

SPEECH FOR LORD HOWELL: INTERNATIONAL ENERGY SECURITY; GOVERNMENTS and MARKETS

1. Thank you for the opportunity to talk at this important event.
2. This **morning** I want to talk to you about the role of Government, and in particular the FCO, in increasing the UK's own energy security through a greater focus on international energy security. This is a subject close to my heart as I have followed it since the 1980s when I was Energy **Secretary**.

The global energy picture

3. Energy security is clearly a matter of national security. We are all aware of the importance of secure and affordable energy supplies as fundamental to our wellbeing and economic livelihood. This is particularly so as the UK has moved from being a net energy exporter to an energy importer, and as global competition for resources is rising, **and as we seek to steer our way through times of major energy transition.**

But our national aims have to be dovetailed with the realities of an increasingly interdependent world, especially when it comes to energy resources and supply systems.

4. It's clear that global demand for fossil fuels is increasing, but we cannot solely rely on low cost traditional energy sources to meet this demand. Surging consumption in emerging economies; multiple constraints on conventional fuel production; **complex and uncertain geo-political trends** and international recognition of the carbon impact on climate **of both carbon and other greenhouse gases** are all changing the market dynamics. China and the emerging Asian economies are already demonstrating their weight in energy markets, and their importance will only grow –as both consumers and producers of both conventional fuels and new technologies. Engagement with them **is essential. Indeed some of us have been arguing for more than a**

decade that the sources of power, wealth and technical advance have both shifted eastwards and been dispersed. Both an utterly changed world economy and a changed world energy scene now confront us.

This is a novel landscape – a network world –requiring a new and more agile diplomacy than in the past, both to guarantee our energy security and our wider safety. Some have suggested that Britain’s influence will decline as old alliances become less dominant and new powers rise. But I argue the opposite – that a nation like ours, with its experience and skills, is better placed than ever to prosper and protect our interests in the new international environment.

5. **It is true that** access to existing and untapped resources is becoming more difficult. Much of the world’s energy infrastructure lies in severe environments such as in Russia or Canada’s pipelines in the Arctic. In Brazil the as yet unexplored but massive pre-salt oil finds off Brazil lie in extremely deep waters. The Gulf of Mexico has shown us this year the dangers inherent in such operations. Many of these regions will also become increasingly vulnerable as a result of climate change, for example the melting permafrost in the Arctic. Both the risks and environmental concerns around investment could become greater, and could impact on prices.

And of course, even where physical access is still easier, such as in the case of Iraq’s huge and fully proven oil reserves, political and security risks add heavily to the challenges – and the costs.

6. Conversely we have to recognise the dangerous impact of conventional fuels on the climate. Cleaner more sustainable energy technologies have to be the way of the future – **for both energy security and environmental reasons.** David Cameron has committed this government to be the greenest ever, **and we are determined to take the right green road forward – the road that will lead us to lighter, not heavier, monthly electricity bills and far greater energy efficiency.**

7. As a Foreign Office Minister, I am acutely aware that energy **and power requirements need** to be placed in an international context. Energy is clearly both a driver and driven by geopolitics and deserves to be seen as a high priority by the FCO. We need to work bilaterally and multilaterally to address the opportunities and challenges that the international context poses – **a context which has been changing rapidly with the rise of the so-called emerging powers.**

So what are we doing about energy security?

8. We recognise that security of supply is as important as security of demand. At the heart of this is our aim of achieving both predictable and affordable prices, in part through transparent markets for both consumers and producers. We all remember oil prices reaching \$147 per barrel in summer 2008 then plummeting to less than \$40 six months later. Volatility such as this creates uncertainty, impacts the economy, and undermines investment in oil. As we emerge from global recession, high oil prices bring with them the risk of double dip recession. To help tackle this we will work through the G20, with the IEF, the IEA and other international organisations to promote transparency and stability in global energy markets; and remove drivers of excess demand, such as fossil fuel subsidies.
9. For a secure energy future the Government also needs to provide the right environment at home for the right investment in energy infrastructure and technologies. It needs to work internationally to achieve the same abroad. Continued investment in infrastructure is essential to maintaining access to and distribution of fuel supplies during and after the transition to low carbon. Global investment in low carbon and cleaner energy will be key to both energy and climate security in the future.
10. All forms of renewable energy will play their part – marine, wind and second and third generation biofuels – **so long as they are genuinely low carbon – which is not always the case.** Within the EU we will be working to ensure that investment is encouraged and infrastructure in place to make initiatives such

as the North Sea Grid and a European Super Grid a reality. And there are major commercial opportunities here for the UK. We are creative and entrepreneurial – exactly what is needed now.

- 11.** Nuclear power in particular has an absolutely key role to play because it can provide a steady **low-carbon** baseload without the risks of intermittency that comes with some renewable energies. **It is the obvious longer term route both to low carbon goals and to the reliable, low cost and abundant electricity supply that our own society (and the whole developing world as well) will demand.**

Here in the UK the Coalition is committed to a new generation of ten nuclear power stations. **Ensuring that they produce electricity competitively, safely and in a commercial viable way will be challenging.** But we are certainly not alone in facing this challenge. The International Atomic Energy Authority (IAEA) are following 60 new reactors currently under construction, a figure that is likely to be the same each year for the foreseeable future. A nuclear “renaissance” is underway. Being part of this will not only help our energy security and climate change targets, but boost the low carbon economy with jobs and business opportunities in the UK and internationally.

Back in the 1980s, when I sought to launch a nine station nuclear reactor programme, following the French example, the programme was sunk by international factors, (including a collapse in oil and gas prices). That must not be allowed to occur again.

- 12.** As fossil fuels will remain an important part of the global energy mix for the short-medium term, development and deployment of Carbon Capture and Storage (CCS) for both coal and gas will be critical to reducing CO₂ emissions from power stations by around 90% - **although here, too, the commercial threshold must somehow be attained and we are by no means near that yet, and nor are the world’s biggest coal users, such as China and India.**

13. Additionally, we all need to take action to increase energy efficiency. It needs to become a core part of our daily behaviour both at home, in business and in industry. Government has a vital role in ensuring a framework is in place to encourage this action and to encourage investment.
14. Returning to traditional fuels, security of supply will depend on security and diversity of access to supplies, and safe routes to markets. On the global stage geo-politics and market forces are inevitably interwoven. We will be prioritising energy in bilateral relationships with key suppliers, such as Norway and Qatar. In the main producing countries and regions our diplomatic, and in some cases military, activity will contribute to reducing the risk of instability and creating an enabling environment for secure production. We will work with partners to mitigate the risk around potential choke points such as the Straits of Hormuz or the Gulf of Guinea.
15. Close cooperation **within** the EU will also be essential to ensuring a liberalised EU energy market that allows hydrocarbons and electricity to flow freely to where **they are** needed most. We are supporting diversification of supply to the EU, such as through the Southern Corridor, which could bring new Caspian and even Iraqi gas to the EU through Turkey. The Mediterranean Solar Ring bringing electricity direct from North Africa can make a similar contribution, **always depending on the vital cost equation.**
16. As a cleaner fossil fuel than coal in power generation, gas can play a crucial part as a transition fuel – **a major stepping stone - to the greener, low carbon economy. Some carbon warriors do not seem to grasp that.** Global gas markets need to remain flexible, and supply sources need to be diverse. We hope that LNG capacity will continue to develop globally with the potential to exploit new sources in, for example, South America and Africa.
17. New opportunities and massive potential also lie in “unconventional” gas, especially shale gas. Unconventional gas in the US has already proved a game-changer in the last couple of years with the US becoming self-sufficient in gas and leaving global markets oversupplied and spot market prices low. China,

amongst others, is also believed to have vast reserves of unconventional gas. **Saudi-Arabia has also recently reported substantial new deposits of commercially recoverable shale gas.**

18. If the US experience is successfully repeated elsewhere, unconventional gas has the potential to end import dependency for many countries and regions. The relationship between producer and consumer countries would also be transformed and could have a profound effect on international relations. Europe is at the very early stages in this compared to the US. We need to watch carefully to ensure close cooperation between countries and contact with business.
19. Much uncertainty remains over the viability of unconventional gas outside the US, with technical difficulties and environmental concerns being real issues. This in itself is generating uncertainty within the industry and causing some to question future investment in conventional gas fields. Unconventional gas could be a big opportunity for the future, but it may come with a price.
20. All of these initiatives and developments both in traditional and new energy technologies bring with them tremendous opportunities for UK companies. In downstream industries, research and development of low carbon technologies, and supply chain industries as much as in exploration and production of oil and gas.
21. The job of government then is to be spotting the risks and opportunities that exist, across the energy spectrum. **Of course we want markets to do their job, both in driving investment decisions, pushing innovation all the time, ensuring supply and determining the changing shape of final energy demand. But we also know that all these processes are hedged around by political events, trends, policies and risks of awesome variety and unpredictability. That is why we need an agile foreign policy fully attuned to the new global conditions.**

22. **In short**, we need to be responding to industry to make business easier and more transparent, and to keep the UK competitive both in the short and long-term. That also means providing a clear framework for operating and investing. **And to deliver that** we need to be engaging with the **many countries, both major producers and major consumers (often the same)**, who are critical to **sustained** UK and global energy security, so as to ensure that UK is well positioned to face the challenges ahead.

23. Thank you.

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