

## Global Energy Security: Impacts on business and emerging concerns

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Global energy security is the subject of achieving reliable and affordable access to energy resources for all nations. Today's international community very much depends on energy security as it has become a



critical aspect of the livelihoods of both people and business. Energy must be made not only available and sufficient, but also have infrastructure and policies in place to ensure continuous uninterrupted supply. Its importance cannot be overstated, as it is the lifeblood of functioning economies and stable governments.

Global markets are connected via energy supplies and the effects of disruptions dominoes across continents. The global energy security environment is affected by demand and political tensions, therefore understanding and mitigating these changes is vital for businesses looking to maintain sustainable and competitive operations.

### **The importance of global energy security for businesses**

Energy is the backbone of production lines, transportation networks and daily activities, and this means it is an essential commodity. Disruptions can lead to operational delays, making it a crucial aspect of business continuity. Fluctuating prices has serious implications for business. During the 2008 oil spike, companies faced hiked production costs which squeezed profit margins resulting in challenging pricing adjustments. Such volatility made long term investment planning almost impossible as businesses attempted to predict future energy cost adjustments.

In the 2022 energy crisis caused by Russia's war in Ukraine, companies - particularly those in manufacturing and transport - were forced to rethink approaches and source new suppliers. Firms that had previously diversified energy resources, or invested in renewable energy, were better placed to manage the disruption.

### **Current concerns in global energy security**

Emerging market regions like Asia and Africa are driving much of the recent demand as they are undergoing significant change, while industrialising at overwhelming rates. Meeting this unprecedented demand is proving challenging due to limited resources and required infrastructure. The drive toward renewable energy has its own complications. Resources like solar and wind are irregular and will require significant investment in infrastructure for energy storage and grids. That said, it might well still be impossible to ensure reliable supply.

In addition to these concerns, there is the added complication of increased foreign management of critical energy infrastructure. For example, the Philippines' national grid was enhanced and is now 40% owned by Chinese entities. The fact that the Philippine grid can be remotely controlled from China raised serious security concerns, and some suspect the huge blackouts experienced earlier this year were orchestrated by non-domestic influence.

### **Energy security and global politics**

Global energy security and world politics are closely entwined, and this is due to the globe's heavy reliance on fossil fuels. This reliance links energy security to unstable regions where a majority of the world's oil and natural gas reserves are located. Russia, Saudi Arabia and the United States (US) are major energy producers that have serious geopolitical clout with their energy outputs. These countries use their energy supplies for political gain, which influences global markets and political outcomes.

In addition, international sanctions and trade wars complicate global energy security further. Sanctions issued against countries like Iran have restricted their ability to export oil. Likewise, trade disputes that involve energy commodities can, in turn, destabilise markets and create uncertainty for businesses and governments.

Europe's recent 40% dependency on Russian gas is another example of how energy security affects political and economic strategy. This dependency forced the continent to re-evaluate its relationship with Moscow and diversify its sources. Liquefied natural gas (LNG) is imported from the US and Qatar, improving renewable energy production, and alternative supplies now come from Norway and Algeria.

### **Emerging trends in global energy security**

New trends in global energy security are emerging and are set to change the norm, with advances being made in nuclear power, renewable energy, technology and diversification. China is championing this transformation, expanding its nuclear power capacity with considerable verve. Multiple new power plants are either being constructed or enhanced in Fujian, Guangdong (home to several plants), Zhejiang, Shandong and Jiangsu. China is looking to lower its dependence on coal and drive towards low-carbon energy. These developments not only improve China's domestic energy security but also shifts power in their favour by altering global energy dynamics, as China becomes a greater player in the global nuclear energy sector.

Meanwhile, the rest of the world is following suit and looking to drive renewable energy output. Many countries are investing in solar, wind and alternative renewable sources in a bid to reduce carbon emissions and improve energy security. Furthermore, nations are now diversifying their energy sources. Japan's push for hydrogen energy is one such case, as it reduces dependence on traditional fossil fuels and the risk of disruption.

### **Case Studies: Petrostates, energy-related conflicts and their Impact on business**

Energy has long been the subject of conflicts affecting global markets, with repercussions felt worldwide.

#### ***The Middle East***

The Middle East, as one of the world largest oil producers, has been the fulcrum of many such conflicts. Past events like the Iranian Revolution in 1979, and the Gulf War in 1990 to 1991, and the volatile nature of countries like Iraq and Syria, have continued to antagonise global oil supply. Fluctuations have led to extreme impacts on business sectors, notably those reliant on oil, like transport and manufacturing.

As oil prices rise during conflict, operating costs follow, causing profit margins to slide.

### ***Venezuela***

Venezuela's oil crisis from 2014 to 2016, during which the price per barrel dropped from US\$100 to US\$30, provides a good example of how political and economic strife can crush a country's energy sector, with global consequences. Previously a major oil exporter, the economy collapsed as a result of mismanagement, corruption and sanctions. In the last ten years, President Nicolas Maduro, and his supporters, have maintained power through corrupt and illegal actions, including arbitrarily prosecuting and detaining critics and opponents. From 2014, it is estimated that eight million Venezuelan refugees have fled to neighbouring countries, where they have been granted asylum. The decline in Venezuela's oil production contributed to restrictive global supply, more so in the heavy crude market, which affected refineries. Those in the energy and petrochemical sectors have had to steer through these disruptions to seek alternative sources, usually at a greater cost.

### ***Russia and Ukraine***

The conflict in Ukraine is a more current example with far reaching consequences for European energy security. The region's reliance on Russian natural gas has resulted in vulnerability concerns over disruptions due to conflict. The war has caused reductions in supply, price volatility and forced Europe to seek new suppliers. All of which has caused distress across the continent and has accelerated the transition to renewable energy as countries reduce Russian gas dependence.

### **The future of global energy security**

Several key factors are thought to shape the future of global energy security, with long-term predictions indicating changes in both demand and supply. The demand for global energy will certainly rise, driven by exponential population and economic growth, in particular from emerging markets like Africa and Asia. The energy mix is, however, anticipated to change, with a decline in fossil fuels and a move toward renewables.

The International Energy Agency (IEA) projects that by 2040, renewable energy could account for up to 50% of global electricity production. Naturally, such a significant shift would involve substantial investment and infrastructure development. As a consequence of this burgeoning sector, the potential for conflicts over resources is also predicted to increase. Regions and lands rich in resources could become flashpoints for geopolitical tension with the already hotly contested South China Sea being one such resource rich example. At the same time, as the world transitions to more diversified sustainable energies, there could be a reduction in traditional conflicts over competition for oil and gas.

As far as businesses are concerned, the evolution of energy requirements brings both challenges and demands. Companies' dependent on fossil fuels will face regulatory pressure and market volatility, requiring a move toward sustainable options. Those that are already invested in renewable energy supply and related technologies could have the upper hand by being well positioned to meet new growing demand.

## **Conclusion**

Global energy security is, without question, vital to the livelihoods of people and industry, regardless of one's stance on sources of energy or the ongoing debate over the reality of climate change. Whether in favour of traditional fossil fuels, nuclear power or renewable energy, does not change the fact that the security of these supplies is paramount. Global energy security is not just about selecting one energy source over another. It is about knowing that whatever the energy source, it must be secure, affordable and efficiently supplied. The ripple effect of energy disruption crosses sectors and borders. Securing energy is an absolute necessity for ensuring the continuity of the global economy.

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