

Using the energy dialogue to dispel uncertainty and spur investment

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The successful conclusion of the 15th International Energy Forum Ministerial Meeting on 26-28 September in Algiers has greatly enhanced the global energy dialogue. A historic breakthrough was achieved. On the 25th anniversary of the IEF energy dialogue, relations between hydrocarbon producing and consuming countries still provide the backbone of global energy security and will underpin market stability well into the 21st century. An enhanced producer-consumer dialogue is essential to reduce growing uncertainties and accelerate investment in secure and healthy energy markets, given the many challenges that importing and exporting countries face.

Following a period of significant decline in energy prices and subsequent investment shortfalls which have increased market turbulence and uncertainties in short and medium term energy outlooks, the over-arching theme chosen for the IEF15 Ministerial was "Global Energy Transition: An enhanced role for the dialogue". The energy transition theme was chosen to act as a catalyst to help enable an orderly transition that works for all IEF stakeholders in recognition of the successful conclusion of the "UN Sustainable Development Agenda to 2030" and the "Paris Agreement" that look set to influence longer-term energy market developments.

What is new, what is left unchanged?

New oil market developments continue to surprise, while change unfolds. Unconventional production has rekindled illusions of energy independence and shifts in demand and supply within producer and consumer countries give the impression that differences in interests have eased and are somehow less pronounced today. In the big picture, however, the geography of world energy markets remains the same. A closer look shows that these new developments will not significantly alter the uneven distribution of resources and variations in costs of production, or differences in demand and supply growth potential across the world. The fall in oil prices, slowing exploration and upstream investment, as well as the rapid deployment of new technologies to accelerate energy transition will affect producing and consuming countries differently over time. Accordingly, the producer-consumer dialogue has only sharpened focus on what are in fact tightening co-dependencies between energy investment

and trade flows within a much more competitive and dynamic energy market environment.

Sharing agendas to broaden engagement

The IEF provides a key platform for energy decision makers to respond more reliably to the diverse economic, demographic and sustainability requirements of the world, as the attendance of more than a hundred official delegations at the 15th IEF Ministerial shows. They have made the conversation more vibrant and engaged as energy market risks and opportunities have become increasingly multifaceted over the past two and a half decades. To reduce uncertainty and accelerate investment in orderly energy transitions, the dialogue stands better prepared than ever to strengthen global energy governance and contribute to healthy and reliable energy market functioning in closer alliance with new stakeholders and in support of global goals of energy transition.

Building on our trilateral work programme with the IEA and OPEC

Resources are plentiful but uncertainties are huge, stemming from diverse economic growth forecasts and the need to meet environmental and climate change goals. This has resulted in more diverse and tentative longer term energy market outlooks that show considerable variation. Projections of energy demand by 2040 vary by well over 30 million barrels a day, depending on assumptions. The recent IEA world energy outlook shows non-OPEC supplies vary across scenarios, while OPEC assessments show that non-OPEC supply will not exceed 60 million barrels a day, leaving it to OPEC producers to balance the market.

The IEF has made considerable progress in enhancing market transparency through dialogue in the context of the IEA-IEF-OPEC work programme agreed at the IEF12 Ministerial Meeting hosted by the government of Mexico in Cancún on 29-31 March 2010. IEF Ministers also acknowledged the renewed encouragement from the G20 Energy Ministers Meetings in Istanbul, Turkey on 2 October 2015 and in Beijing, China on 29-30 June 2016, to continue this fruitful collaboration to further improve market transparency through the Joint Organisations Data Initiative (JODI) and deepen collective understanding of energy outlooks, and the interaction between physical and financial markets.

Amidst the present day resurgence in oil market volatility, and these longer term uncertainties that also raise questions about who maintains spare capacity or provides swing supply, delegates observed that the stability challenge remains. Recognising that oil markets will rebalance in time, they noted that volatility is likely to remain elevated as markets test new thresholds. The significant decline in exporting countries' revenues, the sharp contraction of upstream investment and the extended layoffs in the oil industry that pose structural challenges for both consuming and producing countries can become more manifest as current supplies take time to clear. Overall volatility appears less pronounced than in previous episodes, in part due to greater transparency and

improved understanding of physical and financial energy market interactions through stakeholder dialogue.

By building on the success of the well-established trilateral work programme with the IEA and OPEC, and fostering partnerships with other relevant organisations and regions, the IEF will continue to play a central role in helping to reduce uncertainties and accelerate investment in support of global goals. In this respect it is worthwhile to mention that IEF ministers agreed to enhance dialogue on more efficient use of energy through implementation of new energy technologies, and to share more widely experiences and know-how in building healthier and more sustainable energy markets in future. ●

Dr Pierce Riemer, Director General of the WPC, with Dr Sun Xiansheng at the September 2016 Ministerial meeting of the IEF in Algiers

