
WEC Statement 2009
Building the new World Energy Order

The Energy Industry view: Promoting long term Sustainable Development Objectives over short term Economic Trends

Executive summary

The current global recession must not threaten the long-term objectives of meeting growing demand, tackling climate change and reducing energy poverty. We must keep our focus on the long term. However, the downturn is clearly having an impact on the energy industry. The question should be then: how do we rise to the challenges of this recession without jeopardising our long-term goals?

Industry players are ready to make bold and responsible investment decisions to support sustainable growth. To make this possible, energy policies must provide the right investment incentives. This means that, today, stimulus spending should be widely used to help prepare a clean energy future while addressing current short-term issues. It is essential that such policies be designed and deployed to maintain investment momentum, which is key to long-term clean and affordable energy development.

WEC's Energy Policy Assessment aims to assist policy makers in optimising policy decisions in an uncertain and short-term reactionary environment. This report will be published ahead of the COP15 meeting in December.

Achieving sustainability during challenging times

For eighteen months the world has watched as the global "financial crisis", triggered by a sharp property market downturn, has grown to threaten some of the world's largest financial institutions and caused a global shortage of liquidity in wholesale financial markets.

Over the past six months this crisis has affected the wider economy of practically every developed and developing nation. The world is currently suffering the worst recession in more than seventy years.

How will this impact the world's energy industries?

WEC, the world's foremost multi-energy organisation, with member committees in almost 100 countries, is working closely with its members to assess the situation and maintains its focus on the longer term industry challenges.

WEC members feel that the energy sector short and longer term challenges centre on:

- The security of supply and predictable energy demand,
- The sustainability of current energy policies,
- Alleviating the energy poverty experienced by more than two billion inhabitants of our planet.

These challenges remain while the world is in recession, in fact the recession in many ways exacerbates the issues in the long term; but in other ways it also provides new opportunities for us to reconsider our energy policies.

And policies are at the heart of the debate. WEC believes that accelerated improvement of government energy policies and industry practices is what is needed in order to increase industrial capacity to rise to the current challenges and to improve consumer habits.

Furthermore, the rapid changes necessary can best be handled through the open exchange of straightforward assessments of energy-related policies and their achievements in practice in attaining policy goals. WEC has begun just such an assessment, the first of its kind, focusing on energy as the key factor in sustainability.

Security of supply and predictable energy demand

In early 2008 the world was paralysed by the rapidly escalating price of oil, as it approached \$150 per barrel. Oil companies everywhere scrambled for resources to be able to increase production. Investors in alternative energy production poured funds into their projects and international financial institutions lent freely to companies aiming to close the gap between supply and demand. Producers increased output in order to provide a margin over demand and arrest the escalation of prices.

Today, for the first time in a quarter century, world demand for oil is falling, the price has collapsed by 70% from its peak in July 2008, companies everywhere are freezing investment and re-evaluating energy projects predicated on high fossil fuel prices and which no longer provide an adequate risk-adjusted return at current prices.

The demand and related price fluctuations present a high level of risk to investors, whose decisions are based on specific price assumptions. Government policies to minimise these risks are essential for the long term. Policies might involve streamlining the price discovery process or stabilising prices for certain fuels in order to provide certainty for investment in new energy technologies.

The transportation sector continues to pose some of the most intractable problems. While considered highly desirable in consuming countries facing a recession, the rapidly falling price of oil is now posing problems for the economic stability of producer countries and for investments, which will be needed in the future.

In addition, the illiquidity of global financial markets has meant that companies find it much more difficult to access capital, even for high-return projects. This particularly affects small companies in the renewables sector. Such funding shortages are hindering the consolidation of the energy industry in certain areas and raising concerns about the short-term feasibility of funding the capital intensive investment required in the energy sector.

The preliminary results of the WEC survey show that investment has at best stagnated and in many cases dropped, due to a decrease in energy demand. This situation is unlikely to change for the next two years.

WEC members are confident that there will be an upturn in demand and investment, but that it will take anywhere between three and five years for this to occur.

The key challenge will be to maintain investment momentum over the next few years. WEC believes that government policies have a critical role to play in this area, by incentivising investment, assuring producers of future demand and stimulating economic activity.

Although the current recession poses major short-term problems on all fronts for the energy industry, it also offers significant opportunities to policy makers. In particular, governments intent on stimulating their economies are looking for investment opportunities for the large amount of taxpayers' resources currently aimed at restoring economic growth. It is difficult to think of a more appropriate home for such funds than low-carbon energy investments and programmes to alleviate energy poverty.

There is a major opportunity for governments to direct economic stimulus packages towards the energy industry, fostering the deployment of existing technologies, including energy efficiency, encouraging research and development, assisting in the early commercialisation of new technologies and reducing the risk for investors in climate friendly energy projects. Such projects should include a balance of technological options: energy efficiency, renewable energy sources including hydro, advanced nuclear to accompany the nuclear renaissance and improvements in cleaner fossil fuels. Governments should encourage and facilitate collaborative research in breakthrough technologies, such as Carbon Capture and Storage, Gen IV nuclear and advanced photovoltaic, that ensure an energy-secure sustainable future.

WEC is of the view that policy makers have a unique opportunity to construct innovative economic policies that support all such technologies.

WEC is also of the view that governments in general should refrain from selecting specific technologies and projects and rather provide the economic encouragement necessary for investors while leaving the final project choices to normal market forces, thus keeping all energy options open. These policies should not be confined to production technologies. Accommodating new energy production and distribution will require extensive investment in energy networks.

WEC believes that incentivisation of this investment would be an excellent use of stimulus funding at this time.

The sustainability of current energy policies and the necessary balance between long-term climate change objectives and short-term economic trends

During recessions, governments can be tempted to neglect longer term issues such as climate change. Indeed, the political planning horizon tends to shorten dramatically in times of economic turmoil as the economy struggles to maintain its short-term fundamentals.

Even though the effects of measures to tackle climate change will only be felt in decades and centuries rather than months, it is within the next few months and years that such measures must be implemented on a global basis. WEC believes that it would be a mistake for the world's policy makers to lose focus on this issue at this time. It is essential that the agreement reached at COP15 ultimately develops a global carbon price that is realistic in terms of its overall impact on global economic growth

while at the same time producing the necessary signals to encourage investment in low-carbon energy production.

A predictable value for carbon provides long-term stability for consumers and producers. Maintaining the carbon price at an appropriate level through emissions trading, especially in developed countries, would enable transfer of clean technology, including its associated financial flows, to ensure that developing countries grow their economies in a sustainable way. A significant expansion of carbon markets would be required to address the needs for additional investments and financial flows together with the appropriate policies, measures and instruments at the national level.

International cooperation is key. Therefore global trading rules for energy that incorporate and support climate change objectives are critically important at this time. WEC has recently commissioned a study on energy and trade and expects to report on the issue at its Montreal Congress in 2010.

Energy poverty

The issue of energy poverty and supplying commercial energy to those who lack it continues to loom large in WEC's reckoning. While the current recession has reduced the price of energy in the developing world, it is also having the severest impact on the poor and therefore has done nothing to mitigate the energy poverty problem.

In the current economic climate there are major short-term pressures on the world's richest economies, tending to reduce the assistance provided to the weakest and most vulnerable in our global society. WEC strongly urges governments to maintain their economic and technology transfers in the long-term interest of all of the world's citizens.

As part of the COP15 initiative, governments should strive to formalise arrangements to transfer technologies, improve regional energy integration and eliminate trade barriers. Governments in turn should seek to reduce distortions in their energy markets, promote energy efficiency and participate in the new global arrangements so critical to a new world energy order.