New producer-consumer dialogue: What to expect?

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In an historic meeting in Riyadh on 22 February 2011 ministers and representatives from 86 energy producing, energy consuming and transit countries signed a fresh charter for the International Energy Forum. Since then, Azerbaijan has joined as the 87th member. The IEF Charter marks a new era of international energy cooperation, signalling a reinforced political commitment to an informal, open and continuing producer-consumer dialogue in the global framework of the IEF. It creates a solid foundation for a productive dialogue that fosters greater mutual understanding between energy producing and energy consuming countries on key energy policy issues, seeks to narrow differences in views and helps build trust in policy intentions. With all the major energy producers and consumers in this enhanced dialogue framework, this fact alone sends a powerful signal to the energy world and energy markets that difficult issues can and will be tackled in a global context, whenever necessary. It is understandable that the signing of the IEF Charter has raised expectations. So what can realistically be expected?

Recent events rock energy markets

Since the IEF Charter was signed, we have witnessed significant political events in some Middle East and North African countries, as well as in Japan that have increased energy market volatility and uncertainty. Energy market volatility has been, and will continue to be addressed in the cooperation programme with the International Energy Agency and the Organisation of Petroleum Exporting Countries that underpins the IEF Charter. The first pillar of this joint programme is the shared analysis of energy market trends and energy outlooks. The IEA, IEF and OPEC held their first Symposium on Energy Outlooks in Riyadh in January 2011, with the objective to improve the clarity and understanding of the various short-, medium- and long-term outlooks, particularly those of IEA and OPEC. It turned out that there was more consensus between IEA and OPEC on the oil market outlook than is often acknowledged in the press. However, it was recommended to move "towards harmonising definitions, where possible and appropriate, and disclosing more data, in a more timely manner, to enhance comparability between the outlooks."

Obviously, as noted before, things have changed significantly since early 2011. Analysts have identified a host of factors that may have contributed to the increase in prices and in volatility, ranging from increased financial market activity to unanticipated strong demand in Asia and quality demand/supply mismatches following the loss of Libyan sweet, light oil, as well as overstated geopolitical concerns. Some producing countries attempted to bring back more stability by increasing production and a group of consuming countries released some of their emergency stocks. However, despite these efforts, oil prices are more volatile and currently at more elevated levels than in 2010.

Meanwhile, it is worth pointing out that the fundamentals of oil demand and supply for 2011/2012 still look relatively comfortable. Both IEA and OPEC still project oil demand in 2011/2012 to grow in step with oil supply, with OPEC's remaining spare capacity at adequate levels (around 4 mb/d). In addition, there is ample spare capacity downstream and commercial inventories remain high.

Furthermore, we see, for now, no major change envisaged in the medium term supply/demand balance for 2015/2016. Significant oil investment projects are under way in both OPEC and non-OPEC countries and oil demand does not seem to grow significantly faster than projected supply. Producing and consuming countries are both committed to step up efforts to improve energy efficiency, as this will help dampen demand growth and thus improve the demand/supply balance. Similarly, producing and consuming countries are fully aware of the importance of facilitating adequate investment, both upstream and downstream, in a timely manner. IEA, IEF and OPEC are working closely together in moving towards greater harmonisation of definitions and disclosing more data, in a more timely manner, to enhance the comparability of the outlooks. They will provide more transparency on their respective publications on the outlook for 2012.

Physical and paper oil market linkage

The second pillar of the IEA/IEF/OPEC cooperation programme is the linkages between physical and financial energy markets. A first joint workshop was held in November 2010 in London, back to back with a Regulators Forum. This event showed a continuing divergence of views on the implications of the emergence of oil as an asset class for the physical oil market. However, there was a consensus on the need for greater data transparency in both the physical oil market (in particular on oil inventories) and the financial oil market (in particular the OTC market), the need for strong international coordination of regulation and the need to continue the horizontal dialogue between physical and financial oil markets (including the regulators). Again, we have seen changes since the end of 2010 in this area.

If anything, the interaction between the physical and financial oil markets seems to have intensified in 2011, with paper oil market trading reaching new record levels. At the same time financial regulators (CFTC, FSA, EU and others) around the world are designing important new rules for paper oil markets which may have a significant impact. This underscores the need for further improving data transparency in both the physical and financial oil markets, international coordination of regulation and continued physical-financial market dialogue. IEA/IEF/OPEC cooperation on physical and financial markets' linkages and energy markets regulation will be taken forward in a new joint workshop and Regulators Forum in November 2011.

