

**Global Energy Security Challenges**  
**Nobuo Tanaka**  
**Executive Director**  
**International Energy Agency**  
**Five-Country Energy Ministers Meeting**

**Aomori, 7 June 2008**

**SLIDE 1**

Distinguished Ministers, it is a great honour to have been invited to participate in this event, and I would like to thank the Japanese Government for the opportunity. Over the next few minutes I will outline the IEA's views on the oil market situation. I hope this will be a useful background to your deliberations.

**SLIDE 2**

Let me be clear, the IEA views oil at \$130/bbl as too high for everybody but for poor economies without oil it is clearly disastrous. There is ongoing debate on whether today's prices are due to fundamentals, or are the result of financial flows. In response to this interest, we recently convened an Experts' Roundtable to debate the many factors that have influenced the rise in prices.

The impact of speculation was one of the factors discussed and the IEA will continue to analyze it. We welcome the announcement by

the CFTC that they will be looking at data from both NYMEX and ICE - we have been saying this has been needed for some time. But speculation is by no means the most important factor. The underlying problem is that we continue to have under-capacity across the entire oil value chain.

### SLIDE 3

We also have to remember that the oil market has changed and demand has become less responsive to higher crude prices. In the past, when we saw a sustained rise in prices, demand fell. However this time global oil demand has continued to increase.

The reason for this is that we now essentially have a two tier world. Demand is falling in OECD countries, but elsewhere prices are often highly subsidized so consumers do not have the incentive to change their behavior. Oil subsidies in China, India and the Middle East totalled \$50 billion last year. In many cases, this is becoming an unsustainable economic burden. Of course, strong demand growth in developing countries is good as it represents strong economic growth. But if consumers were faced with the reality of current prices they would be able to make more efficient long-term choices.

In a similar vein, I would encourage all Ministers to resist the growing pressure to cut fuel taxes as this would not necessarily be the best signal to send to the market.

## SLIDE 4

Like you no doubt, I am constantly being asked what will happen with the oil price. Unfortunately I don't know the answer to this question but I do know that it will be linked to the evolution in spare production capacity. Experience has shown that the sudden loss of even a modest volume of oil can lead to sharp increases in prices if spare capacity is limited or stock levels are low.

In recent months, higher prices have forced us to revise down our 2008 demand numbers. But, at the same time, the ongoing issues of decline, project delays and geopolitics have also lowered our expectations on the supply side. As a result, over the next five years we expect the spare capacity cushion to remain worryingly low.

This would suggest that prices are unlikely to return to the levels of a few years ago anytime soon. Therefore we must put more emphasis on improving efficiency and increasing investment. Alternative fuels such as coal liquefaction, gas to liquids and 2nd generation biofuels can help but we also need more sophisticated refineries to get more transportation fuel out of each barrel of oil.

## SLIDE 5

At times like this, it is reassuring to remember that the IEA's emergency response system provides an insurance policy against disruptions to global oil supply. Today the IEA's public stocks could deal with a supply disruption of 2mbd for 24 months.

However, in the years ahead, as developing countries play a growing role in international oil trade, we will need a more global response to emergency preparedness. With this in mind, the IEA, China and India have been working together for some years now on oil emergency policy. In fact, we will hold an emergency response exercise later this month, and we hope to have active participation of all countries gathering here today. In the future, even closer dialogue and co-operation will become more crucial. After all, no major energy consumer can be confident of secure supply if supplies to others are at risk.

## **SLIDE 6**

Please allow me to conclude by setting out what I see as the five essential steps to improving energy security.

Firstly, we need to create an investment environment where the private sector is willing and able to do its job of providing secure, affordable, clean energy.

Secondly, we need to continue efforts to diversify our fuel mix, including the geographic sources of those fuels.

Thirdly, we need to pursue stronger conservation and efficiency policies.

Fourthly, we need to improve energy market transparency. Individually countries may feel their data is sensitive but a lack of transparency aggravates volatility and provides fertile ground for speculation.

And finally, we must ensure that we have appropriate emergency preparedness measures in place.

Thank you