

Extraordinary IEF Ministerial Meeting

Concluding Statement by the Kingdom of Saudi Arabia and the Secretariats of IEA, IEF and OPEC

22 February 2011, Riyadh

Upon the invitation from the Government of Saudi Arabia and under the patronage of the Custodian of the Two Holy Mosques, King Abdullah Bin Abdul-Aziz, Ministers and representatives from **86** energy producing, energy consuming and transit countries met in Riyadh, Saudi Arabia, on 22 February 2011 in a historic Extraordinary IEF Ministerial Meeting to approve and sign the **IEF Charter**, discuss current and future **energy markets** and celebrate the **20th Anniversary** of the producer-consumer dialogue that started in 1991 in Paris, France.

The IEF Charter marks a new era of international energy cooperation built on greater mutual understanding and trust, with a significant reinforced political commitment to an informal, open, informed and continuing global energy dialogue in the framework of the IEF among energy producing and energy consuming countries, including transit States. 86 countries approved and signed the IEF Charter today, thus creating a solid foundation for a productive dialogue that fosters greater mutual understanding between producing and consuming countries on key energy policy issues and, where possible, narrows the differences in views and helps build trust in policy intentions. With all the major energy producers and consumers united in this dialogue framework, this fact sends a powerful positive signal to the energy world and energy markets that difficult issues can and will be tackled in a **global context**, whenever necessary.

This Extraordinary IEF Ministerial Meeting is the final stage of a process that started with the landmark **Cancun Ministerial Declaration** approved by 66 countries at the 12th IEF Ministerial Meeting in March 2010. The Cancun Ministerial Declaration addressed two main points: an enhanced IEF framework to strengthen the producer-consumer dialogue and ways to reduce energy market volatility. The IEF Charter has delivered the enhanced framework for the IEF. Energy market volatility has been addressed in the **IEA/IEF/OPEC cooperation programme**, which was included in the Cancun Declaration. It covered joint events on the **linkages between physical and financial energy markets**, including energy market regulation, on **energy outlooks** and on **market data transparency**. This IEA/IEF/OPEC programme is now well on track and has already delivered the following useful results that have been discussed by Ministers today.

1. Physical and financial markets' linkages and energy markets regulation

The Joint IEA-IEF-OPEC Workshop on “Understanding the New Dynamic: How do the Physical and Financial Markets for Energy Interact” and the Forum on "Energy Market Regulation: Clarity and Coordination" were convened in London on 22nd and 23rd November, 2010, respectively.

The events brought together over one hundred experts from industry, research, government, and the financial and regulatory sectors.

The Workshop and the Forum provided rich and diverse views from distinguished experts with different backgrounds and affiliations. Opinions were polarized to some extent on the relative degree to which the linkages between physical and financial markets are recognized and the perceived importance of such linkages. The myriad of complex market layers for price discovery and risk transfer, from spot to derivatives also gave rise to spirited discussion, and potential benefits, consequences and costs of various regulation proposals were widely debated.

With regard to the magnitude of the impact of the derivatives markets (either exchange-traded derivatives or OTC derivatives) on petroleum prices and volatility, there was no consensus; some participants underlined the role of excessive financial speculation in the surge in prices and volatility; other participants, especially those involved in price reporting, felt that spot markets set their own prices, independently of any influence from financial markets; a third group recognised that it is difficult to isolate the effect of the physical layers from the financial layers in the current oil pricing system and, therefore, it is difficult to construct theoretically and test empirically whether the financial market drives the physical or the other way around.

The Workshop noted the increasing interaction of the physical and financial energy markets. It recommended continuing the ongoing effort to better understand the functioning of each of these markets, as well as the linkages between the physical and financial markets. The Workshop also recommended the enhancement of the international cooperation on market data transparency, and commended the Joint Oil Data Initiative¹ (JODI) efforts in this regard.

The Forum recognised that regulations have important effects on market functioning and participants' behaviour and emphasised the need for appropriate regulation, with adequate international coordination.

The participants noted the positive and constructive nature of the dialogue among energy stakeholders. It was recommended that similar events covering the interlinkages between the physical and financial energy markets, as well as energy market regulation, be held on a regular basis in order to promote a deeper understanding and dialogue on these complex and important issues.

¹ www.jodidata.org

Acknowledging the consensus on the need for improving data transparency, international coordination of regulation and continued physical-financial market dialogue, Ministers commended the work by the three Organisations and encouraged them to take this important work forward in future regular meetings that facilitate the horizontal dialogue between the physical and financial energy market players.

2. Shared analysis of energy market trends and outlook

The IEA, IEF and OPEC held their first Symposium on Energy Outlooks in Riyadh on 24 January 2011. The objective was not to align the Organisations assumptions and outlooks, but to improve clarity and understanding of the various outlooks. The Symposium offered a platform for sharing insights and exchanging views about energy market trends and short-, medium- and long-term energy outlooks, including analysis of market behaviour and discussion of the key drivers of the energy scene along with the associated uncertainties. The meeting provided a diversity of well-informed views from distinguished experts. Participants discussed energy market trends (energy supply, demand and prices) and associated factors that influence these trends (environmental policies, economic conditions, technological development, etc.).

