



THE CHALLENGE OF ENERGY INTERDEPENDENCE AND THE GLOBAL ENERGY DIALOGUE

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As the International Energy Forum (IEF) enters its third decade, its value as neutral facilitator of the global energy dialogue will continue to rise. For the world of energy is one of interdependence, and the multiple links connecting producers, consumers, and transit States, at every stage of the international energy supply chain, will in all likelihood deepen and expand. In every market for every energy source, from fossil fuels to wind, from exploration to power generation, passing through the myriad processes involved in transport, distribution, and delivery of energy products and services, nations will have to adapt to an increasingly complex environment. It will make little difference whether they are developed or less developed, industrialised or agricultural, rich in resources or not. Their fortunes will be intertwined. Their ability to understand their interdependence, as much as their willingness to work together to overcome their joint challenges, will be fundamental to the promotion of their energy security.

This will be true even if market forces play the main role in pushing them towards a new reality, sending signals for resource allocation, or motivating the development of financial instruments to hedge against or to exploit price fluctuations. While markets mediate between the interests of consumers and producers, not all countries will be able to respond fast and effectively to sudden disruptions of supply or demand, even if they can count upon more flexible energy sectors. And setting policies to “get the prices right”, creating novel regulations, or reforming the institutions that govern their national energy systems, are unlikely to produce the desired long-term results in and of themselves.

The reason is straightforward. The greater complexity that comes with greater interdependence has added a layer of uncertainty to the behaviour of energy markets. For instance, it is more difficult nowadays to interpret the messages conveyed by oil price movements due to their considerable volatility. Significant analytical resources have been devoted to understand the process of oil price formation, but analysts still disagree as to its main determinants. Some have found financial markets to play a minimal role in oil price behaviour; others observe that their role is not so small, and that it is justified by expectations of a tight balance between supply and demand; and yet others viewing the same dataset from a different angle see them playing a significant role through

speculation, disrupting what otherwise would be an orderly market process.

When such disparities prevail in the interpretation of fundamental energy developments, supplementary mechanisms are required to increase the “signal-to-noise” ratio of energy prices and other indicators, so they perform their function of guiding resource allocation appropriately. Improving data quality on production, consumption, policies, and investment plans, among others, is a must, as it is to increase data availability. Yet better communication between key market players, in order to understand each other’s concerns and motives, is also necessary to sustain market transactions over time. Markets cease to work well when this type of information is scarce and trust is low.

The IEF is uniquely positioned to make a difference in this regard because it facilitates a closer engagement of producers, consumers, and transit States to: (1) reduce asymmetries in information and understanding, (2) create a sense of shared goals and concerns, (3) temper overwrought or unfounded expectations about supply and demand conditions, (4) forestall the rise of tensions that come from sudden market disruptions or misperceived intentions, and (5) open new opportunities for global energy cooperation.

For the 13th International Energy Forum and the 5th International Energy Business Forum the stage is set for a closer engagement and rich exchange of views to advance in all these areas. The programme encourages discussion not only on oil price formation, but also on other technological, economic, political, and social developments that are shaping energy policies and the global energy mix. Three of these deserve special attention. First, how to meet future energy demand, which today is growing at a speed that promises greater prosperity and has the potential to take millions of people out of poverty, but also poses significant environmental concerns. Second, how to mitigate oil price volatility, which makes investment planning and government budgeting more difficult. Third, how to promote the security of both energy demand and energy supply.

Within this set of challenges ample space exists to explore the myriad and even astonishing energy developments that have taken place in a very short period, which are likely to affect energy trends in the foreseeable future: the inclusion of shale gas and tight oil in the global energy mix, the implications of the accidents of the Deepwater

Horizon platform and the Fukushima nuclear power plant for safety, security and the environment; the deployment of clean energy technologies, including the variety of renewable sources of energy and carbon capture and storage, to mention a few.

A well-informed discussion requires a strong grounding on facts. To provide that grounding, the Joint Organisations Data Initiative (JODI), now in its 10th year, will figure in this ministerial meeting. But to deliver more and better results, it will require the sustained commitment of all member countries.

I am confident that Ministers, CEOs, and the heads of the International Organisations participating in this two-day meeting, generously hosted by the government of Kuwait, will leave with a better understanding of their own challenges and a better idea of who their potential partners for energy cooperation are. This will help them to craft strategies and policies that improve their energy security in the short, medium, and long term.

