



## FOCUS ON THE OVERARCHING THEMES OF INVESTMENT AND PRICE VOLATILITY

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From the very beginning the Dutch government has strongly supported producer-consumer dialogue in the International Energy Forum. The Netherlands has actively participated in various IEF organs and by hosting the IEF Ministerial in 2004. The main reason for this support for the dialogue has not changed over the years. Since our country is a large gas producer within Europe and has a major petrochemical industry as well, energy is an important factor in the Dutch economy. Consequently, energy policy has played an important role in government policy. Cooperation in the producer-consumer dialogue helps stabilise energy markets which is in the interest of producers and consumers alike and vital for the global economy and people's welfare.

Over the years we have seen a number of recurring themes. To my mind investments and volatility are the most important and most frequently recurring issues, and I would like to focus on them here. Let me start with investments.

In 2003 the International Energy Agency's annual *World Energy Outlook* focused on investments. The reason was that in its projections the pace of new investments was lagging behind what was deemed necessary for supply to meet the growing demand. In response to similar concerns we subsequently chose investments as the overarching theme of the IEF Ministerial in Amsterdam in 2004. Oil and investments in the natural gas value chain were addressed, as was the need to invest in renewable energy. When we look at today's situation, investment in energy is still a very topical issue. It is predicted that energy demand will increase substantially, particularly in the Middle East, Asia and Latin America. Economic growth is only possible when energy supply is secured. Moreover, millions and millions of people still need to gain access to energy and, for example, be connected to electricity grids.

The recent period of rapid demand growth, in emerging economies in particular, has further challenged the pace of investment in energy production. While new and often more complex resources need to be explored and developed, they tend to be situated further away from markets. Energy companies and governments alike are tested, technologically and economically, in bringing these investments about. New technologies have to be developed in order to be able to produce more oil and gas, while at the same time reducing the environmental footprint. According to IEA's *World Energy Outlook*, the total investment in energy amounts to US\$38 trillion, of which about US\$20 trillion should be investment in exploration and production. This is a tremendous challenge. However, while increased demand

for oil and gas is challenging the pace of investment that companies and governments are able to generate, future demand uncertainties as a result of energy efficiency gains and expected fuel switching to renewables requires a critical view of various demand projections. I am therefore strongly in favour of the initiative to compare IEA and OPEC projections in order to get a clearer picture of global energy supply and demand and regional differences.

I would now like to turn to the second issue: volatility. Although every market experiences some instability, oil price volatility in particular has been very marked over the last few years. Of course, 2008 was the most remarkable year in which the oil price increased to US\$147 per barrel and then collapsed to a price of less than US\$40 at the end of the year. Since 2008 volatility has not been that strong, but nevertheless persists. Since volatility does not strengthen the confidence of investors, it is of the utmost importance that we try to moderate it. We greatly value the efforts of IEA, IEF and OPEC to create greater transparency and understanding of the factors that influence the price of oil. One topical issue is the connection between physical and financial markets. For many industries, financial instruments are an indispensable way of mitigating price risks. Airlines and other companies, for example, are relatively vulnerable to oil price volatility, and can use these instruments to control risks. So it is good that these types of financial hedging instruments can be used to benefit the companies mentioned and limit price movements. However, these instruments can also be used for speculation, which may distort the market balance. A good way of improving energy market performance could be to boost market transparency and ensure that producers and consumers are open about their supply and demand projections. And improving market performance is exactly what the global economy needs.

In recent years the International Energy Forum has grown in its role as neutral facilitator of the dialogue between producer and consumer countries. By stimulating discussions and cooperation with international organisations like IEA and OPEC, and relevant experts on the above mentioned issues, the IEF has contributed to a better understanding of the functioning of oil and other energy markets. Furthermore, the IEF secretariat has facilitated discussions on IOC-NOC cooperation, which is vital if we are to meet future challenges in energy.

These are important steps toward better understanding of, and greater stability within, the market. This will lay the groundwork for investment and further technological development. And, ultimately, access to energy for all. ■