ENERGY SECURITY

6th SOUTH EAST EUROPE ENERGY DIALOGUE

Thessaloniki, May 30th & 31st, 2012

ENERGY SUPPLY SECURITY

Thea KHITARISHVILI

Global Energy Dialogue

International Energy Agency

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The International Energy Agency

28 member countries


Australia


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Canada


United States


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Turkey


Austria


Czech Republic


Finland


Greece


Hungary


Italy


The Netherlands


Portugal


Spain


Sweden


Belgium


Denmark


France


Germany

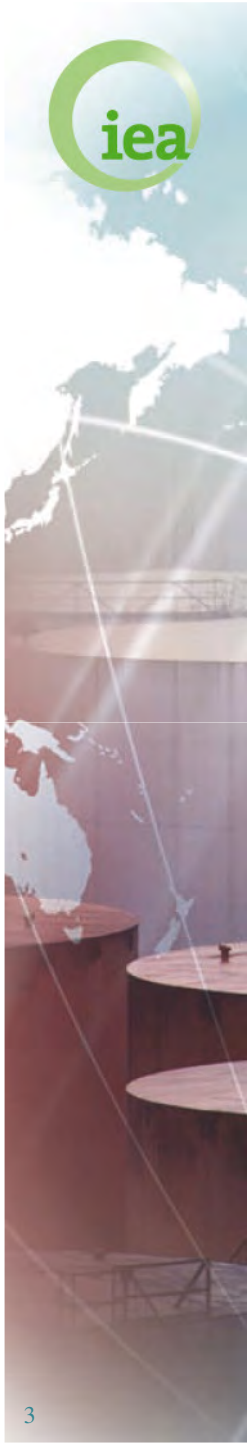

