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Efficiency vital to cut energy use

By Ed Crooks, Energy Editor

The growth in demand for energy will accelerate over the next 15 years but could be slowed significantly if policies are put in place to encourage greater efficiency, according to a study from the McKinsey Global Institute, the consultancy's policy research arm.

Demand for energy from all sources will grow by an average of 2.2 per cent a year between now and 2020, it forecasts, up from an average of 1.6 per cent since 1994.

But deploying available, commercially viable technologies could slow that growth to just 0.6 per cent a year. By 2020, that would cut about a quarter from global energy use.

The majority of the growth in energy demand in the MGI forecast comes from

developing countries, with about a third of the extra demand from China alone.

Perhaps more surprisingly, the price of oil makes little difference to the forecasts of total energy demand.

The central forecast is based on crude at \$50 a barrel; in the cheap oil case, with a price of \$30 a barrel,

total energy demand is less than 0.2 per cent higher. In the more expensive oil case, with oil at \$70, energy demand is only about 1 per cent lower.

MGI argues demand for energy is generally price in-elastic. A higher oil price will tend to encourage shifts towards other fuels,

such as coal and biofuels, rather than a decline in energy use.

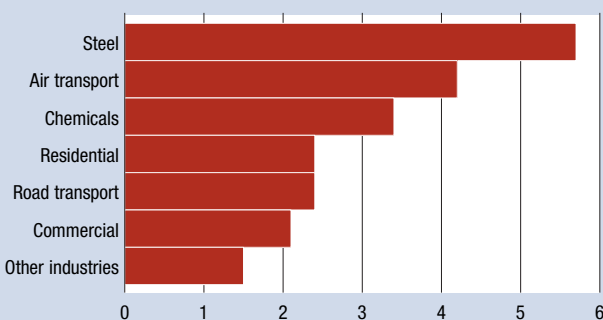
But what MGI calls "energy productivity", the value of gross domestic product created for each unit of energy, has risen by about 25 per cent since 1980.

MGI forecasts a further 19 per cent improvement by 2020 but argues that greater improvements could be readily available from more efficient energy use by businesses and consumers.

However, energy-saving investments are being held back by "market failures". Consumers lack the information and capital they need to invest in energy-saving changes to their homes, and many businesses find energy is a relatively small proportion of their cost base, so they do not focus on efficiency.

GROWTH IN GLOBAL ENERGY DEMAND

2003-2010 compound annual growth rate (%)



Source: McKinsey