

Lord Howell – International Energy Forum – Riyadh

Introduction

Ladies and Gentlemen,

I am delighted to be able to address the distinguished range of guests here at the International Energy Forum, and would like to thank Mr Van Hulst for the opportunity to be here today. The IEF remains a priority for the United Kingdom. Being, as we are, the world's 6th largest economy, both a major consumer and a substantial energy producer and at the centre of many networks, including both the EU and the Commonwealth. And we will continue to play an active and leading role in the work of the International Support Group and Executive Board, through the UK's Department for Energy and Climate Change. I share the enthusiasm of my colleague Charles Hendry, Minister of State for this organisation, and echo the welcome he gave to the new IEF Charter at the Forum's Extraordinary Ministerial meeting here in February. I am in the middle of a visit taking in a number of Gulf States, and oil prices are high on my agenda as they are of the IEF. Saudi Arabia is the heart of world oil production that underpins global markets, so it is of no surprise that it should be the home of the International Energy Forum. And I would like to note the UK Government's appreciation of the strong support given to the IEF by the Kingdom of Saudi Arabia.

The eye of the world is of course once more on the Middle East, and for very understandable reasons. Few would have predicted the range of regional challenges currently being faced. But if this is a time of fast-moving events, it is also a time when wise reflection is needed, on how to meet the aspirations of the people of the Middle East can be met, acknowledging that there are no simple or single answers, and that there are many ways for nations to achieve and maintain legitimacy, by their own pattern of participation and consent. But Governments which use violence to try and dampen these aspirations or who refuse to address the legitimate grievances and desires of their peoples are bound to fail.

Against this complex background, it is incumbent on all of us – I mean all responsible nations – to seek to make a full contribution to global stability and security. By 'all' I mean not just European nations, not just Western nations, but the great nations of the Arab world, the great and

rising nations and economies of Asia and Latin America and the rising powers of Africa as well.

All of us need now to work together, as a global team, to meet the new challenges of the so-called Arab Spring as well as the old challenges of the region, including the need to move forward towards a two state solution to resolve the Palestinian issue. And of course none of us can afford to forget that this is a region which contains the planet's largest oil reserves, and in which the prospect of political instability can have a high economic price for all of us - developing and developed countries alike.

The challenge we face is indeed together to devise an effective policy for peace and development, combined with a comprehensive policy to meet global energy needs.

That comprehensive energy policy of course has many aspects. It requires every nation to expand renewable non-fossil energy sources, and to do so economically. It requires far greater efficiency in oil usage. It requires greater dependence on lower carbon, and increasingly plentiful gas. It requires sensible carbon taxes, if possible universally applied, and it requires a clever mixture of higher actual energy prices but lower energy bills – especially for the struggling poorer nations who find their development held back through painfully high energy costs.

More often than not grim economic prospects have been a catalyst for demands of political reform. And the political upheaval we saw in Tunisia and Egypt revealed to us the full scale of the economic challenges these countries faced. Our response to such developments must therefore include support for economic development which will help to embed reform in the long term.

Economic problems of oil price volatility

If I now turn to the core interest of the IEF, we have seen oil markets react nervously to the developments in the Middle East and North Africa. Although only one oil producer – Libya - has seen its production subject to physical disruptions, and even with the market well-supplied, oil prices have become increasingly volatile. Oil prices rose from \$95 in January to a 2½-year high of \$127 in April, before falling back down to \$110 in May. This volatility is not a new phenomenon. We all remember how oil prices reached a peak of \$147 per barrel, only to crash to \$40 per barrel, in 2008.

Volatility threatens the global economy. It also threatens the future of oil itself. Without energy price stability, and therefore predictability of costs, businesses reduce and delay investment, which impedes long-term economic growth, and people turn more strongly than ever to alternative energy sources.

International cooperation on price stability

Tackling price volatility is an issue on which we are committed to through international cooperation. The IEF has demonstrated in recent years that there is a genuine value in producer-consumer dialogue. Enhanced transparency is crucial: data publication on 16 April by Saudi Arabia and Kuwait led to an immediate \$2 drop in oil prices.

I have no doubt that consumers both in developed and developing countries and producers will benefit from the IEA, OPEC and IEF initiatives to share their analysis, and from the continuing improvements and refinements to data sharing mechanisms, such as the Joint Organisations Data Initiative. This will allow consistent, evidence-based messages to be transmitted to global oil markets. I would add that this is no longer simply an OPEC-OECD issue: the world is changing fast, and demand is now driven from the rapidly emerging economies of Asia, whose own continued growth will require oil price stability. This reality highlights the importance of the IEF as a forum for energy dialogue between all interested parties.

Outside multilateral fora, the role of producer states in ensuring price stability is crucial. It is important to recognise the contribution made by Saudi Arabia and other OPEC producers for having quickly made clear their willingness to enhance price stability by making up lost Libyan shortfall. We are very grateful for these actions, and feel confident that producers would take similar steps again in future, if necessary.

Economic problems of sustained high oil prices

But improving price stability is not the only objective for an energy secure future. In a global economy dependent on oil, rising prices affect us all. Emerging and developed economy governments alike have to balance inflationary pressures with the need for a monetary policy that enables and supports growth. Families and businesses see their incomes squeezed as prices rise. Every major oil high has been followed by a global recession – this is bad for producer and consumer states alike. The latest analysis from the IEA suggests that oil prices remain in a danger zone for the global economy.

Ensuring sustainable and affordable energy prices is therefore at the heart of the international community's cooperation on oil and energy. However, the longer term challenge of securing affordable prices should not be understated.

