Session 2

Energy Markets: Mitigating Volatility

Keynote Speech

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Large price swings

- In the late 1990s, oil prices plunged below $10/b

- OPEC underscored that this is detrimental to producers and, in the long-run, to consumers

- The industry undertook deep cost-cutting strategies: investment stalled and workforce shrunk

- OPEC’s spare capacity proved very helpful when oil demand rebounded

- Greater daily price changes since 2007
Since 2004, a new phenomenon: the financialization of commodity markets

- Since 2004, participation of financial players has grown dramatically
- Greater diversity of financial investors
- Varied and complex player strategies, such as:
  - Hedge against inflation
  - Hedge against currency fluctuations
  - Portfolio risk management
  - Arbitrage
  - Index tracking
  - Speculation
NYMEX light sweet crude oil: large increase in open interest

* Each contract is 1,000 barrels
Mitigating volatility: increased awareness and ongoing actions

- The question: does increased participation of financial investors alter the proper functioning of oil markets in terms of price discovery and risk transfer?

- Increased awareness: the Jeddah Energy Meeting in June 2008

- Regulatory reforms underway

- Agreed areas of cooperation among IEA, IEF and OPEC: a successful implementation
  - Two Workshops held on the interactions between financial and physical markets
  - A Forum on energy markets regulatory reform
  - Two Workshops on energy outlooks

- Joint Organisations Data Initiative
  - Great achievements in 10 years
  - Further strengthening is warranted
World energy demand by fuel type in the Reference Case

- Energy demand to increase by 51% by 2035
- Fossil fuels will continue to satisfy the major share of energy needs
- Sufficient resources
- The overall share of oil will decline
- Diversity of oil supply

![Total energy supply, 2010-2035](chart)

![World oil supply 2010-2035: crude and other sources](chart)
Scenarios stress uncertainty over future oil demand

Large differences in oil demand between scenarios...

...and this points to a wide range of cumulative OPEC investment needs
In summary...

- Extreme volatility and excessive speculation detrimental to all

- Need for:
  - Well-designed regulatory reforms
  - Further strengthening JODI
  - Advancing academic research

- The importance of the producer-consumer dialogue
Thank you

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