

Partners in energy security

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ALDO FLORES-QUIROGA graduated in economics from the Autonomous University of Nuevo Leon and holds a PhD in Political Science and International Political Economy from the University of California. He began his career in academia in the United States before serving in the Mexican Government as Assistant Secretary for Bilateral Economic Relations at the Ministry of Foreign Affairs (2001-05) and as Assistant Secretary for International Affairs at the Ministry of Energy (2007-11). He assumed the position of IEF Secretary General in January 2012.

As a neutral platform designed to facilitate an informed dialogue among energy producing, consuming, and Transit States, the International Energy Forum (IEF) is uniquely positioned to play a pivotal role in the quest toward global energy security, a core objective of the G20. The membership of the IEF includes 89 countries from 6 continents, which together cover more than 90 percent of the world oil and gas markets. This makes it one of the most representative energy organisations in the world and endows it with a unique perspective with which to enrich the work of the G20.

Through the dialogue promoted by the IEF, energy Ministers of the G20 exchange points of view with their peers from all regions of the world, to better understand the factors that drive the global energy agenda. Three key issues in focus currently are:

- (1) oil-price volatility,
- (2) the outlook for energy supply and demand, and
- (3) the availability of credible information on the supply-demand balance.

Let's focus on oil price volatility. Since the pronounced rise and fall, and rise again, of oil prices in 2008 and 2009, governments and companies have strived to better understand this erratic behaviour. Past instances of high oil price volatility – say of a variation of more than 20 per cent from the average trend – can be traced to concrete and sudden disruptions in the oil market, such as those stemming from supply shocks, geopolitical events, or economic crises. But the most recent episode is not so easily explained. To some, recent volatility is rooted in the tight demand-supply balance resulting from stronger demand growth from emerging markets, most notably China and India. To others, it stems from the increasing participation of financial investors in the oil market, whose objectives are not always aligned with those of the commercial users of oil. And yet to others the reason cannot be attributed to a single factor or analytical perspective, but must be viewed as a complex and shifting set of interactions that constitute the process of oil price formation.

Or consider the outlook for oil demand and supply. The importance of developing a clear idea of what the future holds is key to the decisions governments must make today with respect to energy policy. Here again we find contrasting perspectives, as the estimates of

global oil demand in 2035 range from as low as 89.1 million barrels per day in one scenario presented by the IEA to as high 118.7 million barrels per day in another contemplated by OPEC. The differences are for the most part explained by assumptions regarding economic growth, technological developments, and the policy environment. The low estimate encompasses optimistic expectations regarding the course of energy policy and measures to curb the growth in energy consumption, which are expected to decrease the emission of greenhouse gases. The high estimate corresponds more closely with a robust rate of economic growth for the world as a whole.

These distinctions only take us so far. The nature of the divergence in these high and low estimates – their assumptions, methodologies, and definitions, among others – must be better understood in order to shed more light on the factors that shape the different perspectives held by energy consumers and producers. We must likewise better understand these viewpoints to help governments set in place the policies that help meet future energy needs, whether from the investment or consumption side, and to better inform investment decision-makers in industry.

A similar challenge arises when estimating future oil supply needs, especially when it involves the strategic planning of national energy matrices. Different demand scenarios imply different supply levels and mixes. The lowest estimate of the IEA corresponds to a world that relies more on clean sources of energy, should related policies and technologies be deployed, while the high estimate of OPEC assumes a world of robust growth and less significant advances in clean energy technologies. Which of these worlds will materialise? While these estimates are only scenarios, they are telling of a level of uncertainty regarding the future role of oil in the energy mix, which will have an impact on investment decisions, price formation and market behaviour.

With respect to market data transparency, the importance of data availability to assess the current demand-supply balance can hardly be overemphasised. This information is necessary both in times of market stability and instability, to evaluate pricing strategies and policy alternatives. It is relevant in the face of events that may disrupt the production or flow of oil, or to estimate the potential impact of economic growth

or technological change on energy demand. Without a clear picture of what is happening on an on-going basis in the oil market, governments, consumers, producers, and financial investors have a poor compass with which to guide their decisions. It is no wonder that oil market data transparency, and more recently, gas market data transparency, have figured high on the list of action items for energy Ministers.

As these questions matter to members of the G20 and to the rest of the world, most notably to the full membership of the IEF, we have been working to find answers that help Ministers as they address current and future energy security. Through symposia and studies jointly organised with the IEA and OPEC, together we are identifying more clearly the similarities and contrasts in their analysis of oil price volatility and energy trends. And in cooperation with our partners in the Joint Organisations Data Initiative (JODI), which include the IEA, OPEC, APEC, OLADE, Eurostat, and the UN, the IEF has been providing monthly data on production, consumption, exports, imports and changing stocks of oil and its products.

For this year's G20 meeting, the IEF collaborated on a series of reports in support of the evaluation that this important group makes of energy trends. We are presenting a joint report with the IEA and OPEC on increasing transparency in gas and coal markets. We are also a consulting partner in the report that will be

presented by IOSCO on the functioning and oversight of Price Reporting Agencies, which play a significant role in the process of oil price formation. And we are presenting an assessment of the participation of G20 countries in JODI-Oil.

At the IEF we believe that the insights from these activities and reports will help the G20 to further deepen its understanding of the viewpoints held by various stakeholders, and we shall continue our outreach to engage additional market actors, to ensure that our collective understanding of the energy dialogue is as comprehensive as possible.

Acknowledging and managing interdependence is at the heart of the activities of the G20. It is also at the heart of the mission of the IEF. I am convinced that global energy security can be advanced through an open and informed dialogue that addresses this interdependence head on. By enriching the perspectives of key decision-makers around the world, providing them with the information they need to better interpret market developments, and building trust by providing high-level and more frequent opportunities for them to interact and network with each other, the IEF contributes in strengthening the global energy system.

I wish the G20 every success for its meeting in Mexico. The IEF is a willing and ready strategic partner in the search for global energy security. 

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Mexico's President, Felipe Calderón, addresses the 4th International Energy Business Forum in Cancún, March 2010