Ireland


Luxembourg


Poland


Slovakia

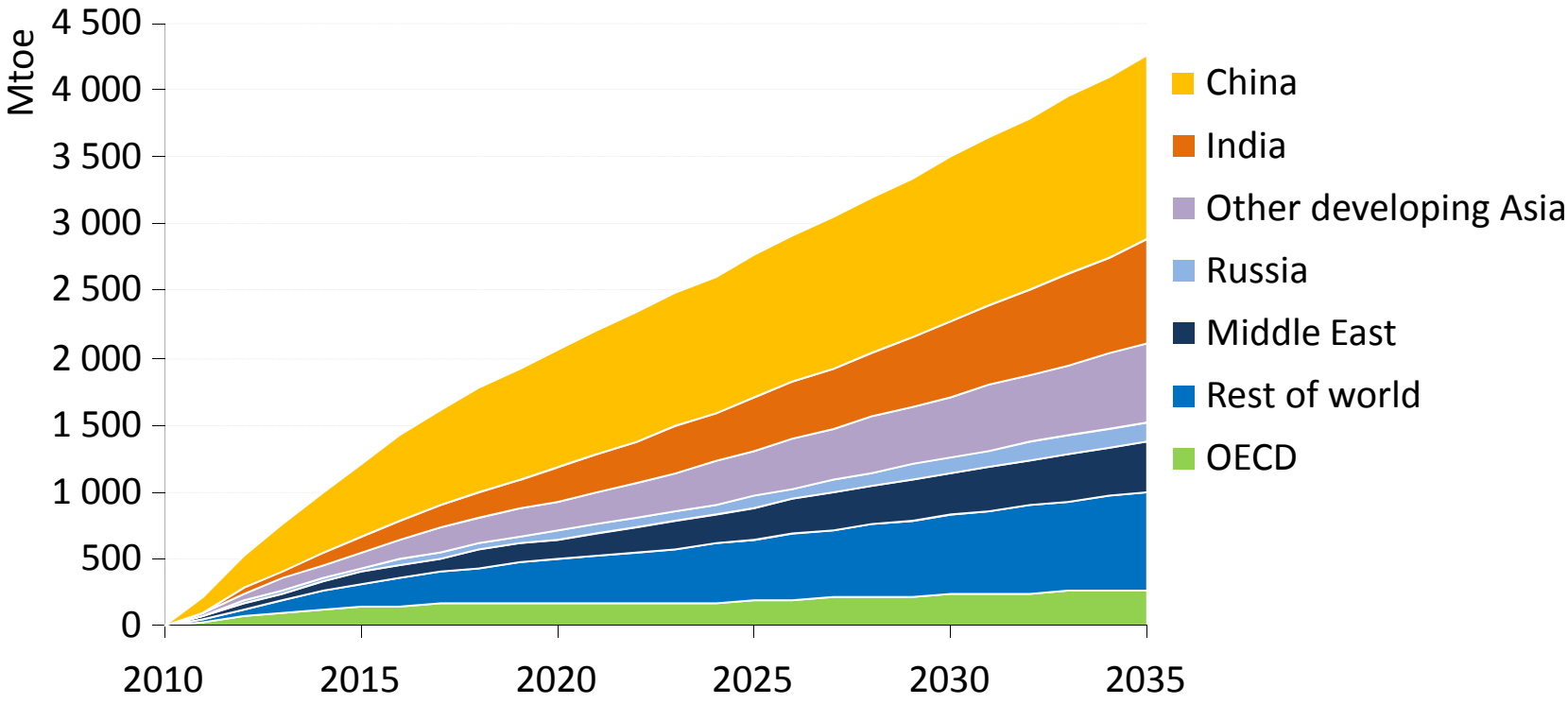

United Kingdom



Oil Market Outlook

Emerging economies continue to drive global energy demand

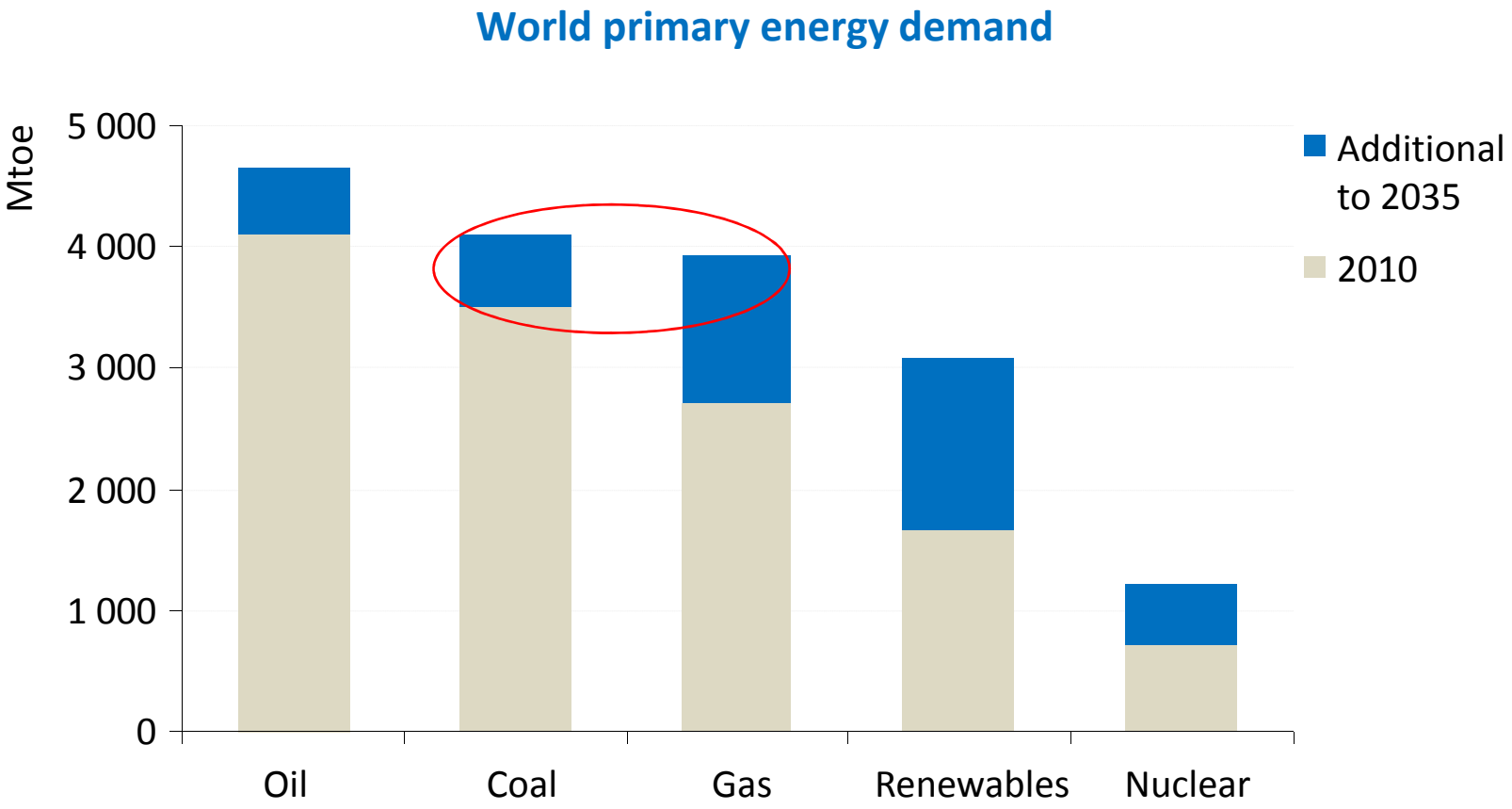
Growth in primary energy demand in the New Policies Scenario



Source: WEO 2011

Global energy demand increases by one-third from 2010 to 2035, with China & India accounting for 50% of the growth

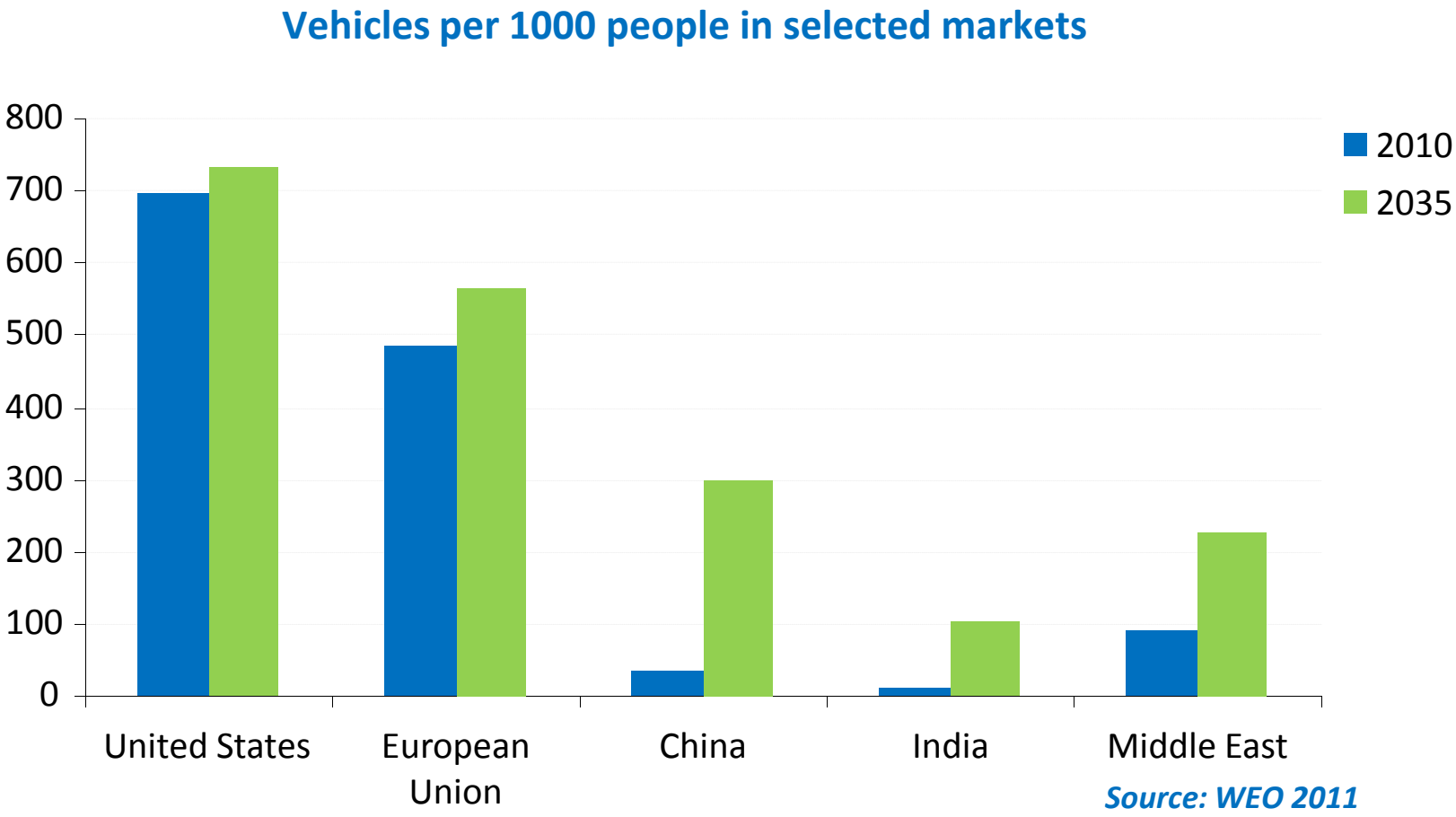
Natural gas and renewables become increasingly important



Source: WEO 2011

Renewables & natural gas collectively meet almost two-thirds of incremental energy demand in 2010-2035

