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**Energy and the economy**

Statement of the Asian Development Bank  
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**KEY ENERGY TRENDS AND CHALLENGES IN ASIA**

Excellencies, ladies and gentlemen,

It is a privilege to share with you the views of the Asian Development Bank (ADB) on key energy trends and challenges in Asia, global responses and recent ADB energy initiatives.

Despite progress made, more remains to be done to reduce poverty and help achieve the Millennium Development Goals in Asia and the Pacific. Two thirds of the world's poor are indeed in Asia (i.e. 620 million people living with less than a dollar a day; 1,9 billion people with less than two dollars a day).

Sustainable development in the region will very much depend on the reliability of energy supply, progress in energy efficiency and greater use of clean and renewable energy. Due to their rapidly growing economies and energy demand, Asian countries energy policies will also greatly impact future oil prices, the global economy and the world climate.

According to the recent ADB *Asian Development Outlook (ADO)*, robust economic growth of 7,2% is expected in Asia in 2006 (9,5% in China; 7,6% in India). Prospects remain favorable for 2007 despite growing risks related to global imbalances, higher oil prices, increased interest rates and potential impact of Avian flu.

As a net oil importer, developing Asia is vulnerable to high oil prices and faces tough choices to limit inflationary pressures and reduce fiscal burden due to fuel subsidies, which would hurt the region's growth momentum. On the other hand, Asian countries are in a better position to absorb external shocks and adjust to oil prices adjustments. Their external payments positions are more secure; monetary policy is stronger; fiscal balance has improved and economic structures are more flexible and capable of adjusting quickly than before.

Governments of net oil exporters also face the challenge of how best to use the additional oil revenues and manage pressure for exchange rate appreciation. There is no "one size fits all" response to the high oil price situation and Asian countries, like others, need to reevaluate decisions and adjust to the new global oil market fundamentals.

Developing Asia has a large appetite for oil, producing about 11% of the world's crude oil, but consuming more than 20% of it. And this gap is widening as the two regional giants –

China and India – continue to need more oil. In 2003, 44.7% of oil consumption in the region was imported, compared with just about 10% in the mid-1980s.

Despite a relatively low per capita consumption, energy demand in Asia has grown a staggering 230% between 1973 and 2003 compared to an average worldwide increase of 75%. In 2003, total primary energy supply (TPES) for Asia was 2, 650 million tons of oil equivalent, representing 25% of world total energy supply against only 13,3% ten years ago. This trend is neither economically nor environmentally sustainable.

As noted by ADB President Haruhiko Kuroda in the Inaugural Session of the *Asia-Pacific Partnership on Clean Development and Climate* in Sydney, 11 January 2006, “there are serious global environmental and economic consequences to taking a business as usual approach that steadily increases the consumption of fossil fuel-based energy”.

Furthermore, from a strategic point of view, maintaining adequate energy supplies will be crucial as the region will experience an unprecedented growth in energy demand. By 2020, it will require nearly 5.6 billion tons of oil equivalent per year – more than double what it consumed in 1997. As increased competition is expected among large oil importing countries, particularly the USA, China, Japan, India and Europe, diversification of oil and gas sources is of vital importance with an increased focus on the reliability of sea- and continental routes in Russia, Central Asia, Latin America and Africa.

Faced with these major challenges, developing Asia has not only to secure its future oil and gas supplies, but also to pay greater attention to energy efficiency, renewable energy and low carbon technologies.