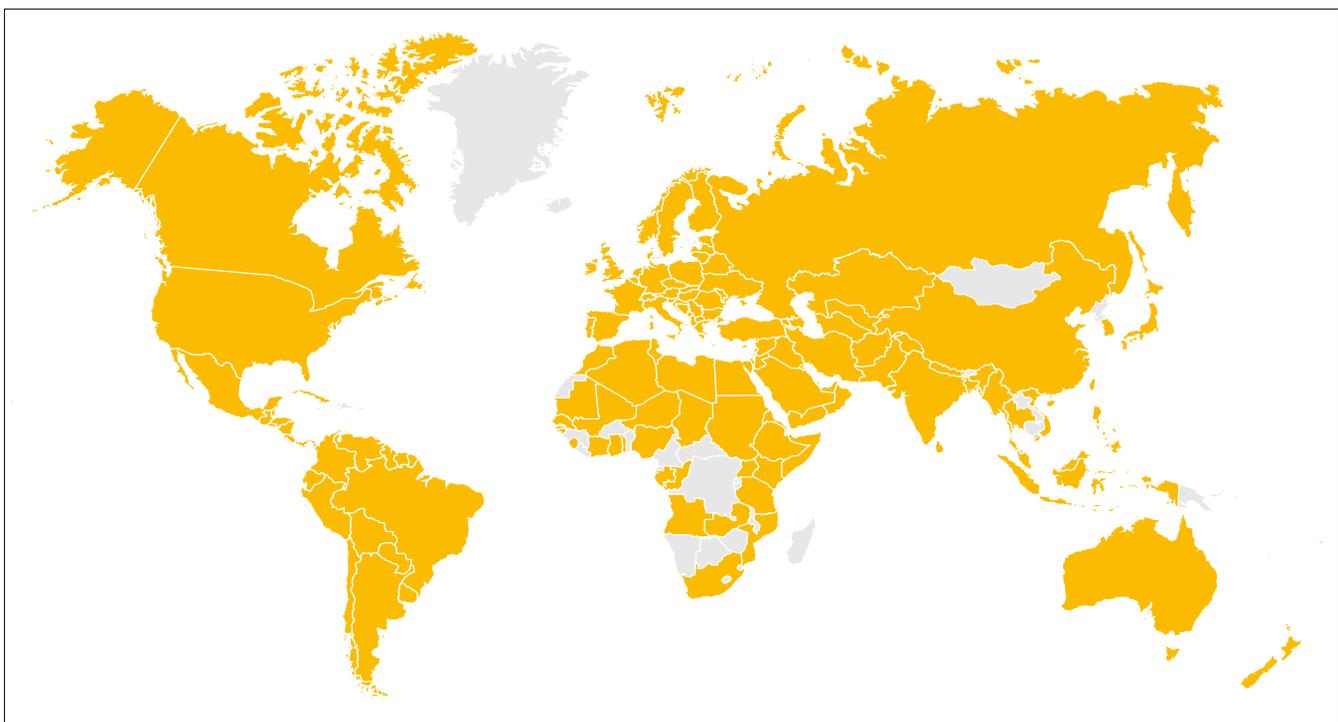
My confidence derives from the spirit that lies behind the creation of the IEF. For if there is a single promise the IEF embodies, it is that global energy security can be

enhanced with the support of “a neutral facilitator of an informal, open, informed, and continuing global dialogue among its membership of energy producing and energy consuming States, including transit States.” It is a promise that deserves to be taken seriously, as it is through dialogue that trust is built. And it is with trust that cooperative bonds between nations can be created and sustained.

In a world where the distribution of energy sources is uneven and unforeseen events disrupt energy markets repeatedly, countries must be able to count upon a dialogue platform that helps them achieve a clear sense of their interdependence. Only then can they appreciate the degree to which their energy security follows from their own choices as much as those of others.

This is a prerequisite for any cooperative solution to their shared energy challenges. A judicious mix of markets, state policy and international dialogue will go a long way in helping governments provide the energy their peoples want: accessible, affordable, reliable, flexible, environmentally-friendly. The IEF can be their strategic partner and ally as they seek to satisfy this need.

Welcome to the IEF. ■



IEF MEMBERS ACCOUNT FOR 90 PER CENT OF THE WORLD'S OIL AND GAS