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Economic Commission for Europe

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Strategic Alliances for Energy Security

Committee on Sustainable Energy
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Good Morning,
Ladies and Gentlemen,

It is a pleasure for me to open the Committee on Sustainable Energy this morning and to welcome you to the Economic Commission for Europe and to the Palais des Nations. I would like to introduce some of the key issues of energy security and sustainable energy you will be discussing during this Committee session.

East-west energy trade and cooperation has always been important for ECE since it was founded in 1947. It is crucially important for all member states now. Indeed, a secure and sustainable energy future for Europe will depend greatly on the cooperation, energy trade and investments that can be achieved in Eastern Europe and Central Asia.

I would like to explain this premise to you beginning with the coincidence between energy security and sustainable energy policies. Then I shall look more closely at government and industry roles in 'Strategic Alliances for Energy Security'. I would like to conclude with a few comments on Committee session this year and your work over the next three days.

Energy Security and Sustainable Energy

Thirty five years ago, the energy crisis was 'supply-driven' by the OPEC oil embargo. It ended with increased deliveries on the international oil market.

Today global energy security risks are 'demand-driven', having increased sharply because of steeply rising oil import demand largely in developing countries.

Despite recent developments, energy demand is most likely to continue rising in the medium and long term. Indeed, global energy needs are expected to increase by more than 50 per cent by 2030 according to the International Energy Agency.

Although hydrocarbon reserves and resources are abundant globally, they are concentrated in a few geographic regions some of which are economically vulnerable and unstable. Even developing these reserves in some countries is difficult because of the restricted access of international oil and gas companies.

During the 1970s 'energy crisis', east-west energy trade and cooperation allowed western consuming countries to diversify their sources of oil and natural gas supplies away from the Middle East. This was a key feature of ECE energy activities at the time.

Today the Russian Federation, Eastern Europe and Central Asia are strategically important energy suppliers and transit countries for Western European energy security. For example, Russian oil and natural gas exports account for 20 per cent or more of the oil and gas consumed in 20 Eastern and Western European countries.

As energy security became a growing concern to policy makers again during the last few years, the ECE Committee on Sustainable Energy has responded by launching an intergovernmental dialogue between producers and consumers on energy security with practical work through its expert groups and technical assistance projects.

Each area of the Committee's work you will be discussing tomorrow afternoon contains elements of how sustainable energy policies, technologies and management practices can diminish energy security risk. The Committee has extensive activities on natural gas; cleaner electricity production of coal and other fossil fuels; coal mine methane; energy reserves and resources; and energy efficiency.

Each of these activities offers a positive long-term dimension to the urgent need for secure energy supplies. In fact, a sustainable energy future is most likely to be a consequence of prudent energy security policies pursued today.

Strategic Alliances for Energy Security

The global financial crisis, the volatility of oil prices and its impact on oil demand are provoking a new wave of energy security risks. With oil prices veering from a nominal peak of US\$ 147 to US\$ 50 per barrel within a few months, new strategic alliances between governments and between companies will be needed to reduce energy security risk.

The Committee on Sustainable Energy annual expert dialogue on energy security is designed to contribute to this by bringing together key experts from governments, energy industries, the financial community and relevant international organisations.

Last year the Committee looked at investing in energy security risk mitigation. It became clear from that meeting that secure energy supplies will require large long term investments in energy technologies and infrastructure.

It was equally clear that new forms of cooperation between national oil and gas companies (NOCs) and international oil and gas companies (IOCs) will be vital to mobilise the capital and technology needed for these investments. While there are differing views on the future of this cooperation, the volatility of oil prices has led to quite divergent views on how to proceed.

For example, the recent sharp drop in oil prices has led Saudi Aramco to reassess all new production expansion. At the same time the French oil company Total has called for continued investments to avoid supply shortages when the global economy begins to recover.

While energy-consuming countries seek the security of energy supplies, energy producers seek the security of energy demand to diminish the risks associated with large long-term investments. Oil demand and prices are likely to continue rising in the medium and long term according to the International Energy Agency. The danger is that under-investment in key energy producing countries could reduce availabilities leading to strong renewed price pressures.

During the session this morning we will have presentations on the energy security implications of corporate planning and commercial strategy from executives of major energy companies. We will be most interested to learn your views on the access to reserves, the evolving roles of IOCs and NOCs, and new policies to ensure the future security of energy supplies.

This will be followed by a presentation on the new ECE publication 'Investing in Energy Security Risk Mitigation' that will cover recent investment trends and the performance of National Oil Companies.

