Mexico Speech

Asociacion de Mujeres Líderes en Energia

February 2013

Dear Ladies, it is a real pleasure to join you here this morning.

I am very pleased to be in Mexico, where with Secretary Coldwell I will be presenting our latest World Energy Outlook 2012. So let me take this opportunity to make some observations about the global energy picture, based on our findings in that report.

The global energy landscape is changing rapidly. And those changes will recast our expectations about the role of different countries, regions and fuels over the coming decades.

Indeed, when it comes to energy, we are living in a time of game-changers across the fuel spectrum – and those will present both new opportunities and new challenges, particularly for key players like Mexico that are significant producers and rising consumers.

Falling costs and innovative applications are already accelerating the deployment of renewables like wind and solar. That trend is here to stay, and it will prompt new electricity market developments in terms of grid infrastructure and regulatory reform. But as renewables gain stride, nuclear energy's future is less certain after the accident at Fukushima in 2011, as some countries limit or phase out their programmes.
High prices and new technology are unlocking unconventional oil and gas resources in the United States and Canada, with major repercussions around the world. Mexican gas imports from the US have risen sharply, creating challenges in terms of gas infrastructure, but also for developing significant domestic gas reserves, both conventional and unconventional. The challenge will be to keep development costs down in the face of very competitive American imports – and also to manage the impacts of extraction – particularly water management in the north of Mexico.

But the repercussions are also rippling across the world. Who would have predicted a decade ago that the US, a long-time energy importer, could one-day be on a pathway towards self-sufficiency? Or that so much US coal – displaced by cheaper gas – would be ending up in Europe?

Indeed European gas seems depressed for the moment, and coal increases are not helping European CO2 levels. But the factors that keep it that way are not permanent, and European gas imports are set to rise. Global natural gas demand will grow by around 50% to 2035, and the price relationships between regional gas markets will strengthen, as a more integrated global market starts to emerge.

You can see a similar picture in the oil markets, with a gradual switch in direction of international oil trade, with an increasing share of Middle East exports going to Asia. It is not difficult to imagine how these changes could redefine the geopolitics of energy.

Even here in North America, US prospects for light-tight oil have raised the possibility of that country becoming the largest global oil producer by 2020. As I have recently said, that revolution is not assured thanks to US regulations and
infrastructure bottlenecks that restrict crude exports and choke inland unconventional oil production.

But the reality of rising US production puts even greater pressure on Mexico to produce its oil efficiently. That will require major reforms, particularly in PEMEX. In the past, the truth is that the Mexican sector has not achieved its potential, and underperformance has become endemic.

I believe that Mexico can remain a regional leader, and hold an important place in the new global oil map. But the time to act is now

I am aware that an energy reform is currently being prepared. This reform needs to address the need for greater investment in the energy sector and enable the application of the newest technology. It should also tackle the issue of fossil fuel subsidies, which are a heavy burden on the government budget and encourage wasteful consumption, while seeing to it that the impact on the most vulnerable energy consumers is mitigated.

Reforming the sector will help to make it viable, to the benefit of the Mexican people.

Furthermore, administrative barriers to greater deployment of low-carbon technologies such as renewables and cogeneration should be removed and cost-effective support mechanisms put in place. Mexico has already been very active in promoting renewables, and that is commendable. But continuing that process will require sustained investment in the grid in order to integrate more variable renewable technologies such as wind and solar PV. The key will be cost effectiveness.
And let me turn to a particularly cost effective tool, and one that we highlight in our Outlook – and that is energy efficiency.

Efficiency is a key option in the hands of policy makers to impact energy security, emissions reductions, electricity costs, and a host of other domestic policy objectives.

Mexico stands to play a lead role in this area. The light bulb and appliance exchange programmes were good initial steps, and the country's low-carbon ambitions are commendable. But, continued efforts are needed to realize Mexico's full energy efficiency potential. Reforming of the system of energy subsidies is necessary to reduce inefficient energy use and to enable investments in efficiency improvements.

Taking efficiency seriously could represent a real game changer – but implementation can be difficult, perhaps because it is invisible. We call it the “hidden fuel”. But it will be imperative as Mexican demand continues to rise, and to maintain Mexico's role as a significant producer and regional leader.

Because in fact the old distinctions between the interests of producers and consumers don't hold true anymore. Some of the countries most worried about rising domestic consumption might well be the ones with the largest fossil fuel reserves and booming demand. At the same time the US, a driving force behind the founding of the IEA, is set to become the largest oil producer and a gas exporter.

In a world where the energy landscape continues to change, our energy policies cannot be set in stone - and they cannot be set alone.
International energy governance cannot be dominated by the energy balances of the 1970s. That is to say, neither by a few producers and consumers, nor by such simplistic definitions of interests.

The IEA is engaging with major economies including Mexico to ensure a global discussion – the principal reason for my trip here is to cement closer ties with Mexico – a major energy player in the OECD. Our goal is to bring together major consumers, major producers, and countries that are both, based on their shared interests and goals.

And that also means much more than oil. The IEA has evolved considerably from its early days, and now looks at energy security from a comprehensive perspective. But we also engage actively with institutions like IRENA, OPEC, the IEF, the IGU, the IPCC and others on more specific fuels and issues, including climate change mitigation.

I hope my words can provide food for thought, and I look forward to your questions.

Thank you very much.