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**Asia-Pacific Security Challenges: Implications for Europe and
Atlantic Alliance**

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Energy Security and Climate Change: Asia-Pacific's Twin Challenges

I would like to thank the Honourable Karel Schwarzenberg, Foreign Minister of the Czech Republic and Pavel Bém, Lord Mayor of Prague for the honour of addressing this luncheon, and to thank my good friend Bill Martin for his kind introduction.

We heard this morning about the rise of Asian economies. I would like to focus on the energy implications, and how meeting these challenges will require a global energy revolution.

When the IEA was formed after the first oil shock in 1973 non-OECD countries accounted for only one-third of the world's energy use. Today that has risen to over half. By 2030 it will have increased to almost two-thirds largely due to the growth of Asian countries, particularly China and India. This growth is one of the main factors that has pushed the world into a 3rd oil shock. But the current oil shock is fundamentally different from the 2 that came

before, this one is demand driven. IEA analysis shows that contrary to past shocks, oil consumption continued to increase in recent years despite the large spike in oil prices. Many factors have led to the rise in oil prices to record levels this year. The potential of supply disruptions such as those in Nigeria and the threat of hurricanes in the Gulf of Mexico have caused volatility in the oil markets. The weakening of the dollar and market speculation also played a role. But the underlying reason for the current market tightness is the fundamentals. We are experiencing a combination of strong demand which is not responding to higher prices, and tight supply due to a limited amount of spare production capacity. Recent IEA analysis shows that spare capacity will thankfully improve over the next two years, but it will again decline to a worryingly low level towards 2013 due to stagnant investment. The World Energy Outlook 2008, to be released in November, will take a closer look at the supply side.

Energy security does not only mean oil, natural gas security is just as important, as our Czech colleagues in the audience will appreciate. After all, the bulk of both their oil and gas imports come from a resurgent Russia. As recently as July, imports from

Russia were interrupted. The threat of using energy supplies as a political weapon is self-defeating. While one third of Europe's natural gas imports comes from Russia, two thirds of Russia natural gas exports go to Europe. Is it in Russia's long-term interests to anger its biggest customer? Supply security and demand security are two sides of the same coin.

In addition to global energy markets, another global system we all share is the climate system. The evidence of climate change is compelling. The IPCC agree that we are already seeing the effects of climate change on the Earth. And if the current unsustainable trends continue, we are on a path leading to a 6 degree rise in temperature. The scale of the challenge to reverse these trends is huge. Even if energy supply in OECD nations became entirely carbon free by 2030, which is an enormous challenge in itself, if non-OECD countries continue on their current path we would return to today's levels of CO₂ emissions by around 2030. It is clear that anything less than a unified global response to climate change will be ineffective.

The twin threats of energy security and climate change are often thought of as competing forces; however they should be seen to go hand-in-hand as the co-benefits are enormous. So what action

should be taken to combat these twin threats? We are unlikely to return to the era of cheap oil, but we can relieve the pressure on current oil prices. We need to go back to basics. Producers need to invest more to increase output and bring more projects on-line in the medium-term. Consumers need to drive down demand by encouraging greater energy efficiency and continuing to remove subsidies so that price signals reach the market.

As Asian countries move aggressively to secure energy supplies around the globe we mustn't forget that more energy security in one region does not mean less energy security in another. Consumer – producer dialogue is key. All countries should search for more diversified routes and sources of energy. Diversification will better equip the global energy system to deal with supply disruptions, to the benefit of all nations.

While Asian countries focus on energy security issues, they can address the climate-change challenge with many of the same policies, starting firstly with the ones that pay for themselves – energy efficiency. In addition all nations need to reduce the carbon-intensity of their energy by increasing the shares of carbon-free sources such as renewables and nuclear. Technology will play a vital role. CCS and super-efficient coal-

fired power generation are essential to use the abundant coal reserves without CO₂ emissions. Carbon-free electricity could then be used to power fleets of electric vehicles. The IEA's Energy Technology Perspectives shows that a global energy revolution is needed to return global CO₂ emissions to 50% less than current levels by 2050. This technological change requires an astounding 45 trillion dollars of investment in the energy sector. Governments should provide clear incentives to encourage this investment, one of which should be a price on carbon. However for a carbon price to have full effect all countries firstly need to remove the remaining fuel subsidies.

As Executive Director of the IEA my job involves keeping good personal relationships with producer and consumer countries as well as IEA members. One of the main tasks I set myself as the new Executive Director of the IEA one year ago was to increase the dialogue and engagement of China and India in IEA work, with a view to possible IEA membership. We are also improving our ties with other important Asian nations, such as the 10 countries of ASEAN. One example of which is the involvement of these nations in the IEA's recent Emergency Response Exercise where we responded to a simulated oil supply disruption. The challenges

we all face from the global energy revolution can not met without the committed participation of all nations. As I said, one country can not secure its energy supply while risking another country's security.

The IEA was created after the first oil shock as a counter-measure to supply side disruption. In the face of the challenges posed by the new third oil shock and the global energy revolution needed to fight climate change the IEA must evolve. We must become a global security forum; not only of oil, but gas too; not only supply side, but demand side too involving efficiency measures. This is what I often call the IEEA.

Thank you.