



**The Sixth Joint IEA-IEF-OPEC  
Workshop on  
Interactions between Physical and  
Financial Energy Markets**

## Background

The **Joint IEA-IEF-OPEC Workshops on the “Interactions between Physical and Financial Energy Markets”** were first established at the **12th IEF Meeting in 2010** as a product of the **Cancun Ministerial Declaration**. Their purpose is to bring together a diverse range of market experts and participants to facilitate an exchange of views on the interactions between physical and financial energy markets.

The **first Workshop** was held in London in 2010, with subsequent workshops held in Vienna in 2011, 2013, 2014 and 2016. Additionally, two joint **technical meetings** were held at the OPEC Secretariat in Vienna, Austria, in 2015 and 2017. This ongoing dialogue has helped provide a nuanced and balanced understanding of the interactions between physical and financial energy markets.

The trilateral cooperation between the three organizations has been commended by the **G20 Energy Ministers** in their Beijing Communique in June 2016, which requested the organizations to continue their fruitful collaboration to further enhance understanding of the interaction between physical and financial markets. The Energy Ministers at the **15th International Energy Forum** in Algeria in September 2016 further endorsed the value of this important consumer-producer dialogue.

### The Sixth Joint IEA-IEF-OPEC Workshop on "Interactions between Physical and Financial Energy Markets"

The Sixth Joint IEA-IEF-OPEC Workshop on the Interactions between Physical and Financial Energy Markets was held at the OPEC Secretariat on 15 March 2018.

The high-level meeting was **co-chaired** by OPEC Secretary General, HE Mr. Mohammad Sanusi Barkindo, together with HE Dr. Sun Xiansheng, Secretary General of the IEF, and Mr. Neil Atkinson, Head of the Oil Industry and Markets Division at the IEA.

The event built upon the insights gained in the previous Workshops and technical meetings. Discussions were structured to foster an open and interactive dialogue among **market participants**, include oil companies, trading houses, analysts, and end-users, in order to provide a diversity of views on the evolving interactions between financial and physical energy markets. To this end, the meeting was held under the **Chatham House rule**.

In his welcome remarks, **HE Mr. Barkindo** said: “We come together at a time when it has been clearly shown that cooperation can have a huge impact, as displayed by the landmark Declaration of Cooperation more than one year in. This spirit of cooperation, as well as sharing perspectives and knowledge, is an essential part of helping support market stability.”

The Secretary General noted that “it has been quite rewarding to see that this Workshop has developed into a unique, high-level technical event that has been recognized by energy ministers at both the IEF’s Ministerial Meeting in Algiers in 2016, as well as at the G20 Energy Ministers Meeting in Beijing that same year. This is certainly a testament to the importance of regular talks on this continuously evolving subject.”

**HE Dr. Sun** underscored the important role the joint IEA-IEF-OPEC events play in enriching the dialogue between consumers and producers, noting that “[a]n enduring commitment to global dialogue that deepens foresight and strengthens energy security world-wide remains essential to all stakeholders.” He further observed that “[i]n a shifting energy landscape with more variable energy needs across regions, dialogue between IEF government and industry stakeholders on globally shared policy goals, investment requirements, and market solutions is vital to global energy security.”

**Mr. Atkinson** of the IEA noted that the “meeting is not the only way in which the three host organizations interact with the physical and financial markets. ... His Excellency the Secretary General of OPEC has made great efforts on his own initiative to improve contacts between his organization and physical and financial market players, particularly in the context of understanding the rapid growth in US oil production.”

### Summary of Discussions

Discussions focused on **four main areas**:

- Recent oil market volatility
- Developments in oil market financing
- Financial oil market technology
- Price formation for small crude streams
- Evolving crude trade flows

A **summary** of the discussions on these points is provided below:

- The **first session** on **Recent oil market volatility** provided a review of developments since last year’s event and considered the factors that have

been influencing the interactions between physical and financial energy markets since then. Following the high levels of volatility seen in 2016, crude futures prices have since experienced the lowest volatility seen in several years. Participants highlighted the muted signals coming from the back end of the curve as a cause of concern, as it diluted longer term price signals. The reduced volatility reflected the exit of banks from this activity, following regulatory reforms. As result, the back end of the curve was seen to be driven by medium-term price signals derived from hedging by US shale producers, which could be sending the wrong signals about crude prices in the long term, hence impacting the flow of investments.

