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Committee on Sustainable Energy

Statement by Mr. Ján Kubiš
United Nations Under-Secretary-General
Executive Secretary of the United Nations Economic Commission for Europe

Good Morning,
Distinguished Guests,
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 relating to energy security and sustainable energy that 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 the ECE region 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 'Energy Security and the Financial Crisis'. 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

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.

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. At the same time, transit countries have their own concerns with the security and safety of pipelines, transit corridors and routes. Some states dissatisfied with the current arrangements and their effectiveness would like to obtain new guarantees in the form of new legal frameworks with a comprehensive set of mutually acceptable obligations and have presented proposals to that extent.

Energy supply disruptions, like the gas crisis in CEE in January this year and the prospect of renewed disputes have raised apprehensions on all sides. Clearly, the complementary nature of the energy security policies of energy producers, importers and transit counties needs to be identified and developed to the degree possible as it is within this Energy Security Dialogue.

Despite the financial crisis, 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 40 per cent by 2030 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. The financial crisis has made it all the more uncertain whether the full energy investment needed in the longer term to meet growing energy needs can be mobilised.

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, consumers and transit countries on energy security with practical work through its expert groups and technical assistance projects.

Tomorrow afternoon you will be discussing each area of the Committee's work. It is interesting to

note that each activity contains elements of how sustainable energy policies, technologies and management practices can diminish energy security risk.

Energy security is closed linked to efficiency improvements, deployment of renewable energy technologies, the development of indigenous energy resources and nuclear energy. These measures and modern technologies, like CCS also contribute to climate change mitigation.

The Committee has extensive activities on natural gas; cleaner electricity production from 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 polices pursued today.

The Committee on Sustainable Energy's 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. The dialogue is supported also by surveys, studies and the development of indicators for energy vulnerability.

Energy Security and the Financial Crisis

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.

During the last few years this gave way to energy security risks that are 'demand-driven', having increased sharply because of steeply rising oil import demand largely in developing countries. The competition of new emerging economies notably China and India is most likely to be enduring pressure on global energy markets.

Today, the global financial crisis has provoked a new wave of energy security risks. Serious questions have arisen about the volume and timing of energy sector investments as the economic downturn reduced energy demand sending oil prices veering from a nominal peak of US$ 147 to below US$ 50 per barrel within the space of a few months last year. The renewed volatility of oil prices has led to quite divergent views on how to proceed.

For example, the sharp drop in prices 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.

As oil prices dropped, equity markets also collapsed and most energy companies have limited their investments to their cash flow rather than going to banks for financing as they have in the past. Even the largest producers have been squeezed by the credit crunch. Operating cash flows have been reduced by falling prices leaving some oil and gas companies without the means to make new capital investments.

Last year the Committee looked at strategic alliances for energy security and cooperation between National Oil Companies (NOCs) and International Oil Companies (IOCs) for 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 and international oil and gas companies would be vital to mobilise the capital and technology needed for these investments.

It would appear that major integrated oil and gas companies are likely to be the main beneficiaries of the financial crisis. With enough cash flow to continue investing while oil prices are comparatively low, several IOCs are making acquisitions in anticipation of a post-crisis rebound in energy demand and higher energy prices. Some IOC acquisitions include clean energy and unconventional energy sources such as oil tar sands and bio-fuels.

One of the most remarkable recent unconventional energy resource developments has been the deployment of new techniques to exploit shale gas deposits in the United States. This has raised hopes of a huge expansion of global reserves of the cleanest fossil fuel.

The emerging shale gas industry and technology, given a favourable economic environment, would permit natural gas to replace coal including in power stations and reduce greenhouse gas emissions. It could also provide an alternative indigenous source of gas to European countries that have geological formations similar to those in the United States. Indeed, these promising technological developments combined with the geological conditions in Europe could make this

topic particularly well suited to government and industry cooperation through UNECE.

The greater use of natural gas of course poses another set of questions. There are a number of plans and projects for the delivery of gas from the Russian Federation and Central Asia to European and Asian markets. Indeed, key approvals needed to proceed with the construction of the Nord Stream and South Stream pipelines have been accorded recently. The gas pipeline from Turkmenistan to China began operation this year.

Nevertheless, it is important to note that in 2009 most Central and Eastern Europe countries are essentially using the same hydrocarbon infrastructure they had when economic transition began 20 years ago.

Mr. Chairman, in view of these emerging technologies and the importance of the natural gas infrastructure, I would welcome the careful consideration by the Committee and its subsidiary bodies of the energy security implications European natural gas infrastructure. This is an issue you may wish to consider pursuing during the coming year.

I should add that harnessing the mutuality of interests of both industry and governments from both importing and exporting countries for secure energy supplies fits exceptionally well within the tradition of east-west energy trade and cooperation of the ECE.

Energy Committee Session

These issues will be the focus of your deliberations today. During the session this morning we will have presentations from executives of major energy companies on the impact of the financial crisis on their investment plans.

This afternoon, government representatives will focus on how governments have responded. Some governments have included green economic stimulus plans among other measures to support their energy industries.

The focus on energy security will continue during the working session tomorrow morning. It will begin with a survey of the major international organisations with projects and programmes on sustainable energy and energy security. This will be followed by presentations from the senior representatives on the activities of each organisation.

Tomorrow afternoon will have 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.

The session will begin with presentations on the progress on two studies conducted with 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.

Each of these four groups perceives energy security differently and can contribute to reducing risks in different ways. Therefore this analysis involves 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 provides 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.

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.

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