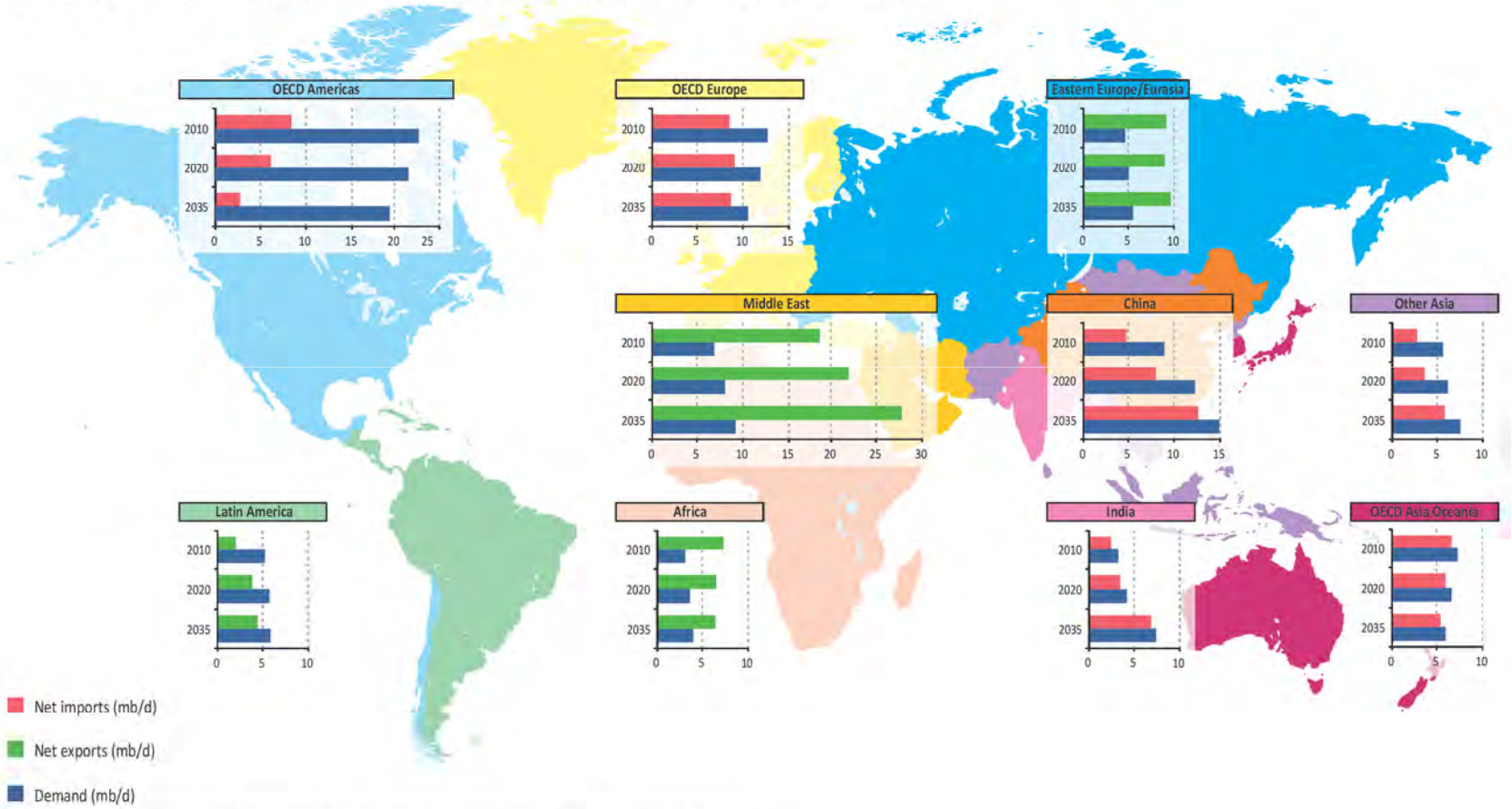
Oil demand is driven higher by soaring car ownership



The passenger vehicle fleet doubles to 1.7 billion in 2035; most cars are sold outside the OECD by 2020, making non-OECD policies key to global oil demand

Changing oil import needs are set to shift concerns about oil security

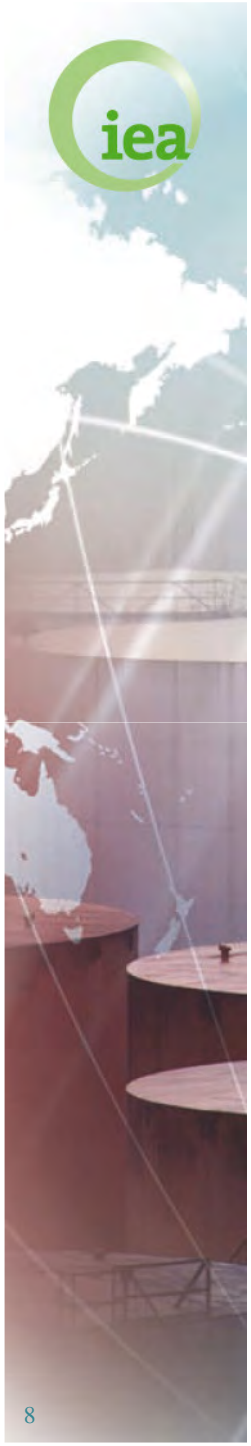
Figure 3.19 • Regional oil demand and net trade in the New Policies Scenario (mb/d)



This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map.

Notes: Imports and exports show net volumes traded. International marine and aviation fuel use is not included.

