Canada**

**4. The Western power grid is not ready for the increased load**

Over the past decade, **Western technology giants have worked hard to demonize fossil fuels**, shut down power plants that provide reliable electricity supplies, and **promote unreliable renewable energy**. However, as the massive energy crises in California and Texas have shown, **neither solar batteries nor wind farms can replace conventional electricity**.

Thanks to years of aggressive PR campaigns and lobbying efforts, renewable energy has displaced a large amount of reliable power generation facilities from the North American energy market. As a result, **large parts of the United States and Canada are now at risk of power shortages**.

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<sup>48</sup> Source: Utility Drive, EV charging infrastructure is ‘inadequate and plagued with non-functioning stations’: J.D. Power, February 22, 2023.

<sup>49</sup> Source: London School of Hygiene and Tropical Medicine, study Pedestrian safety on the road to net zero: cross-sectional study of collisions with electric and hybrid-electric cars in Great Britain, 2024

**SLIDE: Data center demand for power is growing at an explosive pace**

Now, these very same technology giants are reaping the fruits of their labors. The growing **demand for electricity on the part of data centers (DCs)** can no longer be met with existing capacity. While global electricity consumption in this segment barely grew until 2019, it has doubled over the last four years. Investment bank Goldman Sachs estimates that **global power consumption by data centers may grow two and a half times by 2030 per 1,000 terawatt hours, which is equal to the combined power consumption of Germany and France**<sup>50</sup>.

Widespread introduction of artificial intelligence will further accelerate the growth of energy consumption. It now takes 10 times more electricity for a **ChatGPT** to process a single query compared to a **Google** search engine<sup>51</sup>. The current burst of artificial intelligence requires a separate analysis. It should be taken into account that artificial intelligence will increasingly **use data from the degrading information environment**, where everyone has the right to express his or her opinion, even if it is the opinion of a madman.

**SLIDE: The cost of converting major cities to electric vehicles is in tens of billions of dollars**

## **5. Electrification of transportation and growing demand for metals**

One should not forget that introduction of new technologies in the context of energy transition requires **huge investments**. In particular, the cost of transition to electric vehicles in large megacities is estimated in tens of billions of dollars. For example, we estimate that **electrification of transportation** in such cities as **Sao Paulo, Mumbai, New York, London, Johannesburg and Shanghai** could cost more than half a trillion dollars.

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<sup>50</sup> Source: investment bank Goldman Sachs, Generational growth report, 28.04.2024

<sup>51</sup> Source: investment bank Goldman Sachs, Electrify Now report, 29.04.2024

## **SLIDE: Demand for metals will grow dramatically by 2030**

At that, the IEA predicts that on the way to achieving carbon neutrality **by 2030 it will be necessary to increase production of copper by almost 1.5 times, nickel and cobalt by 2 times and lithium by more than 4 times**<sup>52</sup>. This could further increase pressure on land, water and resources in developing countries, where most of the mineral deposits critical to the green transition are located.

It is worth to mention separately **copper**, the consumption of which, excluding the green agenda, will exceed **900 million tons by 2050**. Furthermore, **another 500 million tons** will be needed to electrify the global vehicle fleet (apart from other energy transition targets)<sup>53</sup>. Thus, cumulative copper consumption by 2050 could double the amount of copper produced in all of human history. It is also **60% more than all recoverable reserves available today**<sup>54</sup>.

I believe that at the first stage the emissions issue can and should be addressed by **improving efficiency of energy production**, rather than displacing traditional energy sources with alternative ones.

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<sup>52</sup> Source: International Energy Agency, report Global Critical Minerals Outlook 2024

<sup>53</sup> Source: International Energy Forum, report Copper Mining and Vehicle Electrification, May 2024.

<sup>54</sup> 1 billion tons in 2023 according to the U.S. Geological Survey (Mineral Commodity Summaries, January 2024)

**SLIDE: The energy transition has to take the inequality into account**

## **VIII. INCREASE IN OIL CONSUMPTION AS A WAY TO FIGHT AGAINST POVERTY**

### **1. Developing countries will ensure energy demand growth**

It is evident that **demand for electricity will grow driven by developing countries** that have yet to overcome energy poverty. Here are just a few figures:

- as of today, more than **two out of eight billion** of the world's population still use open fire for daily living needs<sup>55</sup>;
- and more than **700 million people** live without any access to electricity<sup>56</sup>.

