



MAKING OIL MARKETS MORE TRANSPARENT AND PREDICTABLE

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In March 2010, the 12th Ministerial meeting of the International Energy Forum in Cancun welcomed the positive approach and constructive efforts of the Secretariats of the IEF, the International Energy Agency (IEA), and the Organisation of the Petroleum Exporting Countries (OPEC) to identify specific areas of cooperation to better understand energy market functioning, and to share insights and exchange views about energy market trends and outlooks. The joint IEA/IEF/OPEC programme is now well on track and has already delivered useful and tangible results¹.

SHARED ANALYSIS OF ENERGY MARKET TRENDS AND OUTLOOK

The IEA, IEF and OPEC held two Symposiums on Energy Outlooks in Riyadh on 24 January 2011 and from 23-24 January 2012.

The IEA/IEF/OPEC Symposiums on Energy Outlooks provided a diversity of well-informed views from knowledgeable experts. Participants discussed energy market trends and associated drivers that influence these trends such as environmental policies, economic conditions and technological developments.

The meetings identified the main similarities and differences between the IEA's and OPEC's outlooks and discussed the reasons behind these differences, such as those related to definitions, data sources and uses or presentation of the results. The differences in historical baseline figures were also discussed.

The two Symposiums recommended moving towards harmonising definitions, where possible and appropriate, and the use of more disaggregated data, in a more timely manner, to enhance the outlooks. In addition, they highlighted the need for a better exchange of data and information through a strengthening of, and improvements to, the JODI (originally standing for the Joint Oil Data Initiative, and now the Joint Organisations Data Initiative). Moreover, the symposiums recommended exploring the possibility of further joint technical meetings on certain technical areas of interest.

PHYSICAL AND FINANCIAL LINKAGES AND ENERGY MARKET REGULATION

The first Joint IEA/IEF/OPEC Workshop on "Understanding the New Dynamic: How do the Physical and Financial Markets for Energy Interact?" and the first Forum on "Energy Market Regulation: Clarity and

Coordination" were convened in London on 22 and 23 November, 2010. The two events provided rich and diverse views from distinguished experts with different backgrounds and affiliations.

The Workshop noted the increasing interaction of the physical and financial energy markets. It recommended continuing the ongoing effort to better understand the functioning of each of these markets, as well as the linkages between the physical and financial markets. The Forum recognised that regulations have important effects on market functioning and participants' behaviour and emphasised the need for appropriate regulation, with adequate international coordination.

The second Joint IEA/IEF/OPEC Workshop on the "Interactions between Physical and Financial Energy Markets" was convened in Vienna on November 29 2011. The diversity of the opinion expressed in the event reflected, to a large extent, the differences of opinion between those attributing most of recent price movements to oil market physical fundamentals, acknowledging the role of financial market factors in amplifying short-term price movements; those who see speculative activity and the financialisation of commodities as exacerbating price movements and leading to excessive volatility; and those that regard crude oil price formation consisting of a complex interaction of physical and financial factors, including speculation in the financial market.

The workshop acknowledged that transparency in the financial market layer surrounding oil trading should mimic the enhancement of the international cooperation on physical market data transparency. Participants noted that data gaps in both financial and physical markets contribute to price volatility. They called for more data to enable a more complete and timely picture of activities in both financial and physical markets. In this connection, the workshop commended the international efforts to increase market data transparency, such as the JODI process, and stressed the need to make further significant progress in this area.

The participants stressed the importance of continued efforts to improve the producer consumer dialogue to enhance stability in the oil market and increase transparency through comprehensive, timely and reliable data, for the benefit of all.

JODI RELATED ACTIVITIES

The objective of the Joint Organisations Data Initiative – itself a concrete achievement of the energy producer-consumer dialogue – is to achieve a step change in provision

of timely, high-quality and transparent oil market data which is essential to the stability of oil markets.

JODI is enjoying increasing interest from market players, and is internationally recognised for its contribution to oil market stability. To this end, JODI partner organisations continued their efforts in training statisticians in charge of JODI data compilation and submission in participating countries/economies, with training sessions in Colombia in July 2010 and in South Africa and Indonesia in December 2010.

Participants in the 8th International JODI Oil Conference held in Beijing (10-11 October 2011) reviewed progress made since the 7th International JODI Oil Conference in Quito (June 2009) and discussed the quality of additional data points collected through the extended JODI Oil questionnaire. They also discussed the findings of the 3rd JODI Oil Data User Survey which reveals that the initiative is increasingly benefiting from users' inputs, comments and suggestions. The conference highlighted the importance of stock levels as key market indicators and called on participating countries to contribute further to market transparency through submission of a complete set of data as well as all relevant qualitative information (metadata).

JODI organisations also developed new tools and practices, both at country and organisations level, to regularly check JODI data and streamline data submission. Given the increasing interest in JODI data from market analysts, the organisations worked on enhancing interaction with data users, and upgraded JODI related platforms such as the JODI website and JODI database.

Responding to market analysts' request for more data on market flows to be provided through JODI World Oil Database, JODI organisations worked on an extended version and have been testing it with their member countries participating in the Initiative. The results of the reporting by participating countries were assessed by an independent consultant to measure the reliability and integrity of the JODI-Oil database with additional data points collected through the extended JODI-Oil format. The assessment shows that submission of additional data required in the extended questionnaire is challenging for many participating countries. The full implementation of the extended format – or “maxi-JODI” – sets an aggressive agenda for many participating countries to address a number of gaps and inconsistencies that affects the completeness and accuracy of reported data.