Source: WEO 2011

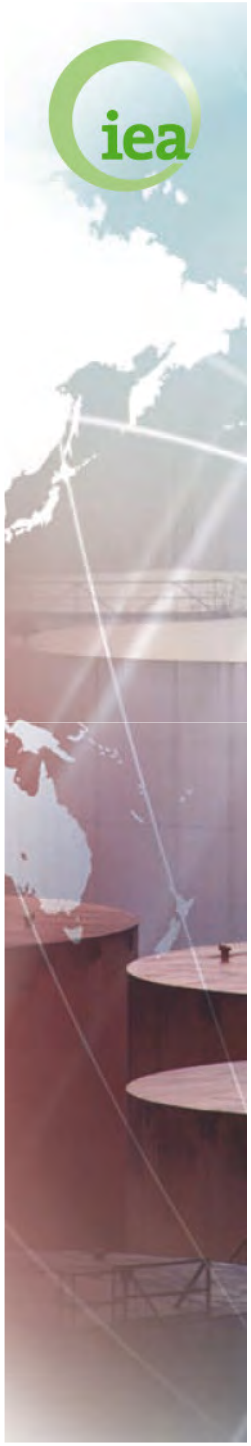


Emergency Response

Impetus to establish the IEA

1973/74 oil crisis

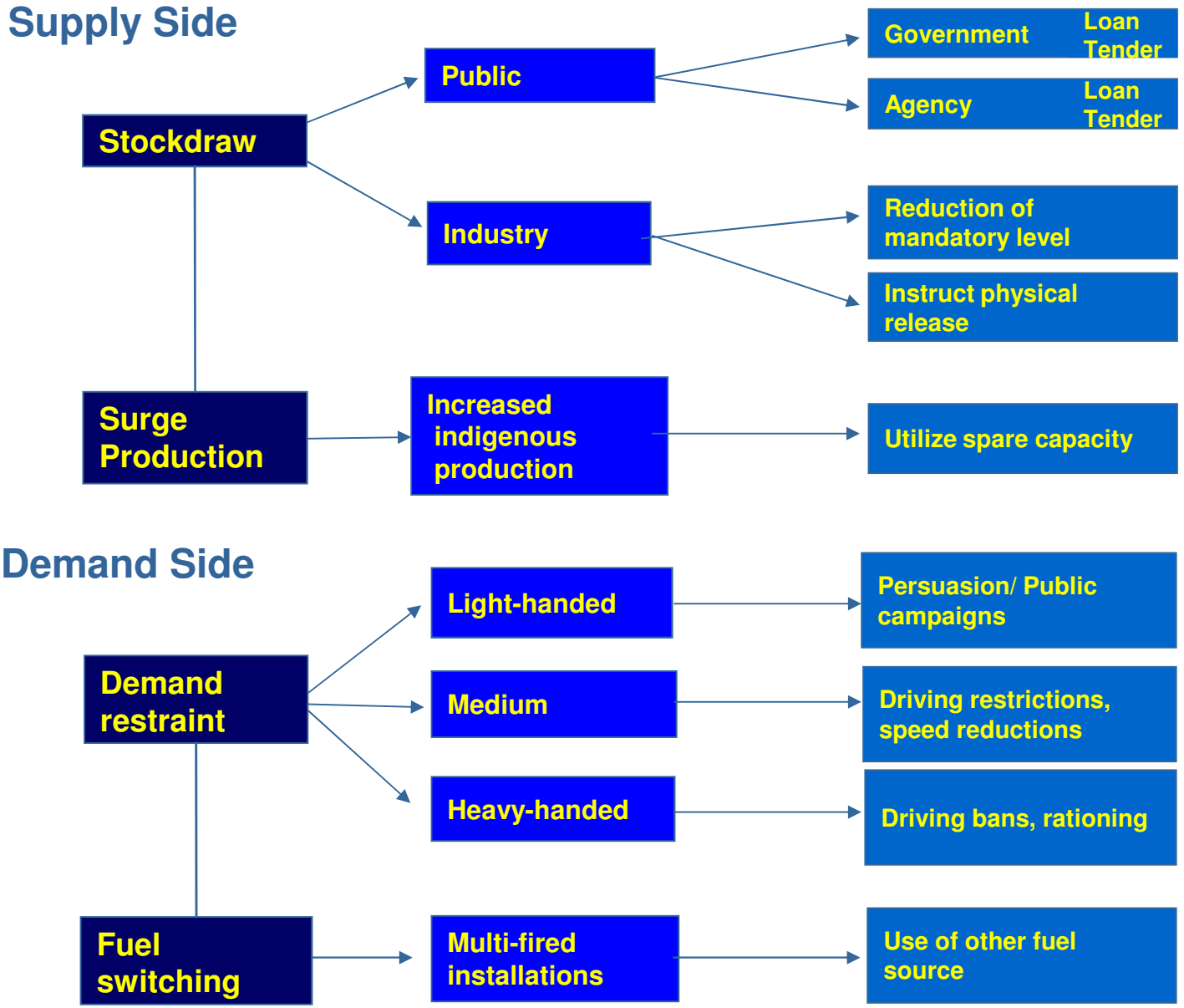
- Avoid competition for limited supplies
  - "Go-it-alone", uncoordinated policy ineffective
- Coordinated action
  - Mechanism for emergency response
- Safety net
  - Oil stocks ≥90 days of net oil imports
  - Demand restraint measures (7-10%)



IEA Stockholding Obligation

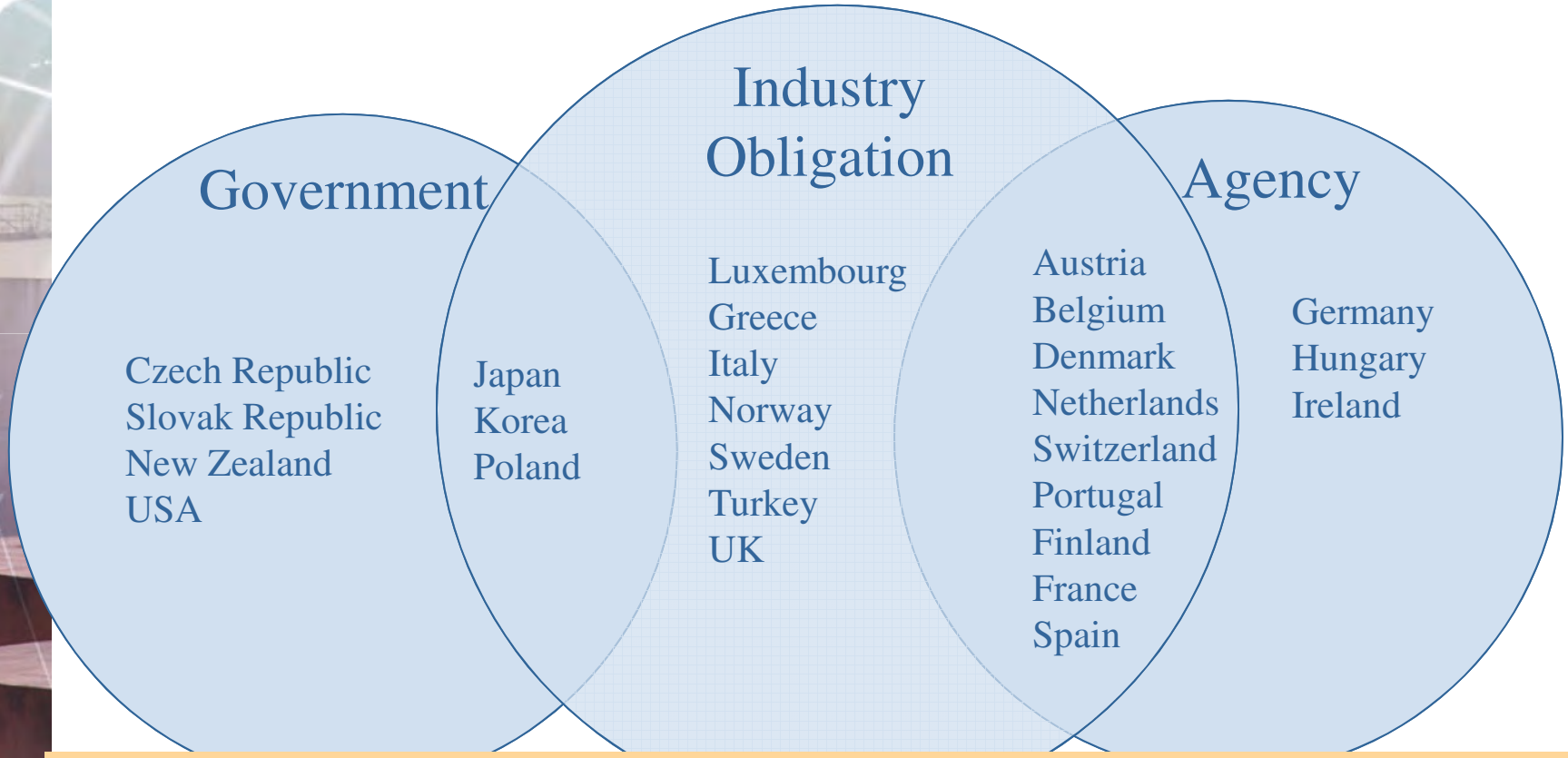
- **Total oil stocks cover at least 90 days**
  - **Net-imports of previous year**
  - **Crude and refined product**
- **The calculation**
  - **Excludes marine bunkers and naphtha**
  - **Deducts 10% for unavailable stocks**
- **Main types of stocks excluded:**
  - **Oil not yet produced**
  - **Stocks held in pipelines, tankers at sea, in service stations, retail stores, military stocks**