Improving data transparency

There is an urgent need to significantly improve the performance of countries in providing timely, complete and reliable data to the Joint Organisations Data Initiative (JODI) on oil, as well as on natural gas. Despite repeated assurances of their commitments to this issue, the actual performance of the nearly 100 JODI-participating countries on delivering better monthly oil data has lagged. JODI is coordinated by the IEF and its partner organisations include APEC, IEA, EU, OLADE, OPEC and UNSD. The JODI organisations will have to step up the pressure on those countries failing to deliver adequate market transparency. Better physical market data transparency is key to any effort to mitigate energy market volatility. The extension of JODI to cover monthly natural gas data is well under way, including cooperation with the Gas Exporting Countries Forum (GECF), and will hopefully result in the first launch of JODI-gas to the market before the end of 2011.

The extension of JODI to annual oil data on upstream and downstream capacities and expansion plans will start with oil and is currently under way, with first results expected at the earliest in 2012. This extension is very important to improve the visibility of the medium-term demand/supply balance in the oil market.

The G20 group of countries has requested the IEF, in cooperation with IEA and OPEC, to advise on what needs to be done to improve the reliability, timeliness and quality of JODI-oil. In April 2011 the IEF submitted its final report to the G20 Finance Ministers (available on www.ief.org). It addresses actions for both JODI organisations and for governments of participating countries. JODI partner organisations will need to continue their efforts in training statisticians in charge of JODI data compilation and submission in participating countries/economies; develop new tools and practices to regularly check JODI data and streamline data submission; enhance interaction with data users (in particular market analysts) and upgrade JODI platforms such as the JODI website (www.jodidata.org). It is equally important that participating countries/economies ensure that administrations and organisations in charge of data collection are better equipped and staffed, to implement appropriate regulations to ensure industry is fully engaged in the process of data submission and to address confidentiality issues and reduce if not eliminate them. IEF countries, starting with the G20, should set themselves a concrete target of complete, timely and reliable oil data submission by the end of 2011.

The G20 has also requested the IEF, IEA, OPEC and IOSCO to produce a joint report 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. This report will be submitted to G20 Finance Ministers by October 2011. In addition, the G20 asked the IMF and IEF, in cooperation with IEA, OPEC and GECF to develop by October 2011 concrete recommendations to extend the G20's work on oil price volatility to gas and coal. It is too early to elaborate on the content of this work in progress. However, it is interesting to note that the IEF, as the neutral facilitator of the energy dialogue and the most global international energy body, is becoming more involved in the G20 energy work.

Facilitating NOC-IOC cooperation

A final focus on a couple of key topics that the IEF is also currently working on. NOC-IOC cooperation has been identified as of crucial importance to improve the global energy investment climate and meet the huge investment challenge of nearly US$33 trillion up to 2035. The IEF has organised two NOC-IOC Fora (2009, 2011) which have underlined the need for innovative long-term partnerships based on mutual trust and respect. In an increasingly demanding environment, NOCs and IOCs need to explore new models of cooperation that go beyond simple resource development, and integrate host country's expectations, such as economic development, technology transfer, infrastructure development and support of the local economy. Building on the findings of the last NOC-IOC Forum in April 2011, we will work with the IEF's Industry Advisory Committee to formulate a set →

of general principles or best practices defining successful cooperative schemes between NOCs and IOCs. These guidelines will be presented to the 13th IEF Ministerial and 5th IEBF meetings in Kuwait in 2012 for discussion and endorsement.

Energy efficiency is the fastest, cheapest and cleanest way to meet the world's energy demand and enhance energy security for both energy producing and consuming countries alike. IEF acts as a platform to engage developing countries in the effort to harvest the huge potential for improving energy efficiency in order to curb the demand growth. In many emerging economies this demand growth pushes up oil and gas imports as well as emissions. In most oil and gas producing countries domestic demand growth is increasingly crowding out the potential for growth of oil and gas exports to world markets. In all developing countries, the issue of sound energy pricing and the tackling of inefficient, wasteful energy subsidies in a socially responsible manner needs urgent attention. On the basis of the findings of an IEF Symposium held in Jakarta (June 2011), the IEF Secretariat will report to Ministers at the 13th IEF in Kuwait in 2012 on concrete recommendations on how to improve energy efficiency in both producing and consuming countries.

Energy poverty remains one of the world's most urgent problems. The fact that more than one billion people lack access to electricity and modern cooking fuels inhibits economic and social development and the achievement of the Millenium Development Goals, particularly in Sub-Saharan Africa and South-East Asia. With roughly one-quarter of the IEF membership from developing countries, energy poverty will stay high on the agenda of the IEF, and will be discussed at the 13th IEF in Kuwait in 2012, on the basis of results from an IEF symposium in Vienna in November 2011.

With the new mandate provided by the IEF Charter, the IEF Secretariat will work hard to deepen and enhance its role as a neutral facilitator of the global energy dialogue. Working together with all relevant international organisations, including the big sisters IEA and OPEC, as well as with industry (both NOCs and IOCs), we will do everything we can to deliver concrete results to the G20 on their requests and, first and foremost, to the 13th IEF Ministerial Meeting in Kuwait in March 2012. ■

IEF investment events: recent timeline