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SPIEGEL INTERVIEW WITH IAE HEAD NOBUO TANAKA

'We Live in an Era of High Energy Prices'

After rising for months, oil prices are now on the decline. SPIEGEL spoke with the head of the International Energy Agency about the future of oil prices, the growing importance of nuclear power and the quantity of oil left in the world.

SPIEGEL: Mr. Tanaka, do you know what your organization predicted the price of oil would be in 2010 in a study conducted three years ago?

Tanaka: No, I wasn't in office at the time. Tell me.

SPIEGEL: It was $35 a barrel.

Tanaka: Then we must have been very wrong.

AFP

Demand for oil is falling, as is the price. But for how much longer?

SPIEGEL: Why are all observers of the oil market, not just the International Energy Agency (IEA), so far off with their estimate of price developments?

Tanaka: The demand for crude oil has grown much more quickly than expected, especially in emerging markets like China and India. At the same time, on the demand side the producing countries have not expanded their production capacities sufficiently. The market has become extraordinarily tight as a result.

SPIEGEL: You're making it a little too easy for yourself. The incorrect estimates are also based on the fact that there is little reliable data in this market, especially on oil production.

Tanaka: The market clearly lacks the necessary transparency; otherwise it would work better. That's why we are currently working intensively on a major study on the productiveness of more than 700 of the world's most important oil fields, which will be published in November. We want to find out how large the potential is, but also the extent to which production is declining in individual fields. I too am very curious to see the results.

SPIEGEL: Do you really believe that you will get reliable information from the oil producers?

Tanaka: That's a fair question. It's easiest for us to get data from producing countries that are not part of OPEC, like the United States, for example, or Norway. Many other countries make a state secret out of their oil production. They don't allow us to review their books, and they certainly don't give us access to their reserves. In those cases we have to make do with information we receive from oil industry advisors and from service companies that assist in the production and processing of crude oil.

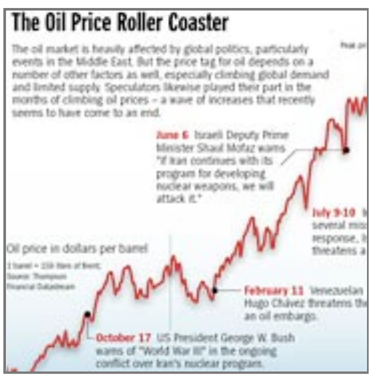
SPIEGEL: But even these experts often get their information from secondary sources. You can at best speculate over how much, for example, the big oilfields in Saudi Arabia are still producing -- whether pressure is declining and more water has to be injected to drive the oil to the surface, which increases production costs and suggests dwindling reserves.

Tanaka: Of course we would like to take a look on-site, but what should we do? This is a sovereign decision made by the producing countries. We can only make intelligent estimates.

SPIEGEL: This means that the answer to the key question must remain an approximation: How much oil still exists in the world?

Tanaka: Despite all inadequacies, I think that the IEA can still provide relatively precise information in this regard. We believe that, in principle, there are sufficient resources left to allow production until 2030. The problem lies above the ground: Countries are not investing enough in the exploration of new reserves and the expansion of old facilities. This gives us reason for concern.

SPIEGEL: What are the consequences?



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The oil price roller coaster.

Tanaka: We have noticed that production volume is declining sharply. According to our projections, the volume in existing oilfields worldwide decreases by an average of 5 percent a year. This means that each year we need an additional 3.5 billion barrels of oil a day just to offset these losses. At the same time, however, demand is growing by about a million barrels a day. This imbalance makes it clear how incredibly tight the market is. A gap is developing here.

SPIEGEL: Is there a risk of supply bottlenecks developing?

Tanaka: As we have seen, in the current situation even a minor interruption in production can cause instability and trigger a jump in prices. All it takes is the news of a strike by oil workers in Nigeria. That's why it's so important that we work closely with the producers. I often communicate with OPEC Secretary General Abdalla Salem el-Badri, and OPEC President Chakib Khalil, as well as with Saudi Oil Minister Ali al-Naimi. In an emergency, we have to be able to work together smoothly and react flexibly within 24 hours.

SPIEGEL: The oil price has declined somewhat in the past few weeks. Could the most recent crisis truly be over?

Tanaka: We remain cautious in our assessment. Naturally, we have seen that demand for fuel in the United States is declining and that Saudi Arabia wants to expand daily production by 2.5 billion barrels of oil. Such signals are reflected in the price. We expect that the market will settle down in the coming one or two years. After that, however, the situation could become tense once again. A price level of less than $20, as we had 10 years ago, is something we'll probably never experience again.

SPIEGEL: You would rule out drastic price reductions?

Tanaka: We live in an era of high energy prices, and there is no turning back. If we want to avoid crises in the future, the producing countries will have to do their homework, and they'll have to expand their capacity considerably.

SPIEGEL: The OPEC members are essentially the only ones that can deliver these additional barrels. After all, they have by far the largest reserves.