The gap in energy consumption between poor and rich countries is striking. Thus, for example, the per capita consumption in **India**, which accounts for about **20%** of the global population<sup>57</sup>, is eleven times lower than in the **United States**. Overall, in the so-called **G7** countries, accounting for less than **10%** of the global population, energy consumption per capita is almost three times higher than the **global average**.

**SLIDE: Correlation of food and power consumption**

I would like to remind you that it is **in the developing countries of Asia and Africa that we are witnessing the greatest population growth** and, as a consequence, **a rapid increase in the need for energy resources**. Obviously, in this situation, a reduction in global consumption of fossil resources would automatically mean that the problem of hunger and energy poverty would not only persist, but also worsen.

Thus, aggressive promotion of the "green agenda" actually means **declaring an energy war on the majority of the world's population**.

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<sup>55</sup> Source: International Energy Agency

<sup>56</sup> Source: International Energy Agency

<sup>57</sup> Rosneft's calculations based on data taken from the BP Statistical Review of Energy

**SLIDE. Increasing oil consumption is the way to fight poverty**

## **2. Overcoming energy inequality is impossible without reliable supplies of oil and gas**

**Overcoming energy inequality is impossible without reliable supplies of oil and gas.** Those advocating a complete ban on fossil fuels, or even a phased withdrawal from them, would benefit from reflecting on the role of oil in the world today. After all, in addition to manufacturing of petroleum products, **oil is used for the production of a huge number of day-to-day goods**, without which the life of modern humans can no longer be imagined.

**Giving up oil** will also mean **giving up the modern way of life.** Conversely, for many countries, **increased oil consumption means access to the benefits of civilization.**

**SLIDE. Global oil demand will continue to grow until 2045**

## **3. Peak oil demand is still years away**

It is not surprising that **global oil demand continues to grow** despite the expectations of the so-called "oil peak". I believe that OPEC's forecast paints quite a realistic picture of the future of the global energy industry. According to this forecast<sup>58</sup>:

- **oil demand** is to grow almost by **20%** to the value of **116 million bpd** by 2045;
- **oil** is to continue to account for about **30% of the global energy mix.**

**SLIDE. Developing countries as a driver of oil consumption**

**Developing countries will be the main drivers of oil consumption** in the coming decades. By 2030, demand growth in this group of countries is expected to account for **95%** of global consumption growth in aggregate<sup>59</sup>.

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<sup>58</sup> Source: OPEC, report by World Oil Outlook 2023

<sup>59</sup> Source: OPEC, report by World Oil Outlook 2023

**The highest growth in oil demand is expected in Asian countries, which are Russia's main trading partners.**

**SLIDE. India's energy consumption to grow by 90% by 2050**

**India's** economy has made significant strides in recent years. Since **2010** energy demand has grown by **45%**, making the country **the third largest energy consumer** in the world. Over the next five years, India is projected to continue its strong economic momentum and become one of the top three largest economies in the world with a GDP of **USD 5 trillion**<sup>60</sup>, and by 2050 will overtake the U.S. in terms of the size of the economy<sup>61</sup>. **India's end-use energy consumption is set to grow by 90% by 2050** - one of the fastest growth rates in the world<sup>62</sup>.

**SLIDE. Reorienting export supplies to Asia-Pacific markets**

## **IX. RUSSIA IS THE GUARANTOR OF ENERGY SECURITY**

### **1. Russia is the leader in global energy**

Despite the increasing sanctions pressure, **Russia is retaining its role as one of the leaders in the global energy sector.** Taking into account the influencing factors, Russia continues to realize its energy development potential and strengthen its position in the global energy market.

Recently, **the President of the Russian Federation Vladimir Vladimirovich Putin emphasized the importance of reorienting Russian exports** to the APR.

