



Ensuring energy security in times of uncertainty

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To foster energy security, whether of supply or demand, is to mitigate the risks and manage the uncertainties related to future balances of energy markets. Since its creation in 1974, the IEA's primary mission has been to address issues of supply security, but since then its mission has expanded and its expertise has diversified. And yet the IEA's founding purpose of safeguarding oil supply security remains at the core of our business.

In today's economic climate, the need to ensure energy security is as urgent as ever. But the energy world has faced unprecedented uncertainty over the past year – turmoil in the Middle East and North Africa, a fragile global economy racked by the eurozone crisis, and the devastating Japanese earthquake and tsunami which triggered a grave incident at the Fukushima Daiichi nuclear power plant. These events have highlighted the importance of the stable provision of affordable and sustainable energy to modern economies – and also the clear and present nature of risk.

The future supply and demand balance in global energy markets will be determined by many factors. The pace of economic and population growth, energy efficiency trends, pressure to reduce greenhouse gas emissions, the development and deployment of new energy technologies and whether sufficient investments are forthcoming along the entire energy chain – these will all play a role.

Well functioning markets

IEA experience suggests that well functioning markets are essential to addressing supply security concerns. But we are not there yet. The increasing interdependence of producing and consuming countries poses new energy security challenges, so a comprehensive response is needed to improve market performance and to reduce uncertainty.

How can we make markets function better? More transparent, accurate and timely data is crucial for efficient market operation and development. We need better data on reserves, production, inventory and demand. This is especially true for non-OECD countries that will play an increasingly important role in global energy markets. According to IEA projections, non-OECD countries accounted for 47 per cent of world oil demand in 2010, but their share is expected to grow to 61 per cent in 2035 based on current trends. Collection of credible and transparent data from all consuming and producing countries helps to bring more clarity to the analysis of energy market trends.

In addition to transparent data, further integration of energy markets will improve performance and security. That integration should be marked by trade flows based on commercial incentives born of more transparent and cost-reflective prices. Integrated markets will support more efficient and timely investment, and increase the depth and diversity of energy supplies.

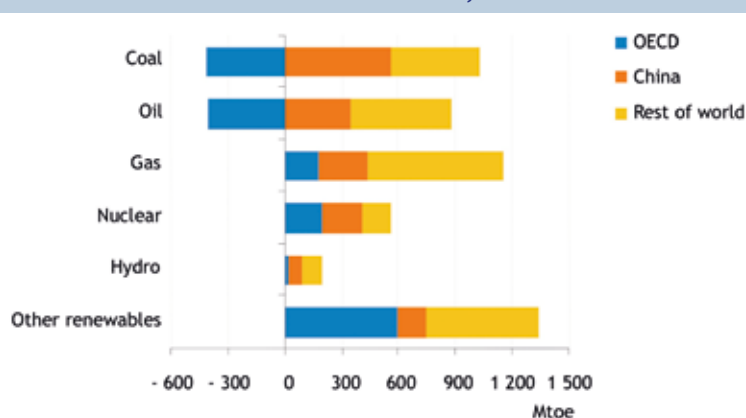
Governments need to adopt policies that reinforce and complement market-based responses to deliver energy security at least cost. This includes transparent and predictable legal and regulatory rules, and the greater harmonisation of market frameworks across multiple jurisdictions. Policy uncertainty or the inconsistent application of legal and regulatory rules jeopardises investment and threatens the effective allocation of energy supplies to achieve energy security.

Well-prepared for emergency

Reforms to improve market functioning are essential steps to address long-term investment challenges. At the same time, we must be prepared to take short-term, emergency response measures in case of a serious supply disruption.

The IEA Member countries have in place tried and tested systems for responding rapidly at the

Incremental primary energy demand in the New Policies Scenario, 2008-2035



Demand for all types of energy increases in non-OECD countries, while demand for coal & oil declines in the OECD

Source: World Energy Outlook 2010

outbreak of an oil disruption. In the first instance, the IEA will expect markets to respond, with the use of commercial stocks and additional production. But if market mechanisms are insufficient or dysfunctional, and the disruption poses a clear threat to the global economy, emergency stockholding systems have a vital role to play in providing additional oil to the market. Employed appropriately, an emergency stock release can contribute to mitigating the impact of an oil supply disruption on the economy.

Most recently, an IEA collective action was launched in June in response to the disruption of oil supplies from Libya. When the disruption started earlier in the year, IEA assessment showed that the market was able to cover the loss and provide adequate supply. But circumstances changed as the disruption continued. As the northern summer driving season approached and refineries ended maintenance, the market tightened notably. To ensure adequate supplies until producers were able to ramp up production, IEA Member countries agreed to make available to the market 60 million barrels of crude oil and oil products from their emergency stocks over an initial period of 30 days. Of these 60 million barrels, some 38 million barrels were released from public stocks and 22 million barrels via a relaxation of obligatory industry stockholding. Public stocks were taken up by the market over the course of July and August. The swift uptake of public stocks demonstrated the need in the market. Fully 97 per cent of public stocks were taken up by market players, compared with 73 per cent during the previous collective action in response to Hurricane Katrina in 2005.

It is our view that the interrupted Libyan supplies have been successfully addressed by a combination of the IEA collective action and increased production from producer countries, against a backdrop of weakening expectations for global oil demand growth.

Worldwide engagement

As an ever greater share of oil is consumed outside of IEA countries, it becomes essential that both Member and non-Member countries cooperate with regard to the pursuit of oil supply security. Strengthening emergency response capabilities within and outside the IEA will be a pressing issue over the next several years. The IEA has already put considerable efforts into cooperation with China and India as well as with ASEAN countries to promote oil stockholding across Asia. The IEA remains committed to providing necessary assistance and cooperation to enhance energy security worldwide.

From the IEA's accumulated experience, we have learned that energy security will not be achieved by risking the security of others – including demand security of producers. Enhanced energy security requires working together to develop resilience in our energy markets and infrastructures, with both greater diversity and flexibility, to limit our vulnerabilities to energy crises and where possible to avoid such crises altogether. The IEA continues to work closely with partner countries and international organisations to address the pressing challenges of investment, technology deployment, statistics, efficiency, and emergency response which will help to ensure our energy security going forward. □