Emergency Response Measures



Stockholding Options

Different Stockholding Structures in IEA Countries



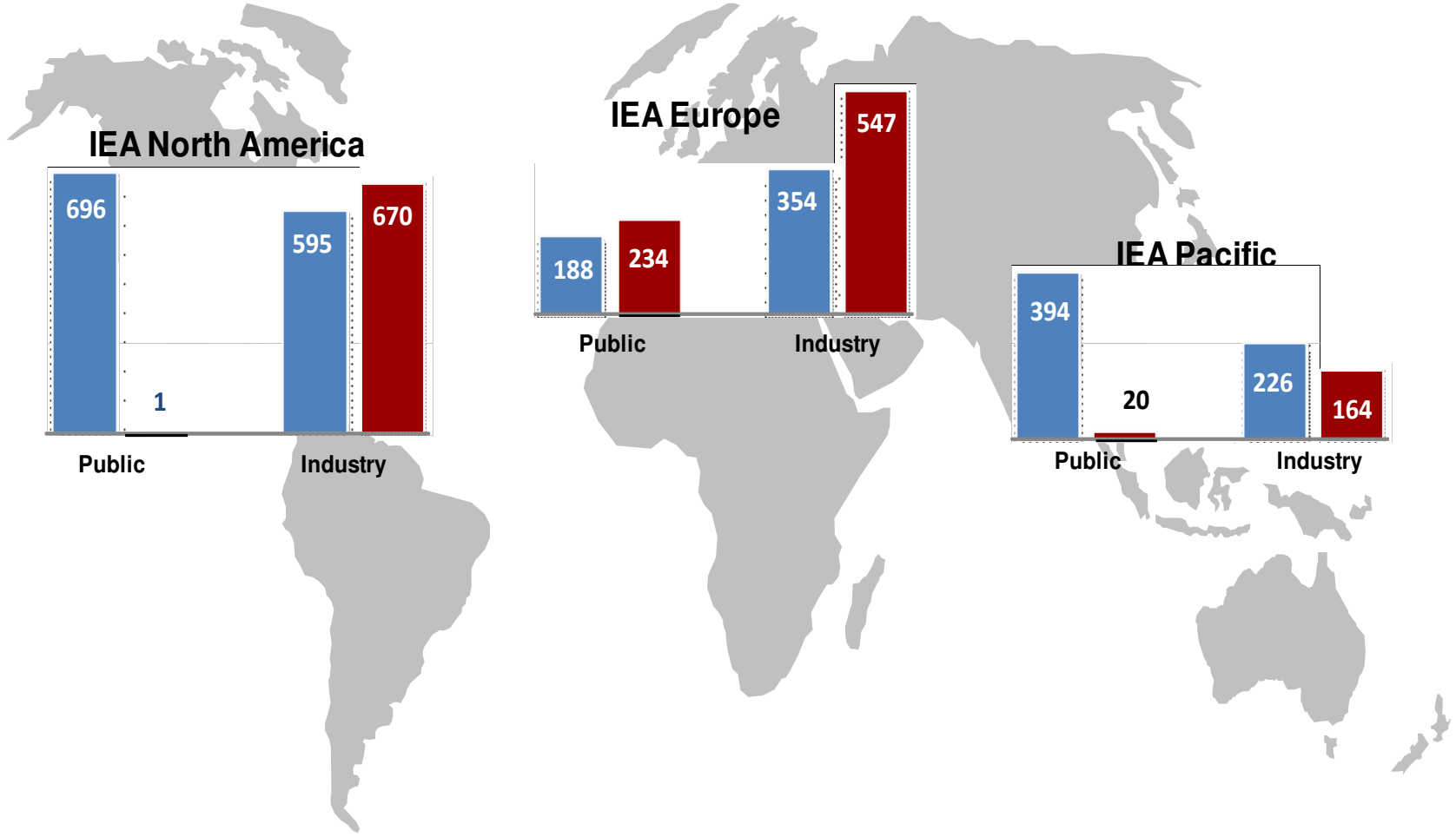
Commercial & Operational Stocks

Government & Agency = ***Public Stocks***

Stockholding in IEA Regions

IEA Total Oil Stocks at end December 2011

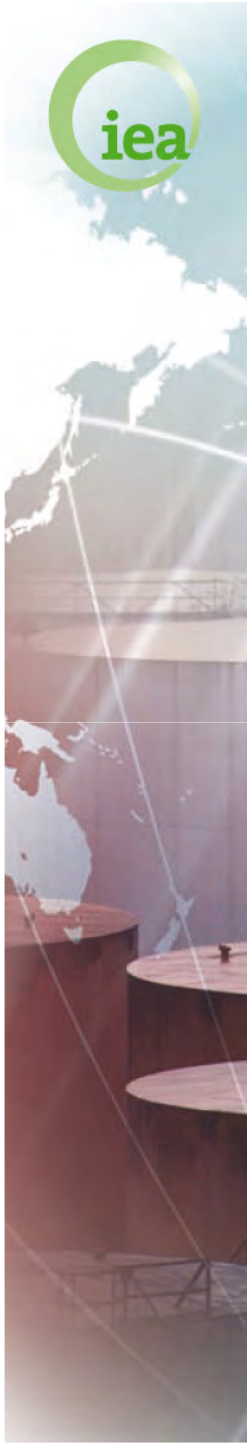
Million Barrels



Unit: million barrels

Initial Contingency Response Plan

- Initial action
  - Pre-agreed process to enable a swift, “first reaction” (i.e. 30 days)
  - Creates time for considering further action
- Step by step procedure
  - Market assessment of disruption
  - Proposal for action (total volume)
  - Rapid consultation – seeking consensus within 24/48 hours
  - Public announcement
  - Activation of measures within 15 days
- Flexibility
  - Focus on use of stocks, other measures possible
  - Make oil available to market, not allocated
- Attributes country shares of total response, based on normal oil consumption



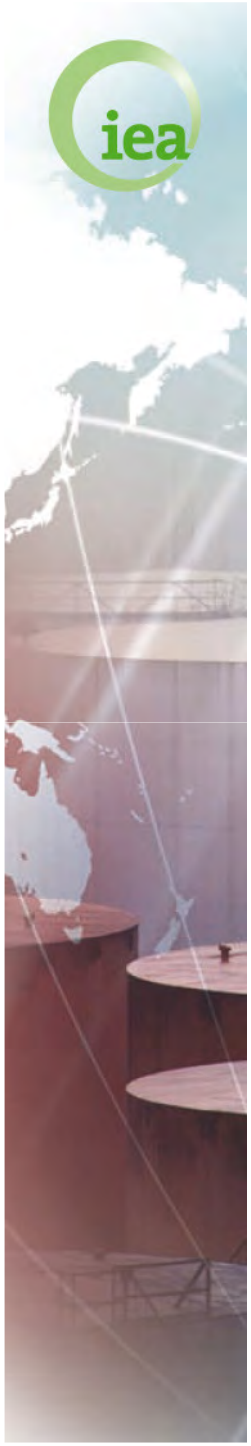
IEA Emergency Oil Stock Policy

The emergency oil stocks

- **are <u>not</u> for price management**
  - **ineffective over time**
  - **masks important price signals**
  - **discourage investment in new supplies ….**

  making the longer-term supply/demand balance tighter
- **<u>are</u> for short-term oil supply disruptions**
  - **when market mechanisms break down temporarily**
  - **provide liquidity for markets to recover**

Strategic oil stocks cannot effectively replace market mechanisms, only mitigate short-term supply disruptions



