

**G8 Energy Ministerial Meeting
Rome, Italy
24-25 May 2009**

IEA presentation '*The Impact of the Financial and Economic Crisis on Global Energy Investment*'

Slide 1

This morning I will take up the issue of investment.

We are living in challenging times. The current global financial crisis has triggered the worst recession since the Second World War. And it is having a significant impact on the energy sector.

I would like to share with you today very recent IEA analysis on the significant impact this crisis is having on global energy investment.

Slide 2

The tougher financing environment, weakening final demand for energy and falling cash flows have all sharply reduced investment all throughout the energy supply chain, from production to end use.

New investments that were attractive just last summer are not so much today.

Falling energy investment will have far-reaching and potentially grave effects on energy security, climate change and energy poverty.

There is clear evidence that energy investment in most regions and sectors will drop sharply in 2009.

Slide 3

In the oil and gas sector, there has been a steady stream of announcements of cutbacks in capital spending and project delays and cancellations, mainly as a result of lower prices and cash flow.

We estimate that global upstream oil and gas investment budgets for 2009 have already been cut by around 21% compared with 2008 – a reduction of about USD \$100 billion.

Over the last six months, many planned large-scale upstream oil and gas projects, involving around 2 mb/d of oil production capacity and 1 bcf/d of gas capacity, were deferred indefinitely or cancelled. A further 35 projects, involving 4.2 mb/d of oil capacity and 2.3 bcf/d of gas capacity, were delayed by at least 18 months.

So, in the near term, weaker demand is likely to result in an increase in spare or reserve production capacity. But there is a real danger that sustained lower investment in supply in the coming months and years, could lead to a shortage of capacity and another spike in energy prices in several years time, when the economy is on the road to recovery. We should have learned the lesson last year. We should not repeat the same mistake.

Slide 4

In terms of the power sector, we estimate that global electricity consumption could drop by as much as 3.5% in 2009 – the first annual contraction since the end of the Second World War.

In the OECD, electricity demand in the first quarter of 2009 fell by 4.9% on a year-on-year basis. Non-OECD regions have also seen weaker demand: in China, for example, demand fell by 7.1% in the fourth quarter of 2008 and by 4% in the first quarter of 2009.

Slide 5

The drop in electricity demand is reducing the immediate need for new capacity additions. But if a recovery takes longer than expected, and energy prices remain at depressed levels relative to recent peaks, we would expect to see a shift to coal- and gas-fired plants at the expense of more capital-intensive options such as nuclear and renewables.

Indeed, we are already seeing that investment in renewables is falling more than that in other types of generating capacity, and we estimate that for 2009 as a whole investment in renewables could drop by as much as 38%.

This will have implications for greenhouse-gas emissions. In the short term, slower economic growth will curb growth in emissions. But, in the medium and longer-term, the crisis may lead to higher emissions, as weak fossil-energy prices and financing difficulties curb investment in cleaner energy technologies, prolonging or even increasing reliance on fossil-fuelled capacity.

Slide 6

Under the current economic crisis; the IEA is calling for a “Clean Energy New Deal”. Fortunately, many countries recognise this and around USD \$100 billion or 5% of the total \$2.6 trillion of public spending in short-term economic stimulus packages announced to date has been directed at energy efficiency and clean energy. Of this, about USD \$20 billion is for renewable power investment.

This action represents small but significant steps in the right direction.

But much more needs to be done. The investment needed to put the world onto an energy path of 450 ppm stabilisation of CO2 emissions far exceeds the additional investments that are expected to occur as a result of the stimulus packages so far announced.

As far as renewable power investment, our analysis suggests that governments should be looking to increase the level of new funds they commit to renewables by a factor of around six, which is an increase of \$120 billion. And this level of investment would have to be sustained each and every year for decades to come.

Slide 7

Let’s have a look at the energy sector as a whole. We need to increase annual investments in nuclear energy, renewables and energy efficiency by about \$400 billion dollars, compared to recent levels.

Today’s stimulus packages are helping. We estimate that they will stimulate additional investment of around 100 billion dollars over the next year – in addition to some important R&D funding for carbon capture and storage. But in terms of the investments needed to achieve the 450 ppm scenario it would need to be increased four-fold.

Slide 8

Let me conclude with a few remarks:

The world’s current energy trends are unsustainable – socially, environmentally and economically. In this regard, the world is facing energy challenges on two fronts – energy security and climate change.

But these two challenges are being overshadowed by the current economic crisis. The financial crisis has sharply reduced energy investment all the way along the supply chain, from production to end use.

This lack of investment will have far-reaching effects on energy security, climate change and also the fight against energy poverty.

We must view the financial crisis as an opportunity – rather than a challenge - to move toward a cleaner, more secure energy future. This can be done by ensuring that sound energy investment strategies are at the heart of every economic stimulus package; by embracing a “Clean Energy New Deal”.

The important role for energy ministers is to ensure that the green elements of these stimulus packages are sufficient to stimulate private investment towards a 450 ppm pathway in the future.

Thank you very much.