The Consumer-Producer Dialogue: Themes and Prospects

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Main Themes

• Theme 1: Oil price stability

• Theme 2: Physical disruptions and energy security

• Theme 3: Spare capacity

• Theme 4: Investment in the energy sector

• Theme 5: Role of signalling and shaping market participants’ expectations
Oil Price Stability

- Wide Range within which the oil price can clear

- Low oil prices
  - Undermines security of supply
  - Cycle of underinvestment
  - Undermines political and social stability
  - Undermines conservation and climate change agenda

- High oil prices
  - Undermines security of demand
  - Slowdown in global economic growth & global imbalances
  - Oil demand reduction
Oil Price Stability

• Producers and consumers have interest in keeping oil price stable within a range whose lower boundary not too low or upper bound not too high

• What is too high or too low?

• Market or other mechanisms

• Divergent interests

• How to bridge short term interests with long term interests?
General Statements

• “reduce price volatility in the interests of producers and consumers” because volatility “complicates the interpretation of market signals and may adversely affect investment”

• “both producer and consumer countries...to take action to reach sustainable price levels”

• “oil prices should be at levels that are acceptable to producers and consumers to ensure global economic growth, particularly in developing countries”

• Does failure to bargain about price levels or to manage price level within bounds mean that producer-consumer dialogue has failed? No!!!
Physical Disruptions

• Supply disruption caused by Gulf War in 1990-1991 proved to be decisive as it increased awareness and revealed usefulness of coordinating actions in key areas such as use of stocks and spare capacity

• Libyan disruption in 2011 put serious strains on consumer-producer and producer-producer relations
Spare Capacity

• Maintaining spare capacity responsibility of consumers as well as producers and extending to the entire supply chain

• Complex issues surrounding spare capacity:
  – Does spare capacity constitute a global public good?
  – Should all parties share the cost of maintaining spare capacity?
The Investment Issue

• Recurring theme in most IEF Ministerial meetings

• Asymmetry

• ‘favourable energy, fiscal, investment and environmental relations’

• Agenda broadened
  – Reduce long-term uncertainty
  – Enhance corporation between NOCs, IOCs and SC
  – Broaden cooperation and exchanges in fields of human capital and technology advancement
Signalling

• Stabilise market participants’ longer-term expectations about a range of oil prices which both parties consider acceptable

• If anticipated government responses are slow, or are perceived to be absent on either the demand or supply side.
Milestones

• Consumers and producers have overcome some of their past myths, fears and suspicions and have become more aware of a number of common challenges facing energy markets

• Institutional structure supporting dialogue continues to strengthen

• Structure and quality of the dialogue improved over years

• Establishment of the Joint Oil Data Initiative (JODI).
Challenges

• Avoid confrontational topics & focused more on themes that can bring them closer together

• Long-run risk of key issues that lie at the heart of consumers’ and producers’ concerns becoming marginalised

• Greater understanding of nature of the investment problem but concrete initiatives to alleviate the investment constraints remain limited