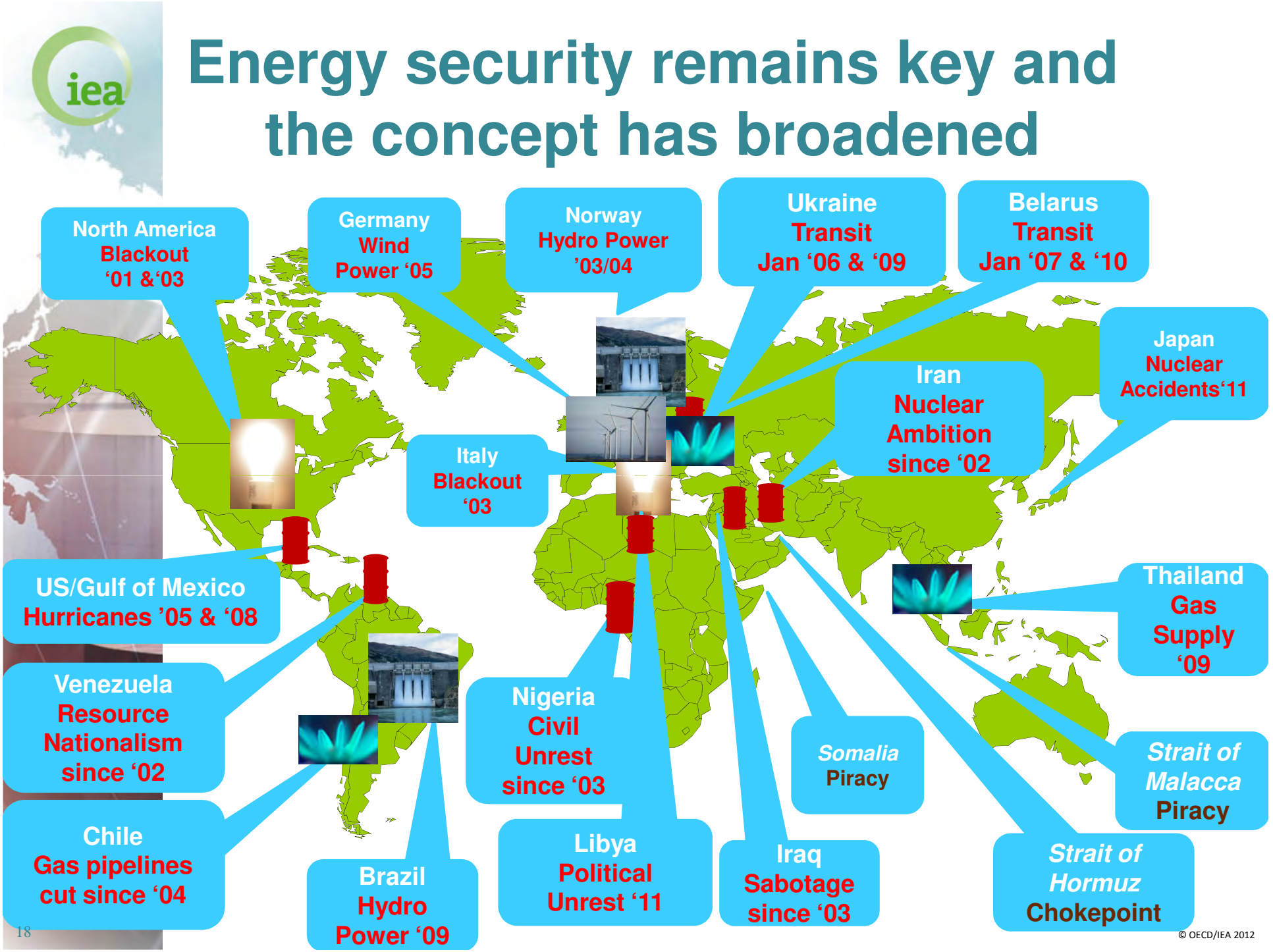
Emergency Response: Key Considerations

- A significant supply disruption could generate a severe economic cost
  - The market will always balance supply and demand, given time and freedom of price movement
  - But…will the disruption cause severe economic harm?
- What is the market context of the disruption?
  - Can the market cope with the disruption using resources available?
- If action is needed, speed & unity of response are key factors
  - Delayed/hesitant response can exacerbate situation
  - A decision will likely need to be made before all necessary information is available

Key elements of IEA response

- Continuous assessment of oil market
  - Oil Market Report every month (OMR)
  - Size of disruption; OPEC spare capacity ; stocks in OECD
  - Necessity of IEA action, impact on market
- Rapid decision making framework
  - Initial Contingency Response Plan – process to coordinate collective decision among 28 countries within 24/48 hours.
- Flexibility in response measures
  - Stocks are key, but other measures possible
  - Make oil available to the market, not directing – market allocates oil
- Communication
  - Dialogue with Members, key NMCs and OPEC
- Media strategy to deal with markets

