Maria van der Hoeven on energy security

'The US is now the world’s largest oil producer. Your imports are falling, your product exports are surging, and there is serious discussion about finding ways around the crude export ban that has been in place since the late 1970s.

'In natural gas as well, recent developments are nothing short of remarkable. It was only seven years ago that your country was importing more than 300 billion m³ of gas a month. Now, you are on the cusp of becoming a net exporter. You are producing gas in abundance, so much so that it is muscling out other sources of power. But, and as we all know, there is always but, in periods of abundance, we must challenge ourselves with tough questions. And so I ask you this: is your energy as secure as you think?'

'Energy security is about much more than supply. And it is about more than the here and now.'

'The IEA is keenly aware of the need to avoid complacency on energy security matters…Our mission was to ensure and improve the energy security, back then it as mainly oil security, of our member countries. This was our mandate then, and it remains so today.'

Stockholding

'Back then, energy security was about responding to, and mitigating the pain of, oil supply disruptions. The most powerful policy tool developed for this task was the stockpiling of emergency reserves, which are to be released only in event of a severe disruption in the physical supply of oil. Today, our 29 members hold about 4.1 billion bbls of oil, or around 44 days of total global demand.

'The stockholding system has undeniably worked well. But the world has changed dramatically since the founding of the IEA, driving us to evolve and develop our capabilities accordingly. Oil demand patterns have shifted. Where IEA members once accounted for around three quarters of global demand, they now account for less than half. This requires that we engage more closely with emerging economies like China and India, increasingly the engines of global demand.'

'The IEA has been pushing for transparency on oil stocks in China and other countries for decades, so let’s hope this is followed soon by concrete measures that will help us enhance our cooperation on statistics. There is certainly some good news on oil security, for now. But the nature of the business means that it is imperative to look ahead. And there we see cause for concern.'

Cause for concern

'Rising output of US light, tight oil, Canadian oilsands and the prospect of new deepwater conventional supplies from Brazil have outshone oil developments in the Middle East in recent years.'

'Meeting long term growth in oil demand will mean more reliance on the holders of the large remaining conventional resources, which are concentrated in the Middle East. Much of them are in
Iraq, the country we had projected would provide 60% of OPEC’s capacity growth over the next five years. So far, the prized oilfields of southern Iraq have been insulated from the fighting that has gripped the country over the past month. But I do not have to tell you that making long term investment decisions now in Iraq is an exceedingly difficult task...there is a risk that investment in the Middle East fails to pick up in time to avert a shortfall in supply in the 2020s. The result would be tighter and more volatile oil markets, with an average price almost US$ 15 a bbl higher in 2025 than would otherwise be the case.'

'Countries in the Middle East can contribute to our collective energy security by exporting more. The right investments are one way to get there. Cutting fossil fuel subsidies is another. The world spend more than half a trillion dollars on these subsidies in 2012. The bulk of those were in the Middle East and North Africa. Fossil fuel subsidies encourage wasteful consumption...But for many producing countries, these subsidies deny governments valuable export revenues.'

'I recognise that in the US you do not subsidise the consumption of fossil fuels, but if I look at your gasoline prices, they are quite a bit lower than what we pay in Europe. In fact, IEA statistics show that you have the lowest unleaded gasoline prices in the OECD. The main reason is your gasoline taxes, which are the second lowest in the OECD. Federal highway taxes have not increased in more than 20 years, and your Federal Highway Fund now faces a shortfall as a result.

'From a global perspective, I urge you to take a hard look. You may find that with your tax structure on gasoline, you, too, may be encouraging wasteful consumption...I also recognise that you have made great progress on tightening vehicle fuel efficiency standards in recent years. But in the coming years, you and the world will need that gasoline, and the oil used to produce it, particularly if Middle Eastern investments fail to materialise as needed. With gasoline taxes at their current levels, you may be eroding your own energy security and depriving yourselves of additional export revenues.'

