THE BRIDGE FORUM DIALOGUE : « A WORLD WITHOUT OIL? »

THE BRIDGE FORUM DIALOGUE

Mr NOBUO TANAKA former Minister of Economy, Trade and Industry of Japan and Executive Director of the International Energy Agency invited to the Bridge Forum Dialogue in Luxembourg on 13 April 2011. HRM the Crown-Prince Guillaume honoured the audience by his presence.

By Rosmarie Carotti

Due to a scheduling conflict of Mr Philippe Maystadt, Vice-President of The Bridge Forum Dialogue and President of the European Investment Bank, the conference was chaired by Mr Vitór Caldeira, President of the European Court of Auditors. Mr Caldeira stressed that the Bridge Forum Dialogue aims to bring together international institutions, national institutions, the business world, the academia and civil society, worlds that may be different, but are interrelated.

Mr Tanaka questioned whether it is possible to have a world with less oil. The role of the International Energy Agency (IEA) is to reduce the use of oil and to achieve better energy security for the global community in a more sustainable way, taking into particular consideration emerging economies like China and India.

Without the cooperation of these countries it is simply impossible to achieve the target of a world without oil. At this moment, the oil price is about 120 USD per barrel and has increased by about 70% since September of last year. Much behind this high price is speculation, but not only. Fundamentals changed drastically towards the end of last year. The demand increased rapidly in October-November-December with a production of around 1 Million barrels per day due to the economic recovery in the US and the cold winter. Strangely, many power plants were closed in China because of the target of 20% energy efficiency, which prevented the Chinese from using coal-fired power plants. However Chinese industry must use electricity. All this triggers high energy prices.

As a result of these high prices, demand is now slowing down a little but at the same time the Japanese tragedy in the nuclear power plant calls for a switch from nuclear to something else. In the meantime, the demand of oil may increase in Japan and the decline observed in other parts of the world will be offset by the Japanese increase. If the producing countries continue the current level of production, the market could even be tighter at the end of this year which would again mean higher prices.

The International Energy Agency is very concerned that these high prices might undermine the healthy recovery of the economy even if countries are improving their energy efficiency and globally use half as much oil per unit of GDP compared to 1971. Energy efficiency is the best way to cope with higher prices, but the problem remains with emerging countries like China and India.

If a 100 USD a barrel of oil prevails into the end of this year, the burden to the economy will be as bad as in 2008. In 2008 the price went up to 147 USD a barrelcausing the growing economy to collapse. If high prices continue, they may trigger a serious recession particularly in countries like China or India.

The IEA was founded in 1974 in response to the challenge of the OPEC countries as a consumer country association to hold 90 days of strategic stockpile of oil to use in case of emergency. IEA holds now about 1.6 billion barrels of oil which corresponds to the needs for about 72 days. It is a public stockpile covering 2 million barrels per day disruption for three years. That is the disruption which happened due to Hurricane Kathrina in 2005. However energy security will decline gradually because the consumption by non-IEA countries will increase. Around 2020 consumption by these countries will exceed the consumption by the IEA members. Without pulling China and India into the same practice, the IEA will therefore not be able to secure the energy supply.

IEA has different scenarios with oil price assumptions. IEA does not predict but make assumptions for the longer term. If business continues as usual, the oil price will be 135 USD a barrel in 2008 prices, which means in present values up to 240 USD per barrel. Other scenarios take into account new governmental policies to reduce CO2 emissions by half by 2050 and to stop the climate change. These measures being costly, the consumer will in any case have to pay in future a higher price for energy as a whole. And the situation will get worse because of less use of nuclear energy.

Another important question is who will benefit from the disparity between the consumer price and the producer price. If the business as usual scenario applies, the windfall will go to the producer countries. If another scenario applies, benefit will fall to the consumer countries and will be available for investment into energy efficiency and new energy sources. For the IAE, the green growth scenario is therefore the only option that consumer countries should take, not for climate change but for energy security.

Energy use will increase by 36% from now to 2035. But 93% of this increase will occur in the non OECD-countries. It will especially concern coal, which is the cheapest source of energy for emerging economies. This again has consequences in terms of impact on environment and climate change. Phasing out subsidies will be very important as part of a sustainable energy policy.

Crude oil will peak out and it will be difficult to satisfy all needs. To match the increase of global demand, five Saudi Arabias would be needed. Iraq will increase its production, Saudi Arabia still has the capacity to produce more and the non- OPEC countries can also contribute. The development of new technologies may help to extract more oil from underground, but can we afford investment in deep water exploration after the accident in the Gulf of Mexico?

Will we move to a golden age of gas, in terms of supply, demand, and price? Because of its relative greenness in terms of CO2 emissions, the use of gas will increase.

Is the alternative cleaner coal? The EU is investing into a technology for cleaner coal, an initiative which the IEA welcomes and which should be maintained and strengthened.

The EU is investing into renewable energies for 2020 but lags behind China and India which are increasing their use of renewable energy much more rapidly. India will quadruple; China will increase by six times their use of renewable energy by that date.

Everything shows that the age of cheap energy is simply over and that we will have to live with high prices for electricity.