The meeting identified the main convergences and differences between the IEA's and OPEC's outlooks and discussed the reasons behind these differences, such as those related to definitions, methodologies, and the presentation of results.

The Symposium noted that both the IEA and OPEC's projections were similar in terms of supply/demand growth figures for 2011. This paints a market situation in 2011 characterised by a high level of spare capacity, in both upstream and downstream; relatively high OECD commercial inventories, an expected slowdown in oil demand growth compared to 2010, and increases in oil supply.

There was a consensus that oil will likely remain the main fuel in satisfying the world's energy needs for the foreseeable future, and that oil resources, both conventional and non-conventional, are sufficient to meet future demand. However, the symposium noted that there are considerable uncertainties concerning how future demand will evolve, in particular with regard to energy and environmental policies. Other key uncertainties relate to economic growth and technological change.

The discussions revealed that methodologies and definitions are important factors in identifying the reasons behind the differences in the outlooks. With this in mind, the Symposium recommended moving towards harmonising definitions, where possible and appropriate, and disclosing more data, in a more timely manner, to enhance comparability between the outlooks. In addition, it highlighted the need for a better exchange of data and information through a strengthened and improved JODI. Moreover, it recommended exploring the possibility of further possible joint meetings on certain technical areas of interest.

The Symposium noted that energy and environmental policies are one of the key drivers for future energy demand and supply; however, they are also one of the most uncertain areas of the outlooks. There was also a convergence of views about the large uncertainties associated with climate sensitivity and the extreme difficulty in achieving a 450 parts per million (ppm) atmospheric greenhouse gas (GHG) concentration stabilization level. In this respect, some participants recommended the need to explore and better understand the effect of different environment related policies' assumptions on the results of the outlooks.

There was consensus on the need to alleviate energy poverty. Participants considered the objective of universal access for the poor to modern energy services laudable; some, however, were of the view that the suggested level of per household consumption was insufficient and should be made more ambitious.

The participants pointed at a number of areas in which comparability of IEA and OPEC outlooks could be improved, including through more convergence in definitions and greater disaggregation of information. Again, the role of JODI was highlighted in this regard.

The IEA-IEF-OPEC Symposium on Energy Outlooks reached its objective of offering a platform for experts to discuss energy outlooks and gain a better understanding of the interests and concerns of each Organisation. It also helped in identifying and discussing the similarities and differences between the outlooks, in order to advance clarity in terms of the data, assumptions, methodologies and the analysis of the results of these outlooks.

Ministers commended the efforts made by the three Organisations and encouraged them to take the work forward on harmonising definitions, disaggregations etcetera and further clarifying differences in energy outlooks to the market. In this context, the second Symposium on Energy Outlooks to be held in 2012 will provide a good opportunity to take stock of the progress made.

3. JODI related activities

The objective of the Joint Oil Data Initiative ((JODI), now relabeled Joint Organisations Data Initiative, is to achieve a step change in provision of timely, high quality and transparent oil market data which is essential to the stability of oil markets.

While reaffirming their commitment to providing timely and accurate data to JODI, Energy Ministers have envisaged co-operation in expanding, in due course, the initiative to include data on other sources of energy that are important in the world energy mix, and disseminate other data relevant to the energy markets such as natural gas and annual investment in oil and gas upstream and downstream.

The extension of JODI to cover monthly natural gas data is now well under way, including cooperation with the Gas Exporting Countries Forum (GECF), and will hopefully result in the first launch of JODI-gas to the market before the end of 2011.

The extension of JODI to annual data on upstream and downstream capacities and expansion plans will start with oil and is currently under way, with first results expected at the earliest in 2012.

JODI partner organisations will continue their efforts in training statisticians in charge of JODI data compilation and submission in participating countries/economies; develop new tools and practices to regularly check JODI data and streamline data submission; enhance interaction with data users (in particular market analysts) and upgrade JODI platforms such as the JODI website etcetera.

It is equally important that participating countries/economies ensure that administrations and organisations in charge of data collection are better equipped and staffed, to implement appropriate regulations that ensure industry is fully engaged in the process of data submission and to address confidentiality issues and reduce if not eliminate them.

IEF countries need to further boost the quality, timeliness and reliability of the JODI Database to achieve a target of 3 smiley faces by the end of 2011.

Way forward

Ministers encouraged the three organisations to continue their efforts and take the work forward in order to help mitigate energy market volatility. **Mitigating energy market volatility and future uncertainty** remains of crucial importance to stabilize energy markets and facilitate energy investment, which would also benefit the recovery of the global economy. This requires further progress on achieving **better data transparency** in both the physical and financial markets, on putting in place appropriate, internationally coordinated **regulation**, as well as on arriving at a better common understanding of energy **market trends and energy outlooks**. Ministers therefore requested the three organisations to report progress on their joint cooperation programme to the **13th IEF Ministerial Meeting in Kuwait in 2012**.