

The Foreign Policy Centre



**Stuart Fraser of the Corporation of London addresses the FPC at the
launch of its Energy Security Programme**

Good evening ladies and gentlemen, my name is Stuart Fraser I am the Deputy Chairman of the Corporation of London's Policy and Resources Committee.

On behalf of Steven, my co-chair, and myself I would like to welcome you all to the Guildhall for the launch of the Foreign Policy Centre's programme on Energy, security and renewables.

It's a reminder that efforts to replace non-renewable sources of energy with more sustainable technologies can be driven by innovation rather than desperation. But desperation is a powerful motivator; and desperation comes from a sense of vulnerability, not the recognition of undesirable results. And right now, with the on-going crisis in Iraq and the tragedy of Hurricane Katerina, the world, and the US in particular is feeling vulnerable when it comes to oil.

How long this sense of vulnerability will persist is a matter of conjecture.

As a fund manager, the paid job, I take a keen interest in developments in the whole area of energy, be it oil, gas or renewable.

I remember clearly the last oil crises when oil reached a “real price” considerably higher than today and at a time when we were less efficient in energy use. At the peak many talked about the fact that we will have to live with high prices forever. Over subsequent years that real price fell dramatically and reached a low of around \$10. This arose from a combination of more efficient energy usage and a large increase in supply.

Currently there is no shortage of oil to meet global demand and it is perhaps worth remembering that in the last ten years we have found more oil than the world has consumed. Indeed some people claim there is more oil left in the North Sea than we have consumed to date!

What we have at the moment is a sudden surge in demand, primarily from China but also increasingly India and other developing nations, which cannot be met **in the short term**. We also have a problem with refining capacity so although the US is short of petrol its crude oil reserves are at a reasonable level.

If the oil price stays at or near its current level three things will happen. First of all, whole new oil rich areas will be opened up as they suddenly become economic. Existing fields which can only be developed further through relatively expensive extraction techniques will also become more viable. Witness the record number of new licences for North Sea oil exploration.

Secondly demand will begin to moderate. I do not believe that oil is price inelastic but it does take time for supply to come on stream and for the oil price to settle at a level which balances supply and demand.

Thirdly the oil rich nations, particularly Saudi Arabia will become worried that substitution may mean that their only source of wealth will dry up before their reserves expire. It is interesting to hear talk that Saudi is thinking about inviting exploration for the first time in twenty years.

It was only three years ago that the major oil companies worked on a long-term oil price of between \$18 to \$22 against which they would evaluate their exploration activities. I imagine if that long-term view rose to say \$35 then their pattern of exploration activity would change.

Security of supply is a concern given that most of the oil likely to be found is in politically difficult areas. But, to my knowledge no country whatever their political or religious leaning has cut off the vital source of revenue required to keep them in power or to build a nest egg for their retirement.

As you gather I am a great believer in free markets and sceptical of long-term forecasts. Over a period of time huge adjustments happen driven by the laws of price, supply and demand. However, in the case of energy usage we do have another consideration to take into account.

I think it is true that the ecological limit of fossil energy consumption is closer than the limit of resources. The consequences of global warming and climate change are so significant that they dwarf all other considerations.

The policy imperative is overwhelming; The switch to renewable energy must not be left to the rules of the market place. Policies put in place will have to persist even though at times it will be seen as economic nonsense.

Keeping this agenda in front of the politicians is absolutely crucial as we know from long experience that it is too easy for them to take the soft option.

We must encourage them to take a strategic view, not just for their own narrow point of view but on the sustainability of the planet we all inhabit.

This is a strong message, but, I was delighted when I was approached to co-chair this evening's event, as it is my firm belief that the financial

community of the City of London has a fundamental part to play in achieving this goal.

Furthermore, due to on-going Corporation engagement with programmes such as the London Principles Project, the City has never been more receptive to this message. For example;

- Over the last few years Socially Responsible Investment has grown to become a €36 billion market in Europe, making it one of the fastest growing asset classes, arguably shifting it from niche to mainstream as clients in both retail and institutional markets are seeking genuinely sustainable investment choices.
- The financial services sector has been exploiting technology and market developments to build up sophisticated sustainable financial products. For instance, the growth of weather derivatives and other complex risk management products, show that financial techniques can be profitably applied to develop whole new suites of product and service offerings.
- Social and environmental issues are becoming embedded in financial products and services, with banks using their powerful position to drive changes in their client's behaviour. As an example a number of major institutions have introduced policies to prevent loans being

made to finance activities such as illegal logging, something which clearly effects the planet's ecological balance.

- There has been a marked increase in collaborative shareholder initiatives to drive corporate action on sustainability issues. These include the Carbon Disclosure Project and the Institutional Investors' Group on Climate Change.

- And of course one of the most striking developments since 2002 has been the establishment and growth of the European Carbon Market with London emerging as a global centre of excellence in carbon market expertise. Developing a critical mass in brokerage and advisory services through boutiques and mainstream institutions.

To conclude, we have the will and we have the tools, all that is lacking is a map of how to achieve our ends. Tonight, with the launch of Re-engineering the Home Front, I believe we are taking the first steps in the construction of an atlas which will show us the way to a secure and prosperous future.