We must manage the competing pressures of increasing global demand for energy, mainly outside of OECD countries, with increasing production constraints. With world energy consumption expected nearly to double in the first half of this century, geopolitical and geological access to resources are becoming ever more difficult. Against a backdrop of having to cut carbon emissions, the energy challenge we face is complex and multi-faceted, and measures addressing both supply and demand are crucial.

Supply-side measures to reduce oil prices

Insufficient investment in oil production today jeopardises oil production in the future. The capital investments required for exploration, production and refinement are substantial, but they are necessary however effective we are in reducing oil usage and increasing energy efficiency. The IEA estimates that nearly \$20 trillion of investments would be needed by 2030 if the world is to meet the challenge of growing energy demand.

OPEC members have already started crucial upstream and downstream investment. As an example, Aramco's largest ever offshore project, the \$10bn Manifa oil field, scheduled to come on stream by 2015, could add 900,000 barrels a day of crude to production. The project will also process 90 million cubic feet a day of natural gas.

Project Kuwait is a \$7 billion, 25-year plan to increase Kuwait's oil production to 900,000 barrels per day particularly, aiming to increase output at five northern oil fields—Abdali, Bahra, Ratqa, Raudhatain, and Sabriya.

Such investment in production must continue to be expanded and multiplied. The Shale Gas Revolution in North America demonstrates the importance of unlocking unconventional energy reserves: five years ago the US was a net importer of gas; today it is an exporter. Exciting developments in oil sands, oil shales, and coal based liquid supplies, bring us ever closer to an unconventional oil revolution. Investment and further technical advances to enable unconventional production with minimised consequences for climate-changing emissions is critical.

Geopolitical considerations are also crucial. With oil reserves estimated at 115 billion barrels, Iraq has the potential to be a game changer, but sectarian violence and political instability has held the country back. The important work of the Iraqi Security Forces has significantly improved the security situation and the 2009 licensing rounds demonstrate that despite the challenges, Iraq is an attractive place to invest for a wide range of companies. One issue that must be addressed if Iraq is to attract the necessary investment is the Hydrocarbons Law, which will help to resolve the issue of revenue sharing between Baghdad and the Kurdistan Regional Government.

Demand-side measures to reduce oil prices

Increasing production cannot be the only solution. A balanced approach to energy consumption is also crucial. As a finite resource, it is imperative to use oil and gas efficiently and sustainably.

The European Union is taking bold and ambitious action. It hopes to achieve a 20% gain in energy efficiency by 2020. Achievements have already been made, and the recently published EU Energy Efficiency Plan is another important step on this road. Greater energy efficiency is helping to drive prosperity in Europe; insulation, timers, efficient air conditioning, these make a real difference to budgets for families and small businesses.

But energy prices are a global problem and require a global solution. China recently overtook the US as the world's largest energy consumer. BP predicts that 93% of the increment in energy demand between now and 2030, will be from non-OECD countries.

The world leading research being undertaken on clean combustion and energy efficiency at the King Abdullah University of Science and Technology, demonstrates the important steps being taken by emerging powers. But more will be required. Across the world governments must consider introducing product efficiency standards, including for fuel and housing; that provides consumers with the right efficiency incentives and information and that demonstrates public leadership.

The world must also make progress on the G20 commitment to remove fossil fuel subsidies, which promote wasteful and excessive consumption and prevent the natural market response to price signals. Removing fossil fuel subsidies will reduce profligacy, improve fiscal balances and economic efficiency and cut carbon emissions.

In 2009 fossil fuel consumption subsidies totalled \$312 billion worldwide. Fossil fuel subsidies shield consumers from rising prices and leads to increased volatility. The benefits of phasing out of fossil fuel subsidies are palpable: according to the IEA by 2020 removal of subsidies would reduce annual global primary energy demand by 5% and decrease carbon emissions by 5.8% in that year.

One might argue that the poor suffer most when subsidies are removed. But removing subsidies frees up funds which can be directed at alleviating poverty on a sustainable basis. And let us remember that, according to the IEA, only 15% of total subsidies are for household related energy consumption, kerosene, electricity and liquefied petroleum gas, and that most subsidies disproportionately benefit wealthier households, whose energy consumption is proportionally higher thanks, for example, to car ownership.

Additional benefits of energy efficiency

Energy efficiency is also crucial for meeting our economic and climatic challenges. There is a large body of scientific evidence suggesting the impact of climate change will be increasingly widespread and severe as temperatures rise for which it is only prudent to prepare. Energy efficiency is a low-cost tool in meeting our legal – and moral – obligations to tackle dangerous climate change.

So too is the move to substitute lower-carbon gas for oil – mainly in electricity generation, but also, through car electrification, in transport as well.

Energy efficiency also increases the resilience of the global economy to price rises. High oil prices in the 1970s led to extreme inflation and economic malaise. And though we have had significant problems, the severity of the 1970s experience has not been replicated. Why? Because of improved energy efficiency. The energy consumption per dollar of US GDP has decreased by about 50 percent compared with the early 1970s. Energy efficiency helps proof the world economy to price rises, because it helps break the dependence of economic activity on *low* cost energy.

Conclusion

Ladies and gentleman I have outlined today the key energy challenges facing the world now and in the future. And although the challenges are

great, I believe the leadership of the world's governments and industries can be greater. The IEF can provide the transparency and facilitate dialogue between consumer and producer states to address the challenge of oil price volatility. The challenge of higher energy prices can be moderated by responsible investment in supply. Global energy demand can become sustainable through energy efficiency and new technology, which will also enhance economic resilience and thereby diffuse the threat posed by price rises.

If we collectively take these actions, we can meet the energy challenges we face. This is good news for consumers and this is good news for producers.

Thank you for your attention.