Natural gas in the mix

'Secure supplies of natural gas and electricity are also of growing importance for keeping our economies and societies functioning...You are fortunate in this country to have low gas prices as a result of the shale boom, and that is boosting the competitiveness of American industry.

'Cheap gas is also driving out older power generation in some regions of the US. I have no problem with oil plants being retired. But be careful about the degree to which you rely on gas. Energy security requires diversity; you do not want too many of your eggs in the same basket. Let me give you an example: six months ago your country was gripped by one of the most brutal winters in recent memory. I visited Boston in February and let me just say that I can still feel the chill in my bones.

'Now, if your energy system had relied only on gas at the time of the polar vortex, the additional heating demand would have meant there was not enough gas for the power sector, and the system would have failed. Coal, nuclear and wind were all essential for keeping the lights on. Diversity of your power mix guaranteed your short term energy security.'

'Many would say more gas is good for the climate, especially when it pushes out coal. But let me be clear: gas may be the cleanest of fossil fuels, but it is still a fossil fuel. The widespread use of gas without emissions abatement would leave us with no chance of meeting our 2 °C climate goal. So I welcome policies that promote only the most modern and efficient gas plants being built with the anticipation of further carbon constraints.'

Conclusions from van de Hoeven’s speech can be read here.

Adapted from speech by Claire Lloyd

Published on 21/07/2014

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Energy supply security: Japan
A look at the security of the oil and gas supply chain in Japan with the International Energy Agency.

Energy supply security: Germany
A look at Germany’s oil and gas security of supply with the International Energy Agency.

Energy supply security: Canada
A look at energy supply security in Canada, with a focus on the oil and gas sector from the International Energy Agency.

Energy supply security: Australia
A look at what the International Energy Agency has said about energy supply security in Australia.

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Conclusions: Maria van der Hoeven on energy security

The following are the conclusions to a speech given by Maria van der Hoeven on energy security.

Leading the way

'I want to say a few words about resilience, climate change and the need for the US to provide global leadership. The is no longer any doubt that our energy system is contributing to climate change. Yet what goes around comes around: the changes in climate resulting in large part from our dependence on fossil fuels will threaten energy security here in the US and across the globe in the decades ahead. Increased air and water temperatures, decreased water availability and increasingly intensive and frequent storm events and sea level rise have, and will continue to, disrupt energy systems.'

'Action must be taken now to stop making matters worse in terms of emissions and to build up the resilience of the energy system to limit the impacts and costs of climate change.'

'When infrastructure is installed, it must be in areas that face low climate impact risks or otherwise can be made robust enough to withstand extreme events when they hit. This approach must be taken across the system so that gas, electricity and liquid fuels in particular are less likely to be disrupted by hurricanes and other extreme weather events.'

'System resilience also improves when markets are better connected and designed. Regionally, in the US, we see good and bad examples of this, so there is more work to do. So energy security is both about addressing the impact of climate on energy and about addressing the impact of energy on climate.'

'Every state, country and region must put in place the policies that work best based on their individual circumstances. China is doing so through five year plans. The EU is setting targets for 2030. Both include carbon pricing in the policy mix. President Obama is doing so through the Climate Action Plan, the centrepiece of which is the new proposed EPA rule on carbon emissions from existing power plants.

'Our view is that implementing the EPA rule can be achieved without damaging economic growth and while maintaining, or even improving, energy security. Crucially, it also sends a very clear signal to the international community ahead of the make or break climate talks in Paris next year. However, it is also clear that the EPA rule alone is not compatible with minimising the global temperature rise to 2 °C. While it is a very important first step, it must be followed with further steps. The stakes are high for a meaningful deal in Paris that will set us on a 2 °C pathway. Our long term energy security depends on it.'

'Renewables and energy efficiency may well take centre stage, but real action is required on CCS and other low carbon technologies to pave the way for oil, gas and coal to play a full role in a secure global energy system for decades to come. So, if you have investments in these sectors,
the best way to protect them is to push for action.'

Adapted from speech by Claira Lloyd
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