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Europe and Central Asia Facing Energy Crunch

World Bank reports on Energy Outlook in Eastern Europe and Central Asia Region

BRUSSELS, March 18, 2010—The outlook for primary energy supplies, heat, and electricity is questionable for the Eastern Europe and Central Asia region, despite Russia and Central Asia's current role as a major energy supplier to both Eastern and Western Europe. In spite of the underlying resource base, the region as a whole will face an energy crunch unless investments of more than \$3 trillion are made over the next 20 years, according to the new World Bank report, *Lights Out? The Energy Outlook in Eastern Europe and the Former Soviet Union*, launched today.

“The demand for primary energy in the Europe and Central Asia region is expected to increase by 50 percent by 2030,” said **Peter Thomson, Director for Sustainable Development in the World Bank's Europe and Central Asia region**, *“while the demand for electricity is expected to increase by 90 percent.”*

“Before the current global financial crisis hit in 2008,” Thomson explained, “several importing countries in the region had begun to experience difficulties with supplies. The financial crisis has slowed demand for energy and has created some breathing room to allow countries to take action to mitigate the impact of the anticipated energy crunch. But this window of opportunity will only exist for about five to six years. Mitigating actions are required on both the supply and the demand side, and without a change in behavior the region as a whole could face an energy crunch – moving from being a net energy exporter to a net energy importer by 2030.”

Energy trends reflect economic trends

Following the break-up of the Soviet Union, the countries of Europe and Central Asia experienced six years of dramatic economic decline, followed by vigorous economic recovery, enabling the region to become one of the most economically dynamic in the world. This economic performance was reflected in the region's energy sector – the initial economic decline was accompanied by a sharp reduction in the production and consumption of energy. But as the region's economy recovered, both production and consumption increased. Investment, however, lagged, particularly in energy asset maintenance and upgrading, creating the prospect of an energy crunch.

The region was the hardest hit by the global financial crisis that began in 2008, dampening energy demand significantly. This created some breathing room, but this is only a temporary respite before energy availability again becomes a serious concern. Once growth picks back up, so, too, will energy consumption.

Investment needed to stave off crunch

According to the report, if energy production is to be maintained or increased to meet Europe's energy requirements, significant investment will be required. The projected needs for primary *energy development* from 2010 to 2030 are estimated to be on the order of almost \$1.3 trillion¹ in order to ensure the availability of oil, gas, and coal. In addition, the region's power infrastructure is in desperate need of upgrading. Electricity capacity has hardly increased since the early 1990s and plants are getting old. Investment needed in *power sector infrastructure* over the next 20 to 25 years is on the order of \$1.5 trillion, with a further \$500 billion required for district heating.

“The deteriorating capacity has not yet become a full-blown crisis,” said **Thomson**, *“because of the decline in demand during the 1990s and the current drop off in demand related to the financial crisis. But construction lead times of several years mean that action is required now. This level of investment – more than \$3 trillion – cannot be provided in this region by the public sector alone. Attracting private sector investors will require changing the investment climate to make it conducive to such investment.”*

Energy Efficiency – untapped potential

Investing in energy efficiency achieves three goals, simultaneously and at least cost: lower greenhouse gas emissions, better energy security, and more sustainable economic growth.

According to the report, an additional \$1 invested in energy efficiency may avoid more than \$2 in production investment. But much potential remains untapped because of the many obstacles to investments in energy efficiency, including inadequate energy prices and lack of payment discipline, a lack of information on the latest technologies, too few contractors and service companies, and financing constraints.

Governments have a major role to play in energy efficiency, not only in allowing energy tariffs to reflect costs, but by being proactive in setting and updating energy efficiency standards for homes, equipment, and vehicles, and in enforcing them. The report recommends that to set an example, governments should undertake energy efficiency programs in the public sector, inform the public on energy efficient technology options, and design cities with alternative means of transport.

The outlook for addressing climate change

The challenge for these countries going forward will be to secure additional energy supplies quickly and at minimum cost, while acting in an environmentally friendly fashion to limit the growth of greenhouse gases.

According to the report, carbon emissions relative to GDP in the region are among the highest in the world. In 2005, Russia was the third-largest CO₂ emitter in the world, after the United States and China. The region's EU members have already started tackling climate change, improving energy efficiency, developing renewable energy technologies, and tapping into carbon finance. Other countries in the region will face increasing pressure to catch up, and quickly.

¹ Investment requirements are quoted in 2008 US dollars.

However, there is a disconnect between the global efforts to reduce carbon emissions and the region's national energy strategies for the next 20 years. The region's policymakers and businesses will have to rethink these strategies and engage seriously in the global efforts. But transitioning to a low carbon economy can be costly. By tapping into carbon finance, countries in the region can reduce their carbon footprint and attract critical capital to rebuild their energy infrastructure and industrial base using efficient and cleaner technologies. Governments should ensure that national policies and legislation facilitate the use of carbon finance, foster rapid technological modernization, and spur a revolution toward energy efficiency.

Time is of the essence

The report emphasizes that given the enormous need for investment, and the long lead times required to implement projects in the energy sector, countries need to position themselves to secure funding support for such progress as quickly as they can. Failure to introduce an enabling environment to support investment in the sector will translate into a shortfall in investment that, in turn, could constrain economic activity. A 10 percent shortfall in energy availability could lead to a 1 percent reduction in economic growth, and a larger shortfall could have even more detrimental impacts.

“The World Bank stands ready to assist countries in meeting their energy needs,” said Thomson, “by helping them create an attractive climate for investment, and by helping secure access to various sources of funding, including carbon finance. However, countries need to act swiftly – time is of the essence.”

For more information, please visit:
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