- Energy Efficiency: huge prospects remain to improve energy efficiency which is notoriously low in many Asian countries. In China, for example, GDP is expected to quadruple by 2020 whereas commercial energy supply will only double. Energy intensity will, therefore, need to be halved over the next 15 years.
- Energy diversification: alternative and renewable energy supplies will probably double in the next 20 years from an average 8-10% today to almost 18-20%. This will, however, depend on the implementation of conducive policies, reduction of fuel and coal subsidies, and stronger incentives for renewable and clean energy to tap large hydropower, biomass, solar and wind energy sources.
- Climate change: according to the International Energy Agency, \$16 trillion of energy investments will be needed through 2030, including \$ 4-5 trillion in Asia over the next 15 years, to be mostly financed through capital market resources and public private partnerships. More emphasis on low carbon technologies is clearly needed to mitigate the possible negative impact of these investments on the world climate. Since 1980s, Asia’s share of greenhouse gas (GHG) emissions already soared from less than one-tenth of global emissions to nearly one-quarter of the world’s total.

To conclude, Asia needs energy to maintain rapid economic growth and further reduce poverty in the region, but at the same time, energy production and consumption need to move to a more sustainable path. We strongly believe that OECD countries’ experience,

technical knowledge and financial resources can greatly help Asia and Pacific countries successfully face these challenges.

## **GLOBAL RESPONSES AND RECENT ADB ENERGY INITIATIVES**

At the global level, world leaders recently launched two major initiatives – first, G8 at Gleneagles in July 2005 issued a *Communique and Action Plan on Climate Change, Clean Energy and Sustainable Development*. Under this *Action Plan*, the Asian Development Bank and the European Investment Bank, among others, are helping develop an investment framework in the transport sector. Second, the *Asia-Pacific Partnership on Clean Development and Climate* was launched in January 2006 to complement the UN Climate Convention and the Kyoto Protocol.

Like other multilateral and bilateral development institutions focused on poverty reduction, the Asian Development Bank is engaged in enhancing the institutional and policy environment in its developing member countries. It is also actively promoting energy efficiency, renewable energy and environmental sustainability at local and regional levels, and encouraging regional cooperation and integration.

**Enhancing the institutional and policy environment:** although most Asian countries have established an enabling legal environment to support public and private investment in the energy sector, there are significant barriers to promote energy efficiency and mainstream clean and renewable energy technologies. Through its *Energy Policy and Energy Efficiency and Climate Change Program (REACH)* cofinanced with Denmark, Canada, Finland and the Netherlands, ADB is helping improve local capacities, tariff policies, regulatory frameworks, grid connections and knowledge sharing ([www.adb.org/reach](http://www.adb.org/reach)).

**Improving energy efficiency:** in July 2005, ADB established the *Energy Efficiency Initiative* with an indicative lending target of \$ 1 billion a year over the next few years. It will help expand energy investments, improve industrial technologies, change energy use patterns and secure a low-carbon future in the region.

**Promoting clean and renewable energy:** together with other development partners, ADB is supporting renewable energy laws, alternative energy development Boards or Funds, and investment projects to increase the use of biomass and develop solar and wind power, particularly in China, Indonesia and Pakistan. Bilateral donors from the United Kingdom, Austria and other European countries have also expressed strong interest in cofinancing clean and renewable energy projects.

**Developing the Carbon Credit market:** another concrete energy initiative is the recently announced multi-donor *Carbon Market Initiative (CMI)* which will provide upfront financing, marketing services and technical advice to boost the viability of alternative clean energy sources in developing countries, and assist developed countries meet their commitments under the Kyoto Protocol. The CMI is expected to cut risks to all parties, help mobilize additional funding, increase the number of clean energy projects and reduce greenhouse gas emissions in Asia.

**Fostering regional cooperation:** ADB is actively supporting regional cooperation agreements, particularly in the energy and transport sectors, to facilitate regional

investments, energy interconnections, energy trade agreements and improve the common use of shared natural resources, including water and environmental resources.

In conclusion, Asian and Pacific countries are fully committed to bringing concrete lasting solutions for slowing climate change while ensuring sustainable growth and poverty reduction in the region. We trust that ADB and similar institutions will continue to play a major role and help build strategic alliances with public and private partners from OECD countries and others. We are looking forward to an enhanced cooperation in the energy and environment sectors.

Thank you for your attention