I would like to remind you that the **turnaround of Russian energy exports to Asia-Pacific markets** began with the construction of the ESPO pipeline and investments in India's oil and gas sector long before the European markets were closed to our country. At the moment, the Asia-

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<sup>60</sup> Source: The Economic Times, India to become USD 5 trillion economy, third-largest by 2027, 21.09.2023 r.

<sup>61</sup> Source: The World in 2050: PwC

<sup>62</sup> Source: International Energy Agency, report by World Energy Outlook 2023

Pacific region accounts for more than **80%** of Russian oil exports<sup>63</sup>, and it is already evident that the **reorientation of supplies** has fully justified itself.

**SLIDE. The Northern Sea Route - a new artery of Greater Eurasia**

## **2. The Northern Sea Route – the new transportation artery**

A special mention should be made of the development of the **Northern Sea Route** project, a new transportation artery that will connect the powerful resource base of the Russian North with the markets of developing countries. This project will give energy consumers in Asia access to the **richest resources of the Arctic shelf and Siberia**. Let me remind you that **10%** of the world's oil and **25%** of its natural gas is produced in the Arctic as of today. At the same time, **80%** of the global Arctic oil and gas reserves are concentrated in the Russian Arctic<sup>64</sup>.

**SLIDE. The use of the ruble in international settlements is increasing**

## **3. Trade dedollarization and development of alternative payment systems**

**Trading in national currencies** and development of **alternative payment systems** are prerequisites for the continuation of Russian oil exports. Significant progress has already been made in this direction: over the past two years, **the share of the ruble in export payments** has more than tripled and exceeded **40%**<sup>65</sup>.

**SLIDE. Increasing the role of friendly currencies in international trade**

I would also like to point out the growing role of friendly currencies in the global trade. China's recent success in **using yuan** is a good illustration of de-dollarization. For example, in September last year, **yuan overtook euro for the first time** in trade settlements made via the SWIFT system.

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<sup>63</sup> Rosneft's calculations based on data from CCA-FEC and Vortexa

<sup>64</sup> Source: Special project by TASS "Past and Future of the Northern Sea Route"

<sup>65</sup> Central Bank of the RF.

The dynamics of **Russian-Chinese mutual settlements** is also quite indicative. Significant mutual commodity flows, as well as commodity flows of third countries, allowed our countries to promptly switch to settlements in national currencies, the share of which exceeded **90%** by the end of 2023<sup>66</sup>.

In order to **further expand the use of national currencies** both bilaterally and in settlements with third countries, **it is necessary to create appropriate infrastructure and instruments** to ensure clearing transactions and opening of correspondent accounts, use of swap lines, as well as the full range of systems for interbank messaging.

**SLIDE. Conclusive slide**

## **X. CONCLUSION**

Now that the **failure of the "green transition" concept is evident**, we have to develop a **new strategy for a reliable and secure energy supply** tailored to the needs of developing countries.

**The Russian oil industry is self-sufficient** in terms of resource base and technologies and **is capable of meeting the challenges it faces**. The economic environment in which our industry operates is currently characterized by the following factors:

- **growing sanctions pressure:** price cap, ban on use of Western financial system, logistical barriers;
- **heavy tax burden** of the oil industry: the industry generates over **RUB 12 trillion** of budget revenues with a tax burden of an average of **75%** of the financial result;
- voluntary **production curtailments** under the OPEC+ Agreement;
- **prohibitive interest rates and limited available liquidity in the financial market:** despite a record **RUB 103 trillion** of liquidity

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<sup>66</sup> Source: 'Vedomosti' - Russia and China have completely abandoned the dollar in trade relations, 22.04.2024

within the perimeter of the Russian banking system, the industry is unable to raise financing.

It is obvious that the high efficiency of deposits with the rate of **18-19%** **discourages investment processes in the real economy**, which are necessary for sustainable development.

I would like to say that we have no doubts about the ability of the Russian energy complex to **provide the required volume of energy resources for Russian consumers**, and nothing will prevent us from fulfilling our contractual obligations to all our partners.

Concluding my speech I would like to quote the words of the outstanding Chinese philosopher Confucius, who said: "**Where patience ends, endurance begins**".

Thank you for your attention!