Energy Investments in Light of Current Market Conditions

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Oil market context

- Buoyant supply, led by North America and weaker global demand helped to bring oil prices down – but for how long?
- Lower prices are curtailing many companies’ upstream investment plans, with implications for future production
- Oil demand is picking up, but the rebound is constrained by broader economic uncertainties & by efficiency policies
- A market rebalancing is under way, but working off the overhang in global oil supply may take time
Amid signs of over-supply for both fuels, oil & gas prices have tumbled since 2014 & the divergence between different regional gas prices has narrowed sharply.
Is energy investment now set to fall?

$1.7 trillion was invested in 2014 to provide consumers with energy, a figure that has more than doubled in real terms since 2000
Lower revenues are hitting upstream oil & gas investment

World upstream oil and gas capital investment

Capex cuts are highest (at up to 40%) in North America, but pressure is widely felt – also in Iraq – & compensated only in part by cost reductions for services & supplies
Risks and opportunities for energy efficiency

- Energy efficiency is a cost-effective way to meet multiple policy goals: economic development, energy security, environmental

- Three-quarters of car sales now covered by efficiency standards, but will consumers see the incentive to choose efficient models?

- Lower prices mean longer payback periods for some efficiency improvements: will households & industry be discouraged?

- Lower world prices an opportunity to reform fossil-fuel subsidies
Renewables can still thrive in a low-gas price world

Natural gas prices and the share of non-hydro renewables in the US power mix

Deployment of renewable technologies depends on policies in most countries, so a change in prices alone does not derail their advance
Concluding remarks

- The fall in the oil price is squeezing investment, boosting demand – market adjustments ahead
- Pressure on natural gas prices is amplified by new LNG supply, a windfall for gas consumers but a threat to new projects
- Investment in renewables stays strong while costs continue to fall, but government support is still crucial
- Lower prices could hold back efficiency investment, lock in a less-efficient capital stock & delay the much-needed energy transition
- The eased market conditions that we see today are no reason to be complacent on energy policies
• Energy Security
• Environmental Protection
• Economic Growth
• Engagement Worldwide