

The importance of open dialogue

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HANI HUSSEIN graduated in Chemical Engineering in 1971. Following posts in KNPC and KPC he became Chairman and Managing Director of PIC in 1990. He was CEO of KPC between 2004-2007. He also served on the boards of Hoechst, Ikarus Petroleum and the Development Holding Company. He became Minister of Oil in February 2012.

Countries are becoming increasingly inter-dependent in energy matters; producers and consumers share many things in common. The main energy challenges facing the industry remain the same; the need for sustained levels of investment throughout the energy chain, the challenge of addressing persistent volatility in energy markets, reducing energy poverty in the developing world, and the challenge of mitigating climate change.

The political upheaval in some parts of the Middle East and North Africa region, the Fukushima tragedy in Japan and more recently the geopolitical tensions in the Gulf and the eurozone debt crisis have added to energy market and price volatility.

Energy prices, and more specifically oil prices, are key inputs of public and private investment decisions and the lack of predictability may adversely affect economic growth. All efforts to enhance understanding regarding the root cause of high volatility and to improve market functioning are commendable.

Though prices may need to moderate from recent levels, one must recognise that future prices will have to be sufficiently strong to attract large capital investments into high-cost producing areas such as Canadian oil sands and shale. Hence, prices need to be set at a level sufficiently high to support ongoing development of conventional and unconventional energy sources as well as encouraging continued improvement in energy efficiency.

Energy security is a complex and broad-based issue which is fundamentally linked to the world's prosperity and welfare. The global energy dialogue – under the umbrella of organisations such as the International Energy Forum – is the optimal manner to foster mutual trust among producers and consumers and to bring transparency to the oil markets, thereby ensuring global energy security.

Throughout the recent economic crisis, international co-ordination and collaborative dialogue between energy producers and consumers contributed to the early recovery of the world economy. The emphasis should be on ensuring reliable and secure supplies of energy at reasonable prices.

Effective and continuous engagement between producers and consumers can assist in facilitating

transparent frameworks of investment, promoting diversity, efficiency and flexibility within the energy sector, as well as reducing market volatility, improving emergency preparedness and oil data sharing for better understanding of market price behaviour and undertaking appropriate regulatory responses.

Kuwait is an active and responsible global producer and is fully committed towards the development of its crude oil production capacity. Kuwait's total oil production has reached 3 million barrels per day (mb/d).

Hence, Kuwait is pursuing its plans to achieve sustainable crude oil capacity of 3.5 mb/d by 2015, and then 4 mb/d by 2020 onwards. Furthermore, KPC has initiated an expansion plan encompassing both the upstream and the downstream, which include plans to upgrade Kuwait's production, its export infrastructure and its tanker fleet, as well as expanding exploration and building downstream facilities, both domestically and abroad.

Moreover, Kuwait needs to acquire leading know-how and technology to ensure that production targets are achieved to promote better Kuwaiti competencies. In implementing these plans, the technical assistance of international oil companies will be needed in the field of enhanced oil recovery, and to develop heavy crude oil in Kuwait and we are encouraging this process.

Kuwait is also seeking to cultivate downstream interests in markets with high potential demand growth, the Asian market in particular, specifically China and Vietnam. Despite being a major oil exporter, Kuwait has recently become a net importer of natural gas, leading the country to focus more on natural gas exploration and development for domestic consumption.

Kuwait increasingly requires supplies of natural gas for the generation of electricity, water desalination, and petrochemicals, as well as for enhanced oil recovery (EOR) to boost oil production.

We believe that producer-consumer energy dialogue is needed to enhance the understanding of the energy markets, the linkages with financial markets and the uncertainties of global energy policy.

In this regard, many efforts and activities have been fruitful. The joint projects and the various workshops on market outlooks as well as the regulatory tasks have provided more insight and closer understanding of the various factors affecting the energy industry and markets.

The International Energy Forum, in co-operation with the IEA and OPEC, has acted as a platform to help improve understanding of the linkages between physical and financial markets, working with the IEA and OPEC within the context of the trilateral cooperation initiative announced in the Cancun Declaration and with other parties as appropriate. The first joint IEA/IEF/OPEC Workshop on physical and financial markets linkage was held in London, with participation from governments, industry, banks, regulators, multilateral institutions and academia.

However, the producer-consumer dialogue should set a precise, comprehensive and action-oriented agenda. Enhancing the energy cooperation between producing and consuming countries will result in securing greater diversity, competitiveness and transparency in all aspects of the supply chain. This partnership is the key element for keeping the supply-demand balance on a clear and sustainable path.

Accurate energy data is essential for making appropriate investment and policy decisions. Reflecting the strong interest expressed by ministers, continuous measures to extend JODI to other sources of energy are important for understanding the world energy mix. We support the Secretariat's implementation in co-operation with JODI partners for the extension of JODI to natural gas.

We are proud of the achievements that have been reached so far. Recognising the increasing importance of the role of natural gas in the world energy mix and the need for a global and sustained dialogue between the natural gas stakeholders, the IEF has established in cooperation with the International Gas Union (IGU), an IEF-IGU Ministerial Gas Forum for selected Ministers and leaders from the gas industry.

The 1st IEF NOC-IOC Forum, in Kuwait in March 2009, was recognised by industry leaders as an important step forward in promoting global energy dialogue and enhancing global energy security. Highlighting successful examples of long-term cooperation between NOCs and IOCs, participants underlined that regular contacts between NOC and IOC leaders provide a useful platform for industry to discuss the changing business environment and its impact on stakeholder relationships.

Recognising the importance of innovation and technology in addressing future energy and climate needs, as an oil producer, we support international cooperation in energy technologies. IEF and the Global CCS Institute jointly organised a series of symposia on carbon capture and storage in response to a call-for-action from member nation ministers. Furthermore, we believe that producers and consumers must dedicate more resources to investigate the most effective means to alleviate energy poverty and review

the role of different stakeholders and support IEF efforts in this respect.

As globalisation continues, trade will expand, and technological advancements will drive productivity gains even as the world's population grows. Fossil fuels will continue to play a dominant role in the world's energy mix, and will remain the principal energy source in the next 50 years or more.

Underinvestment or delays in investment could lead to shortfalls in the incremental capacity required to meet demand. It is important that further steps are taken in producers' and consumers' cooperation to create the right environment for continued investments in energy and in paving the way towards market stability and energy security.

Countries must dedicate much of their efforts, in such important forums and ministerial meetings, to align interests for the achievement of more efficient and clean consumption of fossil fuels, developing other sources of energy efficiently as well as making the markets more transparent without undermining the goals of economic growth and prosperity.

I am pleased by the moves being taken towards a more result-oriented approach – through collaboration with relevant multilateral organisations and research institutions, hiring highly-qualified staff, conducting credible analysis and providing reliable and timely data to achieve greater energy market transparency and stability.

In addition, the Joint Organisations Data Initiative should be expanded to other fuels in the energy mix, as well as capacity expansion plans (upstream and downstream), and should be promoted in different media outlets.

We hope that this report for the State Visit will bring together different viewpoints and decision makers among producers and consumers towards better understanding of the functioning of oil markets and the relationships between the physical and financial energy markets. In addition, enhancing visibility on future energy outlooks should assist in the maintenance of investment as well as the stability of energy markets.

Furthermore, mitigating energy market volatility and uncertainty remains of crucial importance to energy market stability and energy investment, which will contribute to the smooth recovery of the world economy. E

The Energy Dialogue: Key Pillars

- Better understanding of energy markets
- Greater linkage with financial markets
- Collaboration with relevant multilateral organisations

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