Energy security remains key and the concept has broadened

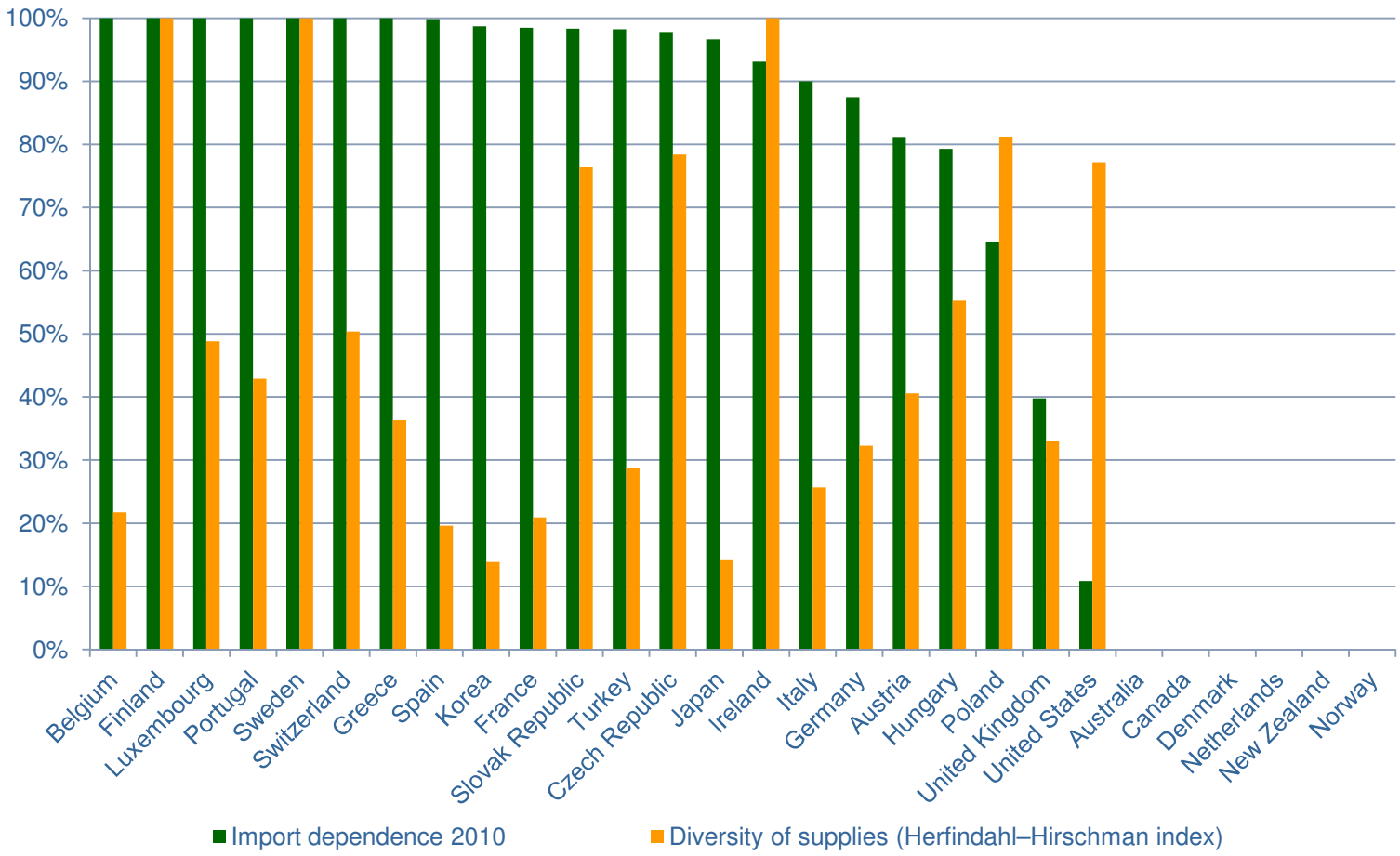


Gas: Available emergency measures

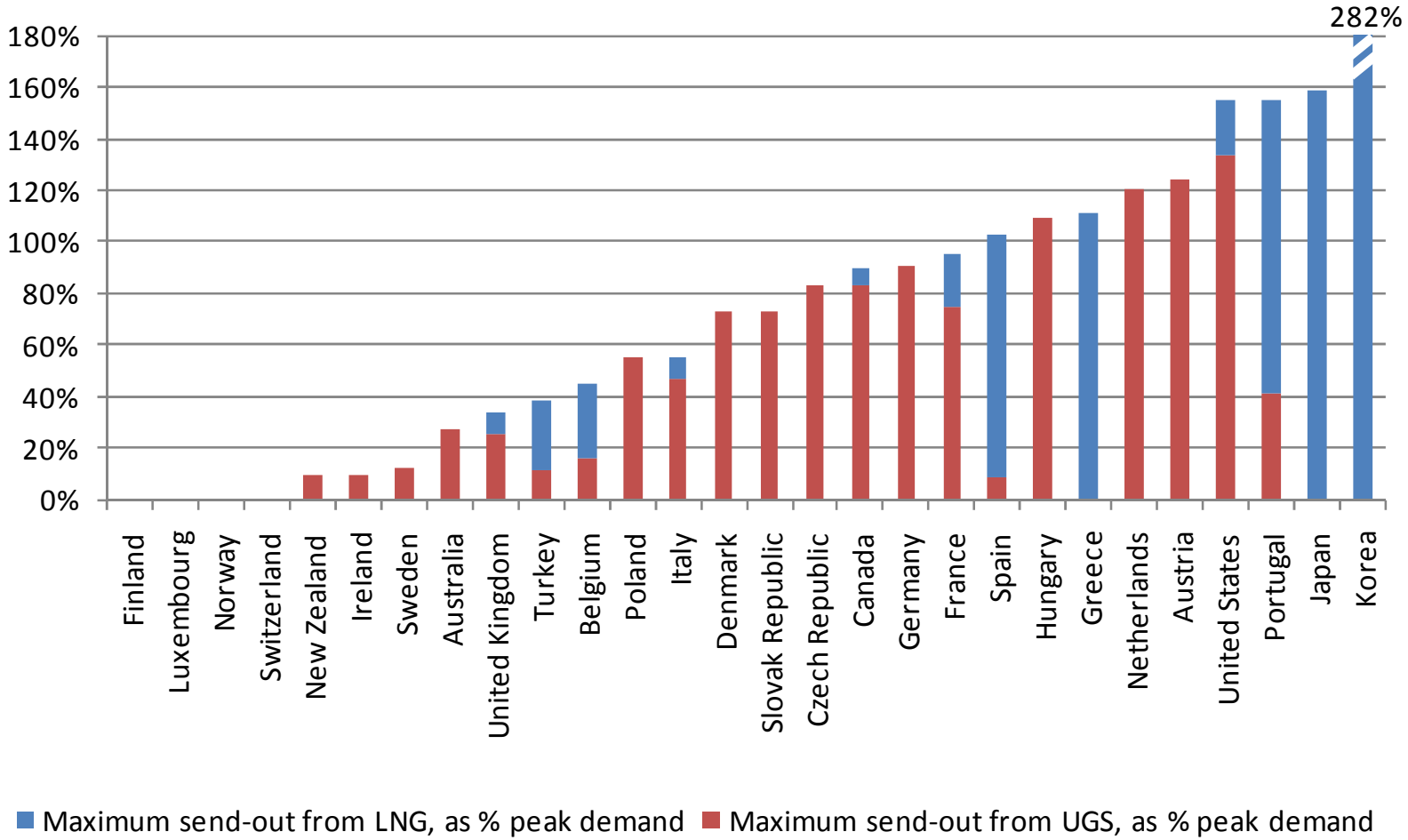
Oil response measures not directly transferrable

- Use of alternative routes
  - Diversity of supply routes and sources is key
  - Pipeline (including reverse capacity), LNG (spot cargoes)
- Stocks (storage)
  - Industry and/or public stocks
  - Underground and/or LNG storage
- Spare capacity (Domestic production, gas in pipelines)
- Demand-side measures
  - Interruptible contracts (pre-negotiated in contracts)
  - Public appeal (Government campaigns)
  - Fuel-switching