This afternoon, high-level government representatives will focus on the complementary nature of national energy security strategies.

Energy Security and Energy Efficiency

But this year a new form of industrial cooperation on energy security is also emerging among the companies participating in the ECE energy security dialogue. New strategic alliances are being developed between major European natural gas companies on the formation of joint venture energy efficiency companies.

Indeed, the government of the Russian Federation is now supporting an ECE project on increasing energy efficiency to generate greater hydrocarbon availabilities for additional exports. This project reflects the Decision of 4 June 2008 of President Medvedev related to energy efficiency in Russian markets. This project provides the opportunity for government and energy industry experts to work on energy efficiency improvements in the Russian Federation and Central Asian energy exporting countries.

At the same time, a global consensus among governments seems to be growing that energy efficiency is the most effective method of mitigating climate change. This is because there is a vast potential for efficiency improvements to reduce CO₂ emissions which can be implemented very quickly, cheaply and reliably.

While energy efficiency can reduce carbon emissions, it can also contribute to ensuring the energy security of the European region. The strategic interest of energy importing countries is for exporting countries to produce and use hydrocarbons as efficiently as possible.

Indeed, the Declaration from the recent Summit on Financial Markets and the World Economy – the G 20 meeting in Washington – stated that Heads of State remained “committed to addressing other critical challenges such as energy security and climate change, ...”

Western importing countries have the technology, management practices, policies, regulations, standards and experience in financing efficiency improvements. Energy exporting countries generally do so much less. They tend to use their energy less efficiently keeping domestic energy prices below world market levels.

Harnessing the mutuality of interests of both industry and governments from both importing and exporting countries on efficiency improvements for secure energy supplies is a striking new development that fits exceptionally well within the tradition of east-west energy trade and cooperation of the ECE.

The ECE Energy Efficiency 21 Project promotes the formation of an energy efficiency market in Eastern Europe so that cost-effective investments can provide a self-financing method of reducing global greenhouse gas emissions.

The Eastern European market for energy efficiency projects with a payback period of less than five years is estimated to be between 5 and 10 billion Euro. For energy exporting countries, revenues from increased oil and gas exports could be used to repay investments.

But the capital investment requirements needed to tap this potential are so large that only public and private sector finance on a significant scale can actually deliver meaningful results.

This market will need to provide opportunities for the public and private sector to make large investments with low transaction costs that make adequate returns at acceptable risk within a reasonable period of time.

The ECE energy efficiency market formation activities involve capacity building to develop investment projects, assistance on government policy reforms and opportunities for project finance through externally managed public-private partnership investment funds.

One investment fund has already been established and another is under development. The SwissRe European Clean Energy Fund is a €354 million equity fund for financing environmentally sound energy technology in Europe launched under a mandate of the Energy Efficiency 21 Project.

The ECE is currently assisting in the development and launching of a new €250 million energy efficiency investment fund to reduce greenhouse gas emissions in twelve countries in Eastern Europe, Central Asia and South-Eastern Europe with the support of the United Nations Foundation (UNF), Fonds Français pour l'Environnement Mondial (FFEM) and the Global Environmental Facility (GEF).

Energy Security and Sustainable Energy

This is a good example of the correlation between energy security and sustainable energy policies that emerged so prominently during the 2007 Committee meeting. The Panel Session at the end of the afternoon will present progress on two studies requested last year. These studies benefit from the support of the European Business Congress.

One study is examining how sustainable energy policies can mitigate energy security risks and the role of financial markets on energy security.

The second study is focussed on perceptions of energy security risk. I mentioned earlier that the ECE energy security dialogue brings together key experts from governments, energy industries, the financial community and relevant international organisations.

But each of these four groups perceives energy security differently and can contribute to reducing risks in different ways. Therefore this analysis will involve a consensus building Delphi Study drawing on the views of experts from each part of the Committee on Sustainable Energy constituency.

This innovative way of working will provide for a more profound exchange of views than the usual annual Committee sessions can offer. It is also one of the most promising ways to reconcile divergent views in order to accomplish common goals.

The focus on energy security will continue during the working session tomorrow morning. Each of the major international organisations with projects and programmes on sustainable energy and energy security will present their activities.

This will be followed by a review of the work programme of the Committees subsidiary expert groups and projects. Your views and guidance on each of these are essential for the sound conduct of the ECE sustainable energy programme.

In the end, energy security and sustainable energy development are problems that cannot actually be solved. There is only the hope they can be better managed over the long term. This is the opportunity that the ECE provides to all participants in its work.

Thank you for your attention.