While JODI partner organisations are aware of such challenges, they agreed to release the extended questionnaire to the public in the hope that this will help to improve the quality of data submission, through interaction with market analysts and JODI-Oil data users.

Responding to IEF Ministers' call to start collecting monthly gas data through a mechanism similar to JODI-Oil, JODI partner organisations initiated a collection exercise with their gas member countries submitting relevant gas data such as supply, demand and trade on a monthly basis. Today, more than 44 countries are participating in this exercise, and the IEF Secretariat intends to launch JODI-Gas at the Second Gas Data Transparency Workshop to be hosted by Qatar in May 2012. They also invited other relevant organisations such as the Gas Exporting Countries Forum (GECF) to join this collective effort towards more transparent gas markets.

Calls for the extension of JODI to cover annual data on upstream and downstream capacities and expansion plans have been noted, and work on extension to investment has been already initiated by JODI partner organisations (starting with oil), with preliminary findings on schedule for delivery in 2012.

WIDER ENERGY BRIEF AT THE REQUEST OF THE G20

At the request of the Group of 20, the IEF has closely cooperated with other organisations to prepare and submit reports in two areas².

First, the G20 Seoul Summit Leaders' Declaration³ called on the IEF, IEA, OPEC and IOSCO to produce a joint report, by the April 2011 Finance Ministers' meeting, on how the oil spot market prices are assessed by oil price reporting agencies and how this affects the transparency and functioning of oil markets.

The four organisations first of all commissioned two consultants to write a report, and then, on the basis of this report and of comments and clarifications from the price reporting agencies, submitted their final report to G20 finance ministers in October 2011. Further to this report, the G20 at the Cannes summit on 3-4 November 2011 declared that “recognising the role of Price Reporting Agencies for the proper functioning of oil markets”, it was asking “IOSCO, in collaboration with the IEF, the IEA and OPEC, to prepare recommendations to improve their functioning and oversight to our Finance Ministers by mid-2012.”

Second, the G20 asked the IEF, among other bodies, to take a look at gas and coal price volatility. Specifically,

the G20 Washington Summit Leaders' Declaration in April 15-16, 2011 requested "the IMF and IEF, as well as IEA, GECF and OPEC, to develop by October 2011 concrete recommendations to extend the G20's work on oil price volatility to gas and coal." The G20 Cannes summit subsequently declared that it "notes the new JODI-Gas database and commits to work on contributing to it on the basis of the same principles as the JODI-Oil database. They [G20 leaders] call for annual symposiums and communiqués on short-, medium- and long-term outlook and forecasts for gas and coal. They also call for further work on gas and coal market transparency and ask the IEA, IEF and OPEC, to provide recommendations in this field by mid-2012."

WEB-BASED FACILITY

At their 12th Ministerial meeting in Cancun, Energy Ministers called for "the IEF Secretariat to catalogue regulatory efforts in major energy derivatives markets, bearing in mind that the role of the IEF in reducing market volatility should continue to be non-regulatory, leaving direct market oversight responsibility to states."⁴

To ensure further dissemination of energy market relevant information through one single platform, the IEF, in cooperation with the IEA and OPEC, has developed a web-based facility to access, including through links, publicly available energy outlooks and associated studies and also energy market legal and regulatory texts and related studies.

An electronic forum dedicated to the subject of market functioning and behaviour, where experts, researchers, multilateral organisations members and others, can exchange views, post-research findings and share publications is now in place.

CONCLUSION

- The implementation of the IEA/IEF/OPEC joint programme, which started immediately after the 12th IEF Ministerial as requested by Energy Ministers, has delivered concrete and tangibles results;
- Looking ahead, IEA, IEF and OPEC will continue to cooperate on the areas listed in their joint programme;
- The joint Symposium on Energy Outlooks is now established as an annual venue for experts from IEA, IEF, OPEC, industry, academia and others to share insights and exchange views about energy market trends and short-, medium- and long-term energy outlooks;
- Further events covering the interlinkages between the physical and financial energy markets, as well as energy market regulation will be held in the future;
- The ongoing work on the Joint Organizations Data Initiative will continue towards an improvement of data disseminated through the JODI World Oil Database, the development of monthly gas data collection and annual investment data in cooperation with other relevant organisations such as the Gas Exporting Countries Forum (GECF). ■

1. All relevant documents (agendas, background papers, reports, etc.) are available on the IEF website www.ief.org.

2. The report is available at www.g20.org

3. "We also request the IEF, IEA, OPEC and IOSCO to produce a joint report, by the April 2011 Finance Ministers' meeting, on how the oil spot market prices are assessed by oil price reporting agencies and how this affects the transparency and functioning of oil markets." THE G20 SEOUL SUMMIT LEADERS' DECLARATION, November 11 – 12, 2010.

4. Cancun Declaration, March 2010.



THE IEF BRINGS TOGETHER MINISTERS AND REPRESENTATIVES OF INTERNATIONAL ORGANISATIONS IN CANCUN, MEXICO IN 2010