

Price Volatility : Why its an endless dilemma

[Mohammed Hamed AlRumhi, Minister of Oil and Gas, Oman]

Your Excellencies, Colleagues, Dear Friends.

Good Afternoon.

Before we start, I will like to voice my deep and sincere condolences to The People of Japan for the terrible devastation caused by the Earth Quake, Tsunami and now Radiation Challenge that the country is facing.

I thank very much my dear friend Sheikh Ahmed Al Sabah, The Minister of Oil and Minister of Information of this beautiful state of Kuwait for honoring me to sit in front you today and join these distinguished personalities that I am sure will enlighten us on the theme of this session - ENERGY PRICE VOLATILITY

This is "After Lunch Session". To keep you focus on this session; allow me to be difficult and a bit provocative. I will try to be brief too. Before I start, let me share few interesting statistics that will put Price Volatility in some degree of proper context:-

1. Searching for "Oil Price Volatility" in Google produced 5,120,000 references.
2. World Bank reported the following (dated July 2009):
 - a) Pakistan spent \$2.85 Billion on oil subsidy in 2008.
 - b) India spent \$6-7 Billion on oil subsidy in 2007, 2008
 - c) Indonesia subsidy reached \$13 Billion in 2008.

These figures demonstrate the complexity and magnitude relating to the volatility of oil price on subsidizing policies as related to management of fiscal responsibilities.

The subject of Price Volatility is normally linked to the following phrases Can we reduce, understand, eliminate, deal with, mitigating, reasons behind it, can we limit, can we create stability and so on.

Lets start from the beginning. What is Price Volatility? Do we all agree on what volatility is as far as Energy Price is Concern? Do we really Need to Control?/ Eliminate? / Mitigate?/ Reduce? And Who are we that are concern about price volatility.

I know I am not here to bounce more questions to you. Perhaps the expectation is "in general" to discuss solutions. Let me be honest with you. We can come up with good answers to those questions posed, but there is no solution. For Answers to Questions is NOT solution to a problem. As the common statement which goes like...We know what caused the problem but we don't have a solution to eliminate.

I view Energy, and I am sure you do too, as a commodity. Energy is traded in the market. As long as there is trade, there is go to be volatility. The degree of volatility can be uniform, irregular, random, chaotic, non linear etc etc. The point is - it will remain volatile.

Few Conferences ago, we all thought that information or rather correct information will help reduce price volatility. Fundamental

principles of economics support this hypothesis. Basically the theory is if the buyers and sellers all are fully informed of production and consumption then all problems will be solved. Right?... well.. Wrong. Energy - or to be more blunt, this commodity called Petroleum does not work like that. Transparency, data sharing, is some of measure we all thought will help us in managing Volatility. I think IEF, through JODI initiatives, has succeeded in achieving a reasonable standard of both transparency and data sharing, or data collection, but in my view it has had no impact on Volatility nor will information alone help in reducing volatility - whatever the definition of volatility is.

Allow me to briefly address some of the questions in the program for this session.

Q1. What are the main reasons behind energy price volatility and how to limit it?

A1. Demand, Supply, Today, Tomorrow, Future, Weather, Politics, Fear, Greed, Market, Currency,

Q2. To what Extent and improved data Transparency Can Contribute to Price Volatility Reduction?

A2.. What data?...Production Data?. Consumption data??? These are just some of the data required. We need more

Q3...- Q6... I think I better let my distinguish friends in the panel to share with us their wisdom before we address these questions.