Tanaka: Yes, and that's where we are pinning all of our hopes. Only the OPEC countries can still significantly expand their capacities.

SPIEGEL: Persian Gulf countries also have ambitious plans to develop refineries. The region would then not just be the leader in oil production, but also a leading manufacturer of oil products, like gasoline and heating oil. This would only increase dependency on OPEC and government-owned oil companies.

Tanaka: That's right, and yet these investments are absolutely reasonable. Unfortunately, the Western consumer nations have failed to modernize their refinery sectors, a fact which is extremely problematic because it creates the need to process more and more sulfurous, heavy oil, which is costly. If the producers want to do this themselves in the future, why not? We already depend on them, so it doesn't matter whether they supply only the crude oil or the products, as well.

SPIEGEL: Most, though, are countries that are not exactly democratic and tend to be politically unstable.

Tanaka: That's exactly why I think it's a good idea that they not just produce oil, but also process it. In this way, these countries will modernize their economies, with the development of a petrochemical industry being the obvious consequence. Some are even getting involved in alternative energy, like Saudi Arabia, which is investing heavily in solar technology.

'We Should Commit Ourselves More Heavily to Nuclear Power'

SPIEGEL: You paint a very friendly picture of these countries. But it's precisely the hotheaded rulers, like Iranian President Mahmoud Ahmadinejad and Venezuelan President Hugo Chavez, who are driving up the oil price with their threats.

Tanaka: The price of oil is always a political price to some degree. When these politicians say something, it moves the markets -- but only for a day. When our agency makes a statement, the effect is more lasting.

AFP

Demand for oil is falling, as is the price. But for how much longer?

SPIEGEL: Such regimes can only stay in power thanks to the high oil price. They're doing a booming business based on the scarcity of fossil fuels, while citizens and business owners worldwide are groaning under the cost burden. To what extent, in your view, does the global economy suffer from high oil prices?

Tanaka: There is a reliable indicator for this, which economists call the "oil burden." It describes the relationship between a country's expenditures for crude oil and its gross domestic product. This value increased dramatically this year. It is higher than it was in the days of the first oil price shock, in 1973, and it's approaching the level of the second shock, in 1979. Emerging nations that do not produce any significant amounts themselves are especially hard-hit, like Thailand or Vietnam. Some of these countries have subsidized fuel in the past, but now they're cutting back on this financial assistance, because it's getting too expensive for them and, by doing so, they hope to force their citizens to conserve energy.

SPIEGEL: Does this ease the situation in the oil markets?

Tanaka: It could in fact have a restraining effect on demand. This year China is spending roughly $40 billion on such subsidies, which isn't exactly a small amount. We are not in favor of this subsidy policy. We believe that the right thing to do is to pass price changes on to the consumer in as unadulterated a fashion as possible.

SPIEGEL: How does the current price shock differ from its precursors in the 1970s?

Tanaka: In 1973, OPEC curtailed the oil supply for political reasons, and prices shot up as a result. Today, however, the strong global demand has triggered the crisis. It is a structural phenomenon that will only increase and will impose an ever-growing burden on the economy. We are not properly prepared for this. It is critical that we search for solutions.

SPIEGEL: What could they look like?

Tanaka: Basically, all we have to do is consistently pursue the CO_2 reduction goals that the industrialized nations have agreed to. This doesn't just help the climate, but it is also good for energy security. In the IEA, we have developed a scenario on how CO_2 emissions could be cut in half by the year 2050. This would reduce demand for oil by 27 percent. The most important instrument in this scenario is energy conservation. We must drastically improve efficiency. Add to this the increased use of alternative sources of energy, like solar, wind and hydroelectric. And we should also commit ourselves more heavily to nuclear power.

SPIEGEL: What, specifically, are you proposing?

Tanaka: Based on our calculations, to achieve the goal of cutting CO_2 emissions in half by 2050, each year about 17,500 wind turbines would have to be erected worldwide, 55 coal and gas power plants would have to be outfitted with CO_2 filtration and sequestration equipment and about 32 new nuclear power plants would have to be built. Currently one or two nuclear plants are being built each year. But there was a time when 30 reactors were placed into service every year. Why shouldn't we be able to do this today?

SPIEGEL: Perhaps because the operators would run out of fuel?

Tanaka: Our colleagues at the International Atomic Energy Agency in Vienna have assured us that this is not a problem, that we have enough uranium. In fact, where we have a shortage is with experts: engineers with knowledge in the field are in short supply.

SPIEGEL: In Germany, many view nuclear energy with skepticism, partly for reasons of safety.

Tanaka: I know that there is a debate on this issue in Germany. Our role is to provide data and analyses on opportunities and risks. Using this information, every country can make its own decisions.

SPIEGEL: But your position in the discussion is obvious.

Tanaka: Without nuclear energy, it will be impossible to cut CO_2 emissions in half by 2050. The Germans should also understand this.

SPIEGEL: Mr. Tanaka, thank you for taking the time to speak with us.

Interview conducted by Dieter Bednarz and Alexander Jung

Translated from the German by Christopher Sultan

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