- The **second session** considered **Developments in oil market financing** looking at the evolving nature of oil market financing, particularly developments in the US which have helped underpin the US shale boom. There was a widespread view that equity markets and fixed income markets have become less open to financing US independent producers. The poor performance of E&Ps as an equity investment has also triggered shareholder demands to focus on returns on capital, while also deleveraging the inflated balance sheets that followed high borrowing rates during the oil price downturn. Independent producers are increasingly limiting their capital spending to operating cash flows. However, they are still able to grow production given the cushion that \$60/b and hedges are offering them.
- After lunch, the **third session** covered **Financial oil market technology**, specifically the emergence of **Blockchain** technology and its potential use in oil trading. Blockchain is seen to be a technology that is rapidly maturing. The promise of creating a decentralized, globally-accessible, secure and almost instantaneous trading platform makes it quite attractive, although a number of challenges remain, not least the need for market participants to come together around a specific approach. Blockchain allows the creation of 'smart contracts' that are self-executing once certain conditions are met. The technology is seen to have more immediate impacts in complex, time-intensive areas such as invoicing.
- The **fourth session** focused on **Price formation in small crude streams**, looking at how prices are assessed on a daily basis for crude streams that have a low number of actual trades given the small volumes. The methodologies used by Price Reporting Agencies were discussed. Whereas reported trades provide the basis for actively-traded crude, daily price assessments for less actively-traded crudes rely to varying degree on market intelligence/expert judgement. While it was recognised that these price assessments are seen to be less robust than spot assessments based on

reported trade of crude cargoes, they can be seen to provide a guide to the relative values of different grades, although with noted limitations.

- The **final session on Evolving crude trade flows** considered how trading patterns have been shifting, with increasing focus on Asia as a key consuming region and the emergence of the US as a major crude oil exporter. This has created an imbalance that is driving a shift in trade flows. Whereas US crude and product exports were initially more focused on the Atlantic Basin, they have since begun moving to Latin American and as far away as Asia. Three challenges were highlighted going forward: logistic challenges, quality challenges, and challenges for existing benchmarks. It was noted that time structure and freight costs are essential for arbitrage economics, but ultimately crude (and product) flows will be defined by the underlying quantity and quality balancing needs.

## Conclusion

At the conclusion of the Workshop, the IEA, IEF and OPEC thanked participants for their **active participation and engagement**, as well as for the frank and open discussions on these complex and evolving issues, which helped further a common understanding among participants.

The organizers expressed their ongoing commitment to the dialogue process, and looked forward to the next Joint Workshop IEA-IEF-OPEC Workshop on the interactions between physical and financial energy markets, scheduled to take place on **19 March 2019**



**6th Joint IEA-IEF-OPEC Workshop  
on the interactions between physical and financial energy markets**

OPEC Secretariat  
Helferstorferstrasse 17  
Vienna, Austria

Wednesday, 14 March 2018	
<p><b>Pre-Meeting Welcome Reception</b> <i>Hotel de France, Schottenring 3, 1010 Vienna</i> 18:00-20:00</p>	
Thursday, 15 March 2018	
08:30 to 09:00	Registration
09:00 to 09:30	<p><b>Welcome and opening remarks</b> OPEC IEF IEA</p>
09:30 to 11:00	<p><b>Session I</b> <b>Recent oil market volatility</b> <u>Moderator:</u> Harry Tchilinguirian, BNP Paribas <u>Opening discussion:</u> Paul Horsnell, Standard Chartered Dave Ensberger, Platts <i>Followed by roundtable discussion</i></p>
11:00 to 11:30	Coffee break
11:30 to 13:00	<p><b>Session II</b> <b>Developments in Oil Market Financing</b> <u>Moderator:</u> David Chang, Wellington Management <u>Opening discussion:</u> Bob Brackett, Sandford C. Bernstein</p>

## ANNEX

	<p>Doug Mackenzie, Citigroup</p> <p><i>Followed by roundtable discussion</i></p>
13:00 to 14:00	Lunch
14:00 to 14:45	<p><b>Session III</b></p> <p><b>Financial oil market technology</b></p> <p><u>Moderator:</u> Bill Farren-Price, Petroleum Policy Intelligence</p> <p><u>Opening discussion:</u> Arnoud Star Busmann, ING</p> <p><i>Followed by roundtable discussion</i></p>
14:45 to 15:30	<p><b>Session IV</b></p> <p><b>Price formation for small crude streams</b></p> <p><u>Moderator:</u> Antoine Halff, Columbia University</p> <p><u>Opening discussion:</u> Jim Nicholson, Argus Media Dave Ensberger, Platts</p> <p><i>Followed by roundtable discussion</i></p>
15:30 to 15:45	Coffee break
16:00 to 17:30	<p><b>Session V</b></p> <p><b>Evolving crude trade flows</b></p> <p><u>Moderator:</u> Giovanni Serio, Vitol</p> <p><u>Opening discussion:</u> Saad Rahim, Trafigura Kurt Chapman, Mercuria</p> <p><i>Followed by roundtable discussion</i></p>
17:30 to 17:45	<p><b>Closing remarks</b></p> <p>OPEC IEF IEA</p>
	Note: The event is held under the Chatham House Rule.