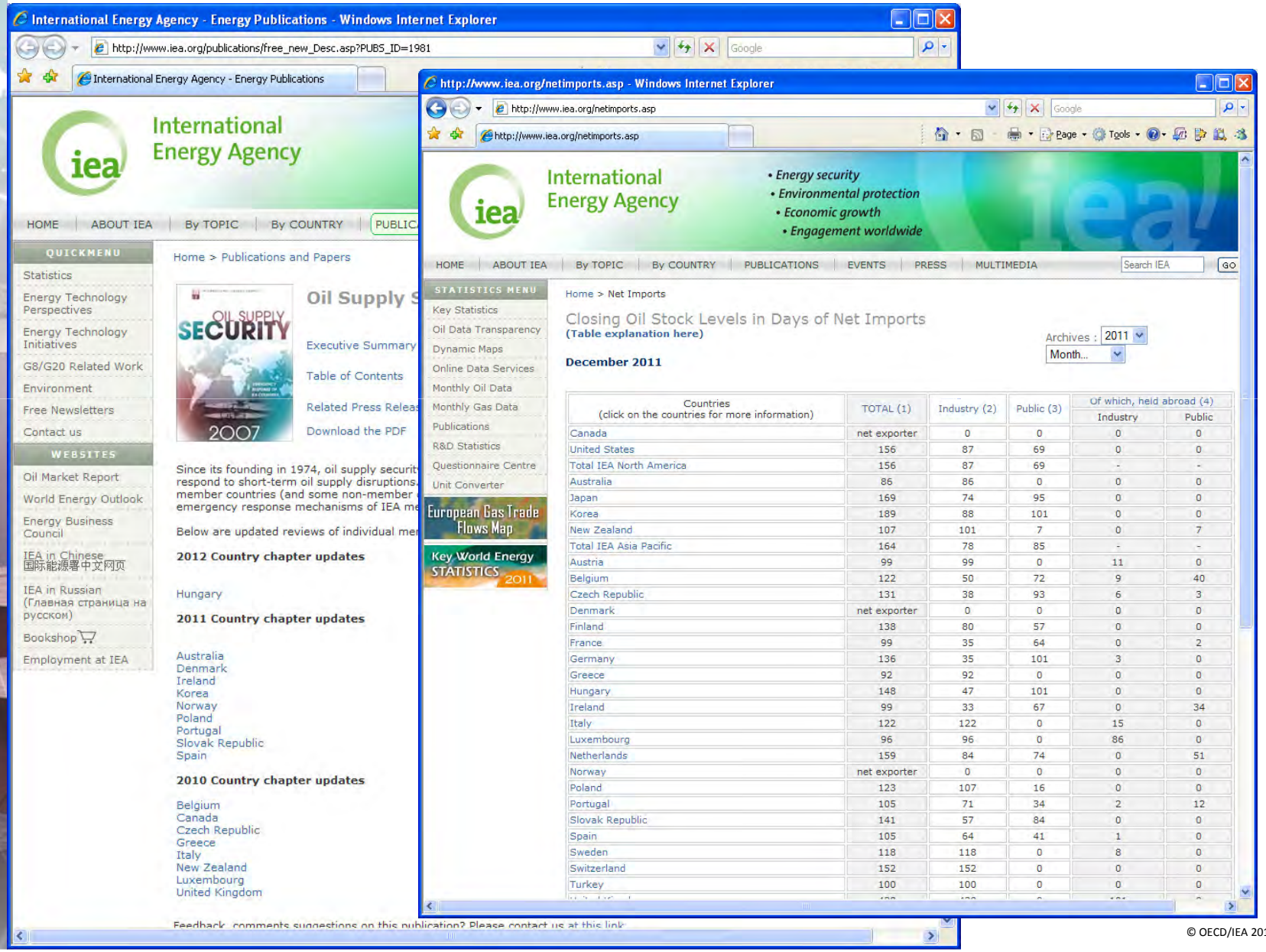
Gas: import dependency and diversity of supply



Gas: Send-out capacity from storage



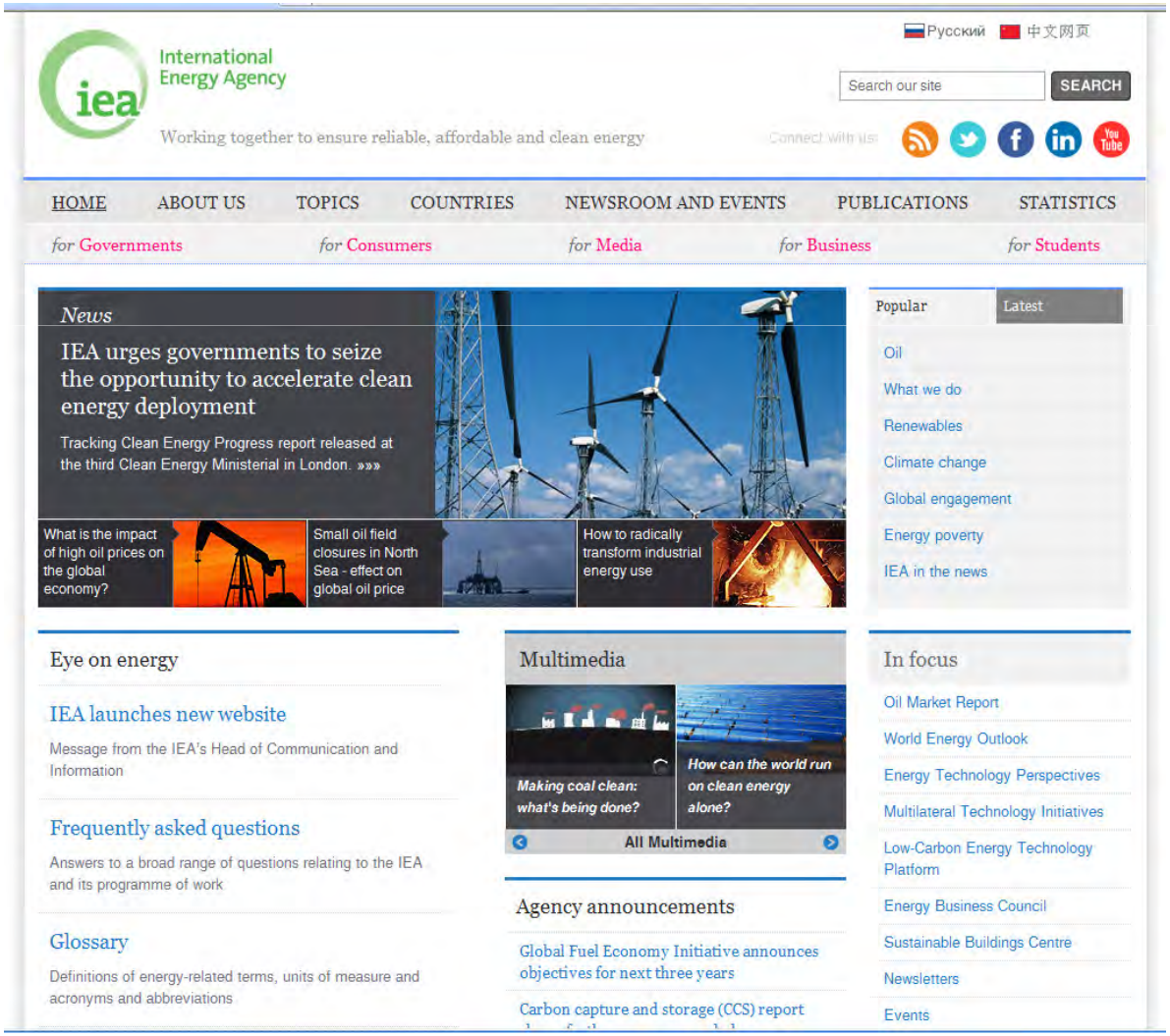
Information on IEA Emergency Response



Countries (click on the countries for more information)	TOTAL (1)	Industry (2)	Public (3)	Of which, held abroad (4)	
				Industry	Public
Canada	net exporter	0	0	0	0
United States	156	87	69	0	0
Total IEA North America	156	87	69	-	-
Australia	86	86	0	0	0
Japan	169	74	95	0	0
Korea	189	88	101	0	0
New Zealand	107	101	7	0	7
Total IEA Asia Pacific	164	78	85	-	-
Austria	99	99	0	11	0
Belgium	122	50	72	9	40
Czech Republic	131	38	93	6	3
Denmark	net exporter	0	0	0	0
Finland	138	80	57	0	0
France	99	35	64	0	2
Germany	136	35	101	3	0
Greece	92	92	0	0	0
Hungary	148	47	101	0	0
Ireland	99	33	67	0	34
Italy	122	122	0	15	0
Luxembourg	96	96	0	86	0
Netherlands	159	84	74	0	51
Norway	net exporter	0	0	0	0
Poland	123	107	16	0	0
Portugal	105	71	34	2	12
Slovak Republic	141	57	84	0	0
Spain	105	64	41	1	0
Sweden	118	118	0	8	0
Switzerland	152	152	0	0	0
Turkey	100	100	0	0	0

Contact details: info@iea.org

Web site: www.iea.org



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THANK YOU

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