

Introduction

At the Jeddah Energy Meeting in June, the UK committed to hosting a further meeting by the end of the year to take stock of progress made since that meeting and maintain momentum in tackling volatility in oil markets. The London Energy Meeting on 19 December 2008 built on the strong foundation laid at Jeddah. 37 countries and a number of companies and institutions gathered to discuss the impact of the world financial crisis and economic slowdown on the oil market and a range of other energy issues, noting the shared concerns of producer and consumer nations in promoting rapid economic recovery and the need to develop low emissions technologies to prevent dangerous climate change in the interests of all countries and peoples.

Oil and the World Economy

Participants discussed the impact of the world financial crisis and global economic slowdown on energy markets, on the basis of a paper prepared by Cambridge Energy Research Associates (CERA) and background papers prepared by the UK Government. Participants noted the impact of the slowdown in world economic growth from an annualised 4.4% in Q3 2007 to 0.7% in Q3 2008, and of the unprecedented tightening of the availability of finance. They noted that the economic slowdown had manifested itself in a rapid fall in oil prices – down by around 70% since July 2008. The causes effects of the very large rise in oil prices in the period leading up to July 2008 and their subsequent steep fall were discussed, noting the negative impact upon budgetary planning and investment decision-making of such high levels of volatility in prices.

Participants recognised the importance of understanding future trends in demand and investment, including the availability of finance. It was clear from CERA's report that the economic downturn was having a significant impact on the oil market. Participants agreed that it was important that further work was taken forward to identify emerging trends and issues which would require further action to promote optimal levels of investment in the energy sector so as to avoid further extreme volatility in the oil market.

Promoting well-functioning energy markets

Participants noted that, notwithstanding recent economic developments, there would be continuing demand for oil for the foreseeable future. They therefore recognised the importance of continued investment to enable demand to be matched by supply at an affordable price when economic conditions resulted in greater oil demand.

Participants reviewed events since the Jeddah Conference on the basis of a paper prepared by the Secretariat of the International Energy Forum. Participants noted the impact of the interaction between physical and financial markets, oil prices and volatility, as set out in a background paper by the UK government. They reaffirmed the priority of reducing volatility in the oil market, and the key importance in this of consumer-producer dialogue and of creating more transparent markets underpinned by high quality data. Better-functioning markets would give more consistent price signals to enable producer and consumer countries to have greater confidence in making investment and purchasing decisions. In this context, participants agreed on the importance of developing greater shared understanding of the impact of trading in oil derivatives on price discovery in the oil market, and the enabling role enhanced transparency could play in this work. Participants therefore welcomed the International Organization of Securities Commissions' decision to establish an international Task Force on Commodities Markets and looked forward to proposals to increase transparency and regulatory oversight, where appropriate.

Participants noted that market stability would be enhanced by still closer coordination between the relevant international energy organisations, in particular in developing shared analysis of projected future demand and supply trends and urged further efforts to be undertaken in this regard.

Developing capacity

Participants recognised concerns about the investment climate and welcomed the IEF work to identify, and find solutions to, the uncertainties that are hampering investment decisions. Continuous and increased investment throughout the energy supply chain is essential. Participants emphasised the importance of stable and transparent investment regimes and agreed to work collaboratively to reduce barriers to investment.

Participants noted the importance of taking advantage of all human and technical capacity to ensure an optimal return from investment. In this regard, they welcomed the work which the IEF was taking forward to identify best practice in mutually beneficial joint working between International and National Oil companies in Kuwait; and the forthcoming symposium of the IEF in cooperation with the Ministry of Energy and Industry in Qatar to revisit human resources requirements of the oil and energy industry and review established modalities adopted by various players to find and to promote most promising proposals in order to address short-term imbalances and build up solid foundations for the long-term.

Participants noted the importance of providing accurate, complete, and timely data to the Joint Oil Data Initiative (JODI), including information on upstream and downstream capacities and expansion plans. In this regard, they noted the importance of working with the IEF to enable participants to provide high quality data to JODI and affirmed that further efforts should be undertaken in this regard especially with respect to inventories. They emphasised the importance of annual data on investment plans and welcomed the IEF's plans to implement the collection and publication of this data as soon as possible.

Maximising the effective use of resources

The meeting noted that the Jeddah meeting had recognised the importance of energy efficiency in ensuring the most efficient and effective use of finite global resources. Participants noted that many countries had nationally defined energy efficiency objectives and action plans, taking into account their own technological and economic development circumstances. Participants noted that the International Energy Agency had identified a number of recommendations in this regard. Participants recognised the potential benefits of participating in international collaboration, such as the International Partnership for Energy Efficiency Cooperation (IPEEC) and other bilateral and multilateral initiatives, to share best practices and experiences in advancing energy efficiency objectives. They noted with approval the progress made towards establishing the legal foundation of the IPEEC reported by the Japanese delegation.

Participants discussed the potential for innovative technologies to enable more efficient and effective use of energy resources and noted that the IEF had recently organised a symposium to assess the development of technologies that could improve future petroleum supply, discuss the role of governments in promoting technological development and identify potential avenues for cooperation between producing and consuming countries. Participants noted the potential of carbon capture and storage and of increased use of solar, wind, nuclear and other technologies for power generation to reduce harmful carbon emissions and enable the most productive use of finite oil resources. Participants noted the forthcoming Ministerial meeting of the Carbon Sequestration Leadership Forum, which would be hosted by the United Kingdom and would provide an opportunity to explore the issues surrounding the development of CCS technology.

Helping low-income countries deal with high and volatile energy prices

Participants noted that high or volatile prices for oil and other energy sources had a particularly serious impact on low-income countries. Participants agreed on the importance of multilateral measures to mitigate these impacts.

In particular, they welcomed the enhancement of the IMF Exogenous Shocks Facility to make it faster to access, easier and more flexible to use, and capable of providing more financing; and the establishment of the World Bank's Energy for the Poor Initiative.

Enhancing the process of producer-consumer dialogue

Participants noted that recent developments in the global economy had highlighted the need to examine the institutional architecture as it relates to energy, to ensure that it most effectively supports the creation and maintenance of well-functioning markets, while reducing excessive volatility. They affirmed the importance of the role of existing institutions, in particular the process of consumer-producer dialogue led by the IEF.

Participants welcomed the proposal to establish an expert group to provide recommendations to Ministers for strengthening the architecture of the international dialogue, the IEF, and reducing volatility in oil markets. They agreed that its membership and terms of reference should be established as a matter of urgency. A high level Steering Group, co-ordinated by the IEF Secretariat, and including officials from the host and co-host countries of the Twelfth IEF Ministerial Meeting, along with the hosts of the two ad-hoc Ministerial Meetings in Jeddah and London, will oversee the terms of reference and work of the expert group.

Given the importance of the issue to the world economy and noting the forthcoming meeting of G20 leaders in April, and G8 and other Energy Ministers in May, participants recognised the need to maintain high level political engagement during 2009.