The Voice of OECD Business

Without energy security, no growth and prosperity

Business key messages on energy for the G-8 Summit

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The Business and Industry Advisory Committee to the OECD (BIAC) believes that ensuring a predictable supply of energy is one of the top policy priorities for business and governments in the major global economies. Secure, predictable, accessible and affordable energy is not only crucial for commercial activity, but it is also indispensable to economic growth, social development and improved quality of life. We are therefore pleased to see that energy security is so prominent on this year's G8 agenda and encourage Heads of State to take OECD business' recommendations into account when they meet in St. Petersburg in July.

Today's pattern of energy production, utilisation, transportation and storage faces considerable challenges due to the uneven distribution of natural resources, resource availability constraints, environmental effects and national security concerns. Energy products and services are delivered essentially by industry, and in that sense the business community has a central role to play and should be an integral part of discussions related to energy security. BIAC believes that the following points should be given particular attention during the discussions on energy at the 2006 G-8 summit and beyond.

- **Address investment challenges in the energy sector**

The energy sector is and will increasingly face tremendous investment challenges to provide the much needed energy for our growing economies and societies. Investment is needed to expand supply capacity and to replace existing and future supply facilities that will be exhausted or become obsolete. Mobilising the required investment cannot be taken for granted and will be a major challenge for the coming years and decades. The key question is whether the conditions in the energy sector are right to attract the necessary investment with adequate incentives for investors. Energy investment requires a long-term view. We therefore call upon governments to commit themselves to a consistent policy framework taking into account long-term investment cycles. Government action today will affect the energy supply of tomorrow.

- **Encourage competitive and open markets**

The macro-economic environment is a key driver for both energy demand and energy investment. Economic prosperity and efficiency depend to a large extent upon free and open markets as well as predictable and transparent regulatory frameworks that reduce competitive distortions. Governments play a major role in ensuring that adequate financing for energy infrastructure can be mobilised in a timely fashion, notably by establishing enabling policy frameworks for the energy sector. Free and open markets, operating within a clear, stable and well-designed legal, fiscal and regulatory framework are the foundation necessary to avoid market distortions. Market-based prices, cost-benefit analysis and a non-discriminatory and consistent legal enforcement are all attributes of this framework.

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- **Foster good public governance**

In addition to free and open markets, other factors such as political and legal stability, transparency of regulation and rule of law, as well as the elimination of bribery, corruption and bribe solicitation emerge as crucial issues for the investment environment. Good public governance promotes consistent policy frameworks, which in turn affect the planning basis for business development, investment decisions and cost-recovery in the longer term. Governments have a crucial role in creating the favourable environment for energy investments, adopting adequate policies and setting conditions for private investment. To promote investment in energy projects, the business community sees a strong need to eliminate acts of bribery and corruption which is a shared responsibility.

- **Avoid market distortions**

Market-distorting policies add unnecessary costs to society and hamper significantly the efficiency of the system evolving with biased market signals. Policy makers must draw and carefully assess policies in terms of economic burdens, cost-effectiveness and derived impacts on the society. Public-private partnership and public support for energy-related research and development are necessary means to progress new energy technologies. However, this public support must be used judiciously as unjustified or unlimited subsidies or comparable state intervention become a burden for the sectors that have to bear the additional costs. In addition, differences in environmental and other regulations between different energy sources and jurisdictions can distort competition significantly. Therefore, policies should be carefully assessed for their economic implications and cost-effectiveness before they are finalised and implemented.

- **Foster dialogue between producers and consumers**

We appreciate that Russia, as a major energy supplier with large, partly still untapped resources, has chosen to address energy security as one of the top priorities to be addressed at this year's G-8 summit. With energy resources being spread unevenly throughout the world, dialogue between producers and consumers is essential to build confidence and focus on topics of common interest to the two groups. Russia is a key supplier for several G-8 countries, and as such the G-8 meeting presents an important opportunity to discuss energy security issues in a co-operative environment, recognizing that security of demand is as important for producers as security of supply is for consumers.

- **Keep all energy options open**

National circumstances will best determine the mix of fuels necessary for energy security and sustainable growth in a given country. No radical changes in energy trends are likely to occur in the near future, as market penetration of energy systems is a very long-term process. BIAC therefore encourages governments to keep all energy options open and to avoid choosing "winners" and "losers" among technologies, but to consider investment requirements for the range of options in the energy mix. Long-term energy security calls for a balance between energy sources in order to reduce exposure to sudden problems. The diversification of energy supply and distribution, both by energy type and by source, is therefore an important measure to help improve energy security.

- **Encourage innovation and technology diffusion**

Innovation and technological diffusion will be indispensable to make today's patterns of energy production, utilisation and transportation sustainable and address challenges related to resource

availability constraints, environmental effects and national security concerns. Business has an essential role to play in innovation and in the global dissemination of technologies that can help meet the challenges ahead. Technology will affect the choice and costs of future energy systems. While governments need to give due attention to scientific research related to energy, the main vehicle for technology diffusion has been and will continue to be the private sector, through its day-to-day business activities of technology development, investment and dissemination. Business therefore has a crucial role in promoting the rapid introduction of advanced and innovative energy technologies in both developed and developing countries.

- **Foster energy efficiency in production, distribution and consumption**

Many companies work continuously to improve existing processes and products to reduce environmental pressures while at the same time often achieving a competitive advantage. However, energy efficiency has to be considered broadly, targeting production, distribution but also the range of consumers, including industry, transport and private households. There are a range of "easy" solutions, such as consumer behaviour with regard to heating, lighting and driving or improving energy efficiency in buildings. These need to be pursued. At the same time, it has to be recognized that improving energy efficiency is a complex challenge, which involves, among others, taking a close look at the use of energy sources and technologies, waste generation, transport, requirements in the area of heating, lighting and others. Continued research and development are crucial to make real progress happen.

- **Step up international cooperation to address environmental concerns**

Energy use is at the heart of economic growth and commercial activity in the OECD. At the same time, energy accounts for a large part of total greenhouse gas emissions in the OECD, with a growing contribution to global emissions coming from developing countries. Actions to control and mitigate these emissions will surely have a significant impact on our energy policies. It is therefore essential to consider trade-offs and balance among the economic, social and environmental considerations to decide on the role that the various energy options should play in a country's energy mix. In particular, BIAC calls upon governments to take a long-term view when addressing environmental challenges resulting from energy use and address global issues in cooperation with all major contributors to achieve real progress. International co-operation is especially relevant to enhance the overall efficiency of national efforts and address global environmental challenges in a meaningful way.