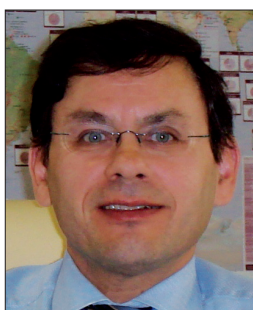


Overcoming barriers to investment

INTERVIEW WITH DR NOÉ VAN HULST

SECRETARY GENERAL, INTERNATIONAL ENERGY FORUM (IEF)



NOÉ VAN HULST holds a Master's Degree and PhD in Economics from the Free University of Amsterdam. Prior to taking up his post as Secretary General of the IEF in January 2008, he was Director of the International Energy Agency's Long-Term Cooperation and Policy Analysis Office. Prior to that he was Director-General for Competition and Energy at the Ministry of Economic Affairs in the Netherlands. Dr van Hulst has written extensively on liberalisation of energy markets, labour markets, technology policy, and competition policy.

What are the key objectives of the IEF?

The key objectives of the Forum, as outlined in our statutes, are to enhance and deepen the global energy dialogue between consuming and producing countries. The aim is to promote a more stable and transparent energy market, guarantee better energy security, and to improve trade and investment in energy.

The theme of the Eleventh Conference, Rome 2008, is: "Energy Dialogue to Respond to Global Challenges". We face three major challenges. Firstly, the world's energy ministers are meeting in Rome at a time of unprecedented high energy prices. Secondly, there is growing concern about energy security: for the consuming countries it is about security of supply; and for the producing countries it is about security of demand. The third challenge is global warming and the connection between growing energy consumption and production – in particular of fossil fuels – and climate change.

These are all global energy issues about which the IEF with its broad and inclusive participation is ideally suited to facilitate the dialogue needed to find solutions. It convenes the largest gathering of energy ministers from both consuming and producing countries in one place. More than 70 countries are participating, representing more than 90 per cent of global oil and gas production and consumption.

How important is the issue of global confidence-building across traditional political, economic, and energy policy dividing lines?

I think there is an urgent need to improve confidence building. So, as a forum, the IEF encourages frank and honest discussion to promote greater understanding and trust. We are all aware of the tensions between consumers and producing countries, including transit countries. Forum participants are also aware of the increasing interdependence between the consuming and producing nations. We seek to turn this into a positive force, and not a source of division. For instance, increasing trade and investment can be a tremendously powerful way to underpin the growth of the world economy, but it requires a higher degree of trust between all involved.

What other tangible outcomes does the IEF seek?

True dialogue involves more than putting your message or your views on the table. It also means listening to what others bring to the table, and trying to understand

and be prepared to change your own perceptions; otherwise we won't make any progress.

In my view, the world needs to find practical ways to improve the energy situation. There are two main issues here. The first is to find practical ways to further improve market transparency in oil and gas. The second is to improve the investment framework. These uncertainties are often a barrier to healthy growth and investment.

How successful has the establishment of the Joint Oil Data Initiative (JODI) been in improving transparency in the energy industry?

The Joint Oil Data Initiative has achieved a lot. More than 90 countries are now participating in JODI, which is starting to offer timely access to monthly oil statistics for the 30-largest oil producers and consumers. Up-to-date and complete data on consumption, production, trade and stocks can significantly help to increase transparency in the oil market. This is extremely important to help decrease price volatility. The more transparent the market, the less room there is for unfounded speculation, and the closer we get to market fundamentals. More states need to be committed to this effort, and more still needs to be done to further improve JODI if it is to become the standard for the industry and to be utilised to its full potential.

One of the recommendations from the 2006 IEF meeting was to look at the possibility of extending JODI to include natural gas. Is this still on the agenda?

It is definitely on the agenda, we are investigating the feasibility of this and the technicalities involved. The gas market is very different from the oil market, which is more developed as a global market. Oil demand is mainly driven by transportation, whereas gas is much more driven by power generation. There are quite substantial differences between the three major regional markets: the Asian-Pacific market; the European market; and the North American market. But there is a clear and unmistakable tendency toward globalisation in the gas markets, mainly through LNG. The rapid growth of LNG is starting to interconnect these regional markets, so this makes it an issue of real importance. Even though demand for oil and gas is driven by different factors, we certainly see that when the markets are tight, as they are now, substitution between oil and gas takes place. We also see substitution away from oil towards gas or vice

versa, depending on the relative price ratio. However, we need to understand that gas is in a totally different phase of its evolution, and is much less transparent than the current oil market, so we cannot expect any quick results here. But, nevertheless, tackling this issue is of real importance for the future.

Is there any significance behind the IEF Secretariat being located in Riyadh?

The location of the Secretariat is related to the idea of a Permanent Secretariat by King Abdullah, then the Crown Prince of Saudi Arabia, at the Seventh IEF in Riyadh in 2000. But I think it is extremely useful to have an important organisation like the IEF in Riyadh, given that Saudi Arabia has a quarter of the world's proven oil reserves. I think that it is an advantage for us to be so close to where the action is, and convenient to be able to interact with other Middle Eastern countries and the many high-level government and oil company delegations that frequently come to Riyadh.

Is the International Energy Business Forum (IEBF), which has taken place prior to the last two IEF Ministerials, a permanent fixture?

Absolutely. I think it is extremely important to us and for the energy ministers to engage even more intensely with the oil industry; because whether we are talking about oil prices, energy security or global warming, the industry is always involved. The IEBF helps determine what the barriers are to getting investment in place at the right time and under the right conditions. The event not only facilitates bilateral meetings between ministers, but also between ministers and business leaders, CEOs of energy companies, and national and international oil companies. We want to step up our engagement with the industry, not only at the event itself but in between meetings. In the coming years, we will be talking to industry executives to help us find practical ways to improve investment framework conditions and the transparency of the oil and gas markets.

Given that the power of the national oil companies is increasing, along with their technological and exploration abilities, do you see a change of emphasis in the dialogue between the industry and government?

We face rocketing costs and increasing uncertainty regarding regulations, taxes, and technological challenges in recovering oil and gas from difficult areas like the Arctic or in deep sea conditions, and I think we will need more co-operation between NOCs and IOCs to resolve these issues. The question is how to get the conditions in place, and how to create more and better win-win joint ventures between IOCs and NOCs. Overcoming barriers such as high risks and the

other uncertainties throughout the energy chain can do this. If the IEF can help in a practical way, I think we will have made a significant contribution to more investment and better energy security .

You have just taken over as Secretary General. What challenges does the organisation face, and what are your goals?

As I mentioned, we need to do everything to achieve an enhanced and deeper dialogue between ministers and the industry executives. And again, as I said before, we must make sure that we go beyond words, and that we find practical ways to improve the situation. And that's where this focus on transparency in the oil and gas market comes in: finding ways to attract more investment, and to achieve more stable energy markets. We're starting to tackle gas, and at the same time identify the uncertainties that hamper investment, and seeing how we can tackle them. To take a specific example such as lack of skilled labour: this is one of the main barriers for the consuming and producing countries. Well then maybe that is an area where we could play a role in moving things forward, and improving the image of the oil and gas industry as an organisation that looks to the future.

And then there is the question of co-operation between IOCs, and NOCs. I think you have to take a two-tier approach here. First of all there is global dialogue, which should tackle all the main issues, but at the same time we have to identify practical ways forward. I think we need more emphasis on pragmatic solutions in particular areas. From a wider perspective; we talk about energy security, but there are more than two billion people in this world in developing countries who have no access to modern energy. At a global level, it's something we should all worry about. We should do more to give more people access to modern energy sources so they too can share in the world's economic growth and develop their human potential.

That's a difficult proposition, given that they will have to pay for an increasingly expensive commodity.

Exactly. And we need to draw attention to this impact of high prices. We need to ensure affordability, especially for developing countries, because they suffer most from high prices. In some cases they are even going back to using more traditional biomass for instance. This is of course not something that we can solve here in Riyadh, but I believe that when we talk about global energy security, we should acknowledge this as an issue as well. There can be no energy security at all for those who do not have any access to modern energy supplies, and I think that it would not be out of place for the Forum to address this issue urgently, and commit ourselves to helping combat energy poverty. **F**

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