

ENERGY IN SOUTH EAST EUROPE
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Key note address by Nobuo Tanaka, Executive Director, International Energy Agency: *Security of Energy Supply in SEE*

Slide 1 (title slide)

Thank you David Eades. Distinguished guests, it is an honour for me to address you today on the very important topic of energy security and I wish to begin by thanking the European Investment Bank, in particular Vice-President Plutarchos Sakellaris, for this initiative. I also wish acknowledge the Greek government for hosting this conference and inviting me to Thessaloniki. I met with Minister Birbilli this morning, which was a great pleasure. I also visited the tombs of Vergina, which gave me a chance to see some of the beauties of this region.

Slide 2 (energy security map)

As you may know, "energy security" was the fundamental reason for the establishment of the International Energy Agency more than 35 years ago during the time of the '73/74 oil crisis. When created, the IEA's initial focus was on oil security, in particular, on emergency preparedness for supply disruptions, such as occurred during Hurricanes Rita and Katrina, and the first Gulf War. And this continues to be a central feature of the IEA's mandate.

But the understanding of energy security has evolved. The gas supply disruptions of the last few years - which affected this region more than any other part of Europe - underlined the growing importance of gas security. There are issues too in electricity markets, for example the implications of increasing the share of renewable energy resources while continuing to ensure reliable and stable electricity markets.

In addition, we have had to confront a challenge that is closely linked to our energy security - that of climate change.

So with this in mind, let me make some brief remarks on global energy trends, before turning to the policies and mechanisms that can improve the security as well as the sustainability of our energy.

Slide 3 (WEO types fig 1.1)

With the financial and economic crisis, global energy use in late 2008 and 2009 fell for the first time on a significant scale since 1981. But on current policies, it will quickly resume its long-term upward trend once economic recovery is underway.

The IEA's "reference" or "business as usual" scenario in the *World Energy Outlook 2009* shows how global energy demand will evolve if governments make no changes to their current policies. It shows that world energy use will rise by 1.5% per year on average to 2030. Fossil fuels will account for three-quarters of this primary energy demand.

If we continue on today's energy path, we are looking at rapidly increasing dependence on fossil fuel imports and a continued rapid rise in energy-related CO₂ emissions through to 2030. In short: this energy future is not sustainable economically, environmentally and socially.

Slide 4 (450 technologies)

You may have seen the analysis that the IEA produced in its *World Energy Outlook 2009*. We set out the '450 Scenario', which shows how actions in the energy sector can limit a temperature rise to 2 degrees by the end of the century.

The graph you see here shows the energy technology efforts needed to achieve the 450 Scenario. It highlights that energy efficiency is the single most significant element, particularly in the short to medium term.

In short, this requires a revolution in the way that we produce and use energy. There can be significant energy security benefits from this scenario: it should see reduced import dependency, increased diversification of energy sources and lower energy bills. So in fact, the climate and energy security issues are intrinsically linked.

Slide 5 (WEO EU oil and gas net imports)

But even in the 450 Scenario, fossil fuels will comprise 68% of global primary energy demand in 2030. As this slide shows, the EU's net oil imports in 2030 in the 450 Scenario will still be over 8 million barrels a day, while its natural gas imports will amount to 428 billion cubic meters per year. This is an increase of more than 100 billion cubic meters of gas over today's import levels. In the longer term this creates a market opportunity to integrate new sources of supply into the European gas mix, with countries in Southeast Europe very well positioned to benefit from potential new gas flows the Caspian and Middle East.

Slide 6 (bullets)

So in short, the energy security and climate change challenges require balanced and sustainable energy policies not just at home but also beyond our borders. So what are the practical policies and

measures that we can work together on that can improve our security, both in the short and longer term?

First, we can make a considerable and cost-effective impact by curbing demand through encouraging energy efficiency. This is the 'low-hanging fruit' with huge potential, particularly in the shorter term, as my earlier slide demonstrated.

Second, we need diversity of supply. By this, I mean diversity in terms of the types of energy relied upon, so away from fossil fuels, , and the routes and means by which they are transmitted and distributed, something that I know Greece itself, and this region, are committed to. Last week I participated in the Visegrad 4+ Energy Security Summit, where Prime Ministers from Central and Eastern Europe supported the development of LNG facilities, North-South interconnections for gas throughout East and Southeast Europe and the Nabucco pipeline. We heard yesterday from the Ministers about many planned projects. These are very commendable initiatives for greater supply security in the wider region.

On top of this, flexibility should be enhanced through such measures as reversibility of flows, and having sufficient flow capacity at interconnections.

Third, the examples of the Iberian and Nordic regions show us how regionally coordinated electricity grids, as well as integrated gas markets will enhance energy security, as will speaking with one voice to the suppliers of energy. . Looking at Southeast Europe, each country has a distinctive energy profile, with some like Serbia having reserves of domestic lignite; others like Albania and Montenegro having strong hydropower capacity and potential. This alone provides a foundation for regional exchange and trade, and we welcome the efforts of the European Commission and the member countries of the Energy Community to promote a common approach to markets and security.

But there are wider benefits to a regional approach. In practice, few investors are attracted to relatively small individual markets. An integrated regional market, with clear and transparent rules, is not only more resilient but has the regional scope and scale to attract larger new investments and external supplies.

Fourth, energy investment has to pick up quickly after the current recession so that we avoid a renewed tightness in supply as economies recover. Policies and price signals need to be right to encourage investments, including for a sustainable future energy mix. I know that the European Investment Bank is involved in many

energy projects in the region, for which we applaud them, but still more investments are needed.

These are essential steps towards greater energy security in the long term. At the same time, we must be prepared to take short-term, emergency response measures when hit with a crisis that goes beyond what energy markets are able to handle on their own.

Slide 7 (public oil stocks)

IEA and EU countries have well-developed systems for responding rapidly at the outbreak of an oil disruption. This includes measures to increase available oil supplies, primarily through the use of strategic oil stocks.

Using most recent figures, collectively the IEA countries hold stocks equal to 135 days of their net imports, well above the minimum IEA requirement of 90 days. 64 of these days are held as "public stocks", or stocks held exclusively for emergencies.

These stocks are a very visible and reassuring part of emergency preparedness. Drawing only on the public stocks, which now stand at 1.5 billion barrels, IEA Members could respond to a supply disruption of 2 mb/d, like Hurricane Katrina in 2005, for 24 months. A bigger disruption of 4 mb/d - equivalent to Iran's annual oil production (or

to the supply impact of Iraq's invasion of Kuwait) - could be compensated for one year.

But as an ever greater share of oil is consumed outside of IEA countries, it becomes essential that other countries join this pursuit of oil supply security, or else existing efforts will be swallowed. We have put considerable effort into promoting cooperation with major net importers such as China and India, but also with the Energy Community and national agencies like ZORD in Slovenia and HANDA in Croatia.

Slide 8 (gas security)

What about gas security? Oil and gas are closely intertwined, and the need for emergency response measures for gas was demonstrated all too clearly in the January 2006 and 2009 gas disputes. And we cannot rule out the possibility of renewed payment difficulties in Ukraine or even another dispute. Some countries, notably Hungary, quickly drew lessons from the 2006 dispute and started to create gas reserves which served them and some neighbours well in early 2009. But not all of the emergency measures for oil are directly transferable to the gas sector in all countries. Gas stocks are a comfortable cushion to compensate for disruptions, but more expensive than in the case of oil, and not all countries have

suitable geology for it. So we are also analysing and advocating a range of other options, such as maintaining an ability to switch to oil or other energy sources in say the power sector and drawing on strategic oil reserves in times of gas crisis, as well as carefully crafted demand side policies. LNG is also a good supplement to pipelines. We applaud, for example, Greece's use of LNG to deliver gas to neighbouring countries in January 2009. As agreed by IEA ministers last October, the IEA itself will increase its role in seeking to improve natural gas security.

Slide 9 (concluding observations)

And so, in conclusion, we face a formidable challenge in the coming years to meet our energy needs in a secure and sustainable way. For the most part, our import dependency will rise.

We cannot really aim for what some call energy self-sufficiency or "energy independence" - a largely unattainable goal for most countries or regions. Rather, the aim of an energy security policy should be the reduction of risks associated with high dependency on single fuels, single suppliers or single import routes.

Greater energy security requires that we must work together, regionally and globally, to develop resilience in our energy markets

and infrastructures, with both greater diversity and flexibility of energy sources and routes. Greater international cooperation in Central-, East- and Southeast- Europe, but also globally, is essential. I know that these are issues that both this region, and Greece itself in particular, take very seriously and I applaud you for that.

We must also not forget the risk of supply disruptions and must work together to prepare to respond to emergencies. Let me note that we at the IEA fully recognise the importance of transnational cooperation. As well as Greece, and Turkey as member countries, we include many other countries from across Southeast Europe, from around the Black Sea, from across the Caucasus and from Central Asia as important partners of the Agency, and will continue to do so. Because since the IEA's establishment in 1974, we have learned the lesson that we cannot enhance our energy security by risking somebody